

THE CREATION OF AFFORDABLE HOMEOWNERSHIP OPPORTUNITIES  
IN EASTERN MASSACHUSETTS IN THE 1980'S

by

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Submitted in partial fulfillment of  
the requirements of the degree of

Master of City Planning

at the

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Submitted to the Department of Urban Studies and Planning  
on May 21, 1986 in partial fulfillment of the requirements  
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## ABSTRACT

This study reviews affordable homeownership creation in Boston and surrounding suburbs out to just beyond Route 495 (a semicircular area with a radius of roughly 30 miles) during the first half of the 1980's. It then examines prospects for affordable homeownership creation in the latter half of the 1980's in Boston and in two suburban subregions that begin about 12 miles out from downtown Boston and extend just past Route 495.

At the time of this writing, metropolitan Boston achieved the dubious honor of having the highest housing prices in the nation. A decade of steady regional economic and employment growth has outstripped housing production. The late 1970's and early 1980's saw extraordinarily high interest rates that stifled housing production. The combination of these two factors has created a severe shortage of affordable homeownership opportunities, even though there is very strong demand for such opportunities.

Affordable homeownership is defined in this regional context as any home priced at the end of 1985 or in the spring of 1986 at \$130,000 or less for a dwelling appropriate for a family of 4. This price limit roughly corresponds to the limit which the Massachusetts Housing Finance Agency sets for its below-market mortgage financing for low- and moderate-income families. Since mean incomes are lower in the suburban fringe communities studied, and lower still in Boston, lower limits for "affordable" home prices are appropriate in these locations.

Boston City has increased affordable homeownership production programs in the past three years that revolve around leveraging of City-owned land. It is likely that at least 400 affordable units a year will be produced by these programs for the next few years. Such units are priced at around \$60,000 in the spring of 1986. Seven specific Boston subsidized developments are studied. Seven other subsidized and unsubsidized developments, mostly in Boston suburbs, are studied for comparison and to illustrate the current suburban Boston housing market situation.

Suggestions are offered that would 1) streamline affordable housing development procedures and policies, 2) help shaky Boston market-rate projects go through that would otherwise be dropped,

3) increase production on small, scattered City-owned sites, 4) develop at least 600 units with a building system that either maximizes manufactured components or uses complete manufactured modules, and 5) uses a few preselected designs for a large number of available sites.

An analysis of two suburban subregions to the west and southwest of Boston and largely between Routes 128 and 495, indicates that very few new affordable homeownership opportunities are being created now, or are likely to be created for the next two or three years. The above-mentioned market factors make it possible for developers to develop affordable units, in a minority of communities studied, but even in most of these communities it is more profitable to create more expensive units. The extremely strong housing market has pushed the cost of buildable land up so high that affordable developments are difficult at best in some communities and impossible in most, unless municipalities choose to write down the acquisition cost of municipally-owned land or buildings.

Massachusetts state government has been important in helping Boston City increase its affordable homeownership work, and the state has also created a new program intended to increase affordable homeownership production in the suburbs, the Massachusetts Housing Partnership's Homeownership Opportunity Program. As long as current market conditions continue, however, it is unlikely that the program will meet with much success unless additional subsidies for development are provided and the state provides skilled technical assistance in structuring public-private partnership developments among the state, municipalities and developers.

Over 40 suburban communities are discussed in varying degrees of detail, and hypothetical developments are outlined in three income-level communities: higher-income, middle income, and lower-middle/working class. Suggestions to help the Massachusetts Housing Partnership adapt the program to market conditions include the provision of additional subsidies, technical assistance, and examination of possible state and local inclusionary legislation.

Thesis Supervisor: Dr. Langley Keyes

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CONTENTS

INTRODUCTION 10

PART I

A SAMPLING OF BOSTON CITY AFFORDABLE HOMEOWNERSHIP PROGRAMS	20
MHFA MORTGAGE FINANCING	20
LEVERAGING VACANT CITY-OWNED LAND	21
NONPROFIT OR LIMITED-PROFIT DEVELOPERS	24
MINORITY DEVELOPERS	28
IN-KIND CITY DEPARTMENT SERVICES	29
CURRENT RELIANCE ON WANING FEDERAL PROGRAMS	31
MA. HOUSING PARTNERSHIP AND LINKAGE TAKE UP SOME SLACK	32
HOMESTEADING	33
INFRASTRUCTURE SUBSIDY AND THE URBAN RENEWAL ACCOUNTS	34
WAIVER OF FEES AND BUILDING PERMIT CHARGES	35
PRIVATE SUBSIDIES TO SUPPLEMENT PUBLIC SUBSIDIES	36
CHART OF 13 DEVELOPMENTS: KEY CHARACTERISTICS & SUBSIDIES	40

PART II

BOSTON SUBSIDIZED HOMEOWNERSHIP COMPARED TO STRICTLY MARKET  
DEVELOPMENT IN BOSTON AND SURROUNDING SUBURBS

DEEP INTERNAL CROSS-SUBSIDY	42
STRICTLY MARKET DEVELOPMENT	43
SOUTH BAY DEVELOPMENT CORPORATION, BOSTON	44
COSTS OF SUBSIDIES	46
ROBERT FOX COMPANY, WEYMOUTH	48
FAFARD COMPANIES, ASHLAND	48
DETAILED CHART OF 13 DEVELOPMENTS: PER SQUARE FOOT FIGURES	52

### PART III

#### OBSERVATIONS AND IDEAS ABOUT BOSTON'S AFFORDABLE HOMEOWNERSHIP PROGRAMS

EFFICIENT REGULATION AND SLIGHT SUBSIDIES FOR MARKET DEVELOPMENTS WITH SOME AFFORDABILITY COMPONENT	53
COULD PRODUCTION ON SMALL, VACANT CITY OWNED PARCELS INCREASE?	57
BOSTON HOMEOWNERSHIP PROGRAMS: DEMONSTRATION OR PRODUCTION?	
NEW CONSTRUCTION INITIATIVE PROGRAM	58
LEVERAGING AVAILABLE RESOURCES	59
MASSACHUSETTS HOUSING PARTNERSHIP	60
THE GREAT FEAR: LOSS OF TAX-EXEMPT BOND STATUS	62
LOWER INTEREST RATES INCREASE THE VOLUME OF PRODUCTION	63
BOSTON HOPES TO SEE THE CREATION OF 3,400 HOUSING UNITS IN 1986	64
WHAT WILL THE AFFORDABLE HOMEOWNERSHIP/RENTAL MIX BE?	65
NEHEMIAH HOMES APPROACH FOR BOSTON DEEP-SUBSIDY PROJECTS	68
SOME BOSTON AFFORDABLE HOMEOWNERSHIP RECOMMENDATIONS FROM THE AUTHOR	74

### PART IV

WHAT HOME PRICES CAN TOWN EMPLOYEES AFFORD IN METROWEST'S NATICK, SOUTHBORO, AND SUDBURY?	77
WHAT HOME PRICES CAN NATICK, SOUTHBORO, AND SUDBURY TOWN EMPLOYEES AFFORD EIGHT MONTHS LATER IN THE SPRING OF 1986?	81
WHAT DIFFERENCE DOES MHFA FINANCING MAKE TO THESE TOWN EMPLOYEES?	83
METROWEST AFFORDABLE HOMEOWNERSHIP AT THE OCTOBER 1985 HOUSING COST PEAK	85

### PART V

#### PROSPECTS FOR DEVELOPING AFFORDABLE HOMEOWNERSHIP OPPORTUNITIES IN METROWEST AND METROWOUTHWEST

METROWEST AND METROSOUTHWEST	94
ASHLAND	98

MARLBORO	100
MILFORD	105
FRANKLIN	105
BLACKSTONE	106
METROSOUTHWEST COMMUNITIES THAT WANT AFFORDABLE HOMEOWNERSHIP	108
OTHER METROWEST AND METROSOUTHWEST TOWNS	109
METROWEST AND METROSOUTHWEST SUBREGIONS	109
METROWEST PLANNING COMMITTEE	112
BUSINESS INTEREST IN AFFORDABLE HOUSING	113
LEXINGTON	114

#### PART VI

MASSACHUSETTS HOUSING PARTNERSHIP IN THE SUBURBS	120
WHAT IS THE HOMEOWNERSHIP OPPORTUNITY PROGRAM?	122
MASSACHUSETTS HOUSING PARTNERSHIP IN METROWEST AND METROSOUTHWEST	126
MEDFIELD AFFORDABLE HOMEOWNERSHIP CITIZENS GROUP	127
NO RESPONSE FROM SOME WEALTHIER COMMUNITIES	128
WHAT DENSITIES AND SUBSIDIES MIGHT BE REQUIRED TO MAKE AN MHP DEVELOPMENT WORK IN A HIGH-INCOME SUBURB?	130
WHAT DENSITIES AND SUBSIDIES WOULD BE REQUIRED TO MAKE AN MHP DEVELOPMENT WORK IN A MIDDLE-INCOME SUBURB?	133
WHAT DENSITIES AND SUBSIDIES WOULD BE REQUIRED TO MAKE AN MHP PROJECT WORK IN A LOWER-MIDDLE/WORKING-CLASS SUBURB?	134
HOW IMPORTANT IS THE ALLOWABLE DENSITY OF DEVELOPMENT?	138
WHAT DOES THE MASSACHUSETTS HOUSING PARTNERSHIP OFFER DEVELOPERS?	
"CERTAINTY AND A BROADER MARKET," SAYS ONE SMALL DEVELOPER	140

"UNCERTAINTY AND THE ADDITION OF A LESS DESIRABLE MARKET SEGMENT THAT DEVELOPERS DON'T NEED YET," SAYS A CONSULTANT TO SMALL DEVELOPERS	145
HOMEOWNERSHIP OPPORTUNITY PROGRAM REQUIREMENTS AND APPLICATION PROCEDURES ARE NOT YET CLEAR AND THE PROGRAM IS THEREFORE TOO RISKY TO ELICIT MUCH SMALL DEVELOPER INTEREST IN THE SPRING OF 1986	145
THE EXECUTIVE OFFICE OF COMMUNITIES AND DEVELOPMENT DOES NOT HAVE AN EXTENSIVE RELATIONSHIP WITH DEVELOPERS AT THE PRESENT TIME	147
A MEDIUM-SIZED AND A SMALL DEVELOPER EXPECT FEW MHP HOMEOWNERSHIP PROJECTS TO MATERIALIZE IN THE SUBURBS WITHIN ROUTE 495 AS LONG AS CURRENT MARKET CONDITIONS CONTINUE	149
WHAT IF EASTERN MASSACHUSETTS HIGHER-INCOME RESIDENTIAL MARKETS BECOME SATURATED?	153
SOME MASSACHUSETTS HOUSING PARTNERSHIP RECOMMENDATIONS FROM THE AUTHOR	
MASSACHUSETTS AND MUNICIPALITIES SHOULD PROVIDE RESOURCES FOR CONSULTING ASSISTANCE IN EXPEDITING APPROVALS AND PACKAGING DEALS WITH CITIES AND TOWNS	156
HAVE THE COMMUNITY ECONOMIC DEVELOPMENT ASSISTANCE CORPORATION PROVIDE TECHNICAL ASSISTANCE TO MUNICIPALITIES WITHOUT CDC'S	159
MASSACHUSETTS AND MUNICIPALITIES SHOULD PROVIDE RESOURCES TO ASSIST DEVELOPMENT IN THE SUBURBS OF NONPROFIT DEVELOPMENT CORPORATIONS THAT DEVELOP AFFORDABLE HOMEOWNERSHIP OPPORTUNITIES	160
INTERESTED MUNICIPALITIES, DEVELOPERS AND CITIZENS SHOULD BE EDUCATED TO THE FACT THAT DURING THE REMAINDER OF THIS HOT HOUSING MARKET PERIOD, SOME EXTRA SUBSIDY OR DENSITY WILL OFTEN BE NECESSARY FOR MHP PROJECTS	164
MHP SHOULD SEARCH FOR A MECHANISM THAT WOULD ENABLE TOWNS TO DO AN EXPERIMENTAL PROJECT BEFORE MAKING SIGNIFICANT ZONING AND POLICY CHANGES	165
THE STATE SHOULD PROVIDE ADDITIONAL RESOURCES FOR EDUCATION ABOUT AFFORDABLE HOMEOWNERSHIP IN GENERAL AND ABOUT THE MASSACHUSETTS HOUSING PARTNERSHIP IN PARTICULAR	167
EOCD SHOULD DEVISE A STRATEGY TO SEE TO THE PROVISION OF THE NECESSARY ADDITIONAL SUBSIDIES REQUIRED TO PRODUCE MHP DEVELOPMENTS IN THE VARIOUS INCOME LEVEL SUBURBS DURING THE DURATION OF THE HOT HOUSING MARKET	169

THE STATE SHOULD CONTINUE TO EVALUATE WAYS TO COMPELL AFFORDABLE HOUSING COOPERATION IN UNWILLING COMMUNITIES 170

STATE EXECUTIVE AND LEGISLATIVE ENTITIES SHOULD PURSUE ADDITIONAL LEGISLATION MANDATING LOCAL ACTION TO FURTHER AFFORDABLE HOUSING OPPORTUNITY AND SUPPORTING LOCAL INCLUSIONARY HOUSING PROGRAMS 172

#### APPENDIX I

WHAT IS AFFORDABLE HOUSING? 174

#### APPENDIX II

WHERE WILL 3,400 UNITS OF BOSTON HOUSING COME FROM IN 1986? 178

#### APPENDIX III

- 1) GARRISON-TROTTER CONKLING DEVELOPMENT CORPORATION 181
- 2) ANDREW SQUARE BRICKLAYERS & LABORERS HOUSING, INCORPORATED 183
- 3) NEW CONSTRUCTION INITIATIVE ROUND I URBAN EDGE COMMUNITY DEVELOPMENT CORPORATION 185
- 4) NEW CONSTRUCTION INITIATIVE ROUND I CODMAN SQUARE HOUSING DEVELOPMENT CORPORATION 187
- 5) WINSLOW COURT OPPORTUNITIES INDUSTRIALIZATION CENTER 191
- 6) 18 ESMOND STREET ECONDOMINIUMS BOSTON DEPARTMENT OF PUBLIC FACILITIES 193
- 7) FOUNTAIN HILL SQUARE TAYLOR PROPERTIES 195
- 8) LINCOLN SCHOOL LINCOLN HOUSING ASSOCIATES (OKM) 198
- 9) BERNARD PLACE SOUTH BAY DEVELOPMENT CORPORATION 201
- 10) COSTELLO PLACE SOUTH BAY DEVELOPMENT CORPORATION 203
- 11) WHITMAN POND VILLAGE ROBERT FOX COMPANY 205
- 12) LEDGEMERE COUNTRY FAFARD COMPANIES 207

13) SPYGLASS HILL FAFARD COMPANIES	209
14) NEHEMIAH PROGRAM--BROOKLYN NEW YORK I.G. ROBBINS & REGIONAL CHURCH BODIES	212

#### APPENDIX IV

##### OTHER OBSERVATIONS FROM DEVELOPERS AND CONSULTANTS

RESTRICTIVE ZONING	215
EXPENSIVE LAND	219
PEOPLE ARE CONDITIONED TO PAY MORE FOR HOUSING	221
FOR A FEW YEARS VERY LITTLE WILL BE BUILT AND SOLD FOR UNDER \$120,000, AND \$100,000 WILL BE THE VERY BOTTOM OF THE NEW CONSTRUCTION MARKET WITHIN THE ROUTE 495 REGION	222
THE MARKET IS REALLY STRONG FOR HOMES IN THE \$100,000 TO \$130,000 RANGE	223
GOVERNMENT INTERVENTION	224

#### APPENDIX V

##### THE EASTERN MASSACHUSETTS MARKET FOR AFFORDABLE HOUSING 1986-1990

IMBALANCE BETWEEN SUPPLY AND DEMAND FOR AFFORDABLE HOMEOWNERSHIP OPPORTUNITIES IS LIKELY TO WORSEN IN THE NEXT FEW YEARS	226
DEMAND FOR \$100,000-\$130,000 HOMES WILL REMAIN HIGH	226
DEMOGRAPHIC GROWTH MARKETS	227
SPECULATION WILL HELP KEEP HOUSING PRICES HIGH FOR A WHILE LONGER	228
IN HOUSING THE NORTHEAST AND MIDWEST IS WHERE THE ACTION IS	231
EMPLOYMENT GROWTH AHEAD OF HOUSING GROWTH INDICATES A STRONG HOMEOWNERSHIP MARKET IN METROWEST	231
THE MASSACHUSETTS ECONOMY SHOULD BE STRONG THROUGH 1990	233
THE DUAL LABOR FORCE AND THE HOUSING MARKET	236

#### APPENDIX VI

WHAT IF SPRING 1986 MORTGAGE INTEREST RATES DROP 1%	239
AFFORDABLE HOMEOWNERSHIP ANNOTATED BIBLIOGRAPHY	242

## INTRODUCTION

The federal Housing Act of 1949 established the national goal of a decent home and a suitable living environment for every American family. In 1968 Congress committed the federal government to a major program of construction and rehabilitation of low- and moderate-income housing which produced several hundred thousand units per year between 1971 and 1979. In the first three years of the Reagan administration, the federal administration and Congress eliminated any meaningful role in the production of new affordable housing.

While conventionally produced and financed housing had always been out of the reach of the poor, the 1970's found increasing segments of the population excluded from conventional housing. By the end of the decade much of the middle class discovered that conventional homes were out of reach. During the 1970's home prices rose considerably faster than incomes. In the late 70's and early 80's mortgage interest rates soared. The combined effect of rising prices and interest rates was devastating. In 1965 a median-income U.S. family paid annually in mortgage payments, property taxes and insurance 24% of its income for a median-priced home. In 1981 a median-income family had to pay 50% of its income for a median-priced home. In a nation where the majority of families had traditionally been homeowners, only 10% to 15% could become homeowners in 1981, based on family incomes.

Subsequently, prices have subsided somewhat in parts of the industrial North, while they have continued to climb in the Sunbelt and in parts of the Northeast. Interest rates have

declined considerably however, and the housing affordability crisis has eased some nationally. In the part of Massachusetts around Boston within the arc of Route 495, however, housing prices have continued to climb so fast that they far outstripped the moderating effect of declining interest rates. Hence, in most of Eastern Massachusetts the crisis in housing affordability is worse than ever.

Home prices have continued to climb in the greater Boston area out to Route 495 (a semicircular area with a radius of roughly 25 miles) because of a decade of economic expansion in the region. Employment growth has outstripped growth in the supply of housing throughout the decade. As discussed throughout the text and in Appendix IV, the affordable homeownership context in the region will probably continue to worsen for at least two more years, and may stabilize or even improve slightly by the beginning of the 1990's.

The fact that this study focuses on affordable homeownership is not intended to imply anything about the importance of increased production of affordable rental housing production. Many statements, observations, and recommendations made in this study are relevant to rental housing, but such connections are not indicated. Every study has its limits, and it will be left to the reader to make such connections.

I am defining affordable as any new or existing dwelling unit purchasable by an owner occupant at a price of \$130,000 or less. This roughly coincides with the state's definition as indicated by the maximum price limit for homes purchasable with

below-market mortgage interest through the state's Massachusetts Housing Finance Agency. Within that general scope there are qualifications. A greater proportion of the City of Boston's people are low- and moderate-income in comparison to the surrounding suburbs within Route 495. Just outside of 495 income levels drop somewhat, yet there is a smaller proportion of low- and moderate-income people there than in Boston.

Hence, we shall see that the City of Boston is endeavoring to develop affordable housing that sells for around \$60,000. We will also examine the new state Homeownership Opportunity Program of the Massachusetts Housing Partnership, which is limiting "affordable" homes to \$110,000 and "most affordable" homes to \$86,000. In lower-middle/working class suburbs on Route 495 and beyond homes priced between \$110,000 and \$130,000 may not be affordable in any practical sense of the term, in the same sense that the city of Boston has decided that "affordable" homeownership means price levels below any of the above program categories. In other words, \$130,000 seems to be a sensible affordability limit in a greater metropolitan context where median-priced homes are selling for around \$140,000, but lower limits are practically necessary in lower-income communities or neighborhoods. For more on definitions of affordable homes and on the corresponding incomes required to purchase them see Appendix I.

Historically, relatively little public assistance has been provided for affordable homeownership creation in the U.S. Public housing subsidy has been focused almost entirely on rental housing with the exception of the provision of below-market rate

mortgage financing for homebuyers. In Massachusetts homeownership has been subsidized by the Massachusetts Housing Finance Agency, which uses tax-free bond financing to provide income-qualifying home buyers with mortgages at about 2% below-market interest rates. This MHFA mortgage financing provides a floor program upon which virtually all other homeownership subsidies rest.

What is to be done in pursuit of affordable homeownership opportunities within the Route 495 arc during the remaining years of this extremely tight housing market? To answer this question we will look at recent Boston City efforts, at the regional suburban housing market and at recent state efforts aimed at the suburbs. Then we will look for ways that both Boston City and state suburban efforts can be improved.

First we will look at the approaches being used by the city of Boston. Boston's work is presented in Parts I, II, and III, relying on interviews with a number of City development staff people in the two agencies that operate the City's housing programs, and on project documents provided by the city on seven specific affordable homeownership developments. Boston has experimented with subsidized affordable homeownership programs for a number of years, but only in the past few years have these efforts expanded to a substantial level of production. A variety of subsidies are being used in various combinations, but all revolve around extensive city-owned land that can be provided to affordable homeownership projects at below-market prices to lower development costs and to leverage yet other subsidies from other

public and private sources. In most cases Boston is using private nonprofit or limited-profit development entities to reduce costs further by eliminating most or all of the profit component of the home price tag.

In Boston's deep subsidy projects (which can produce a 1986 home with a \$60,000 price), a grant or no-interest loan from federal resources, is often combined with a write down of land cost and a nonprofit or limited-profit development entity. City and state money may subsidize project infrastructure and city staff time may be contributed, along with a few other occasional forms of public subsidy. A limited-profit developer may also subsidize the affordable units in a development with some of the profits from market-rate units. This is called an internal project cross subsidy.

We shall see that Boston's recently increased affordable homeownership effort will probably result in the creation of several hundred units a year in the next few years. It is even possible that higher-volume production could be done with manufactured components or modules. This approach could leverage more units from the same amount of city resources by achieving greater economies of scale.

Five deep-subsidy and two shallow subsidy Boston projects are referred to in the text, and examined in greater detail in Appendix III. A number of developments in other cities are discussed to show how Boston could make its own affordable homeownership work more productive, increase its volume of production, and create affordable units in higher-income neighborhoods with increased use of internal project cross

subsidies. Some of these examples are from the surrounding suburbs, and looking at them prepares us to make the jump into another world, the problem of affordable homeownership creation in the hottest real estate market in the nation, the Boston suburbs. The prospects for developing affordable homeownership opportunities in this area are very limited, given spring 1986 market conditions and the status of available public programs and municipal experience.

The roughly fifteen-mile zone between Route 128 and Route 495, however, includes areas with buildable land, areas with somewhat lower home prices, and areas with both buildable land and lower home prices. Any of these three situations creates more favorable conditions for the creations of affordable homeownership opportunities. I have somewhat arbitrarily picked two contiguous clusters of communities to the west and southwest of Boston that are primarily located within this zone. I am calling them Metrowest and Metrosouthwest. (The Metrowest designation is not to be confused with the Metrowest Planning Committee, which includes some of the towns in my larger Metrowest area.) Altogether, I include information in varying detail on 41 communities in these two subregions.

Part IV illustrates the affordability problem by seeing what home prices town employees can afford in three Metrowest towns. Even if we make the dubious assumption that the incomes of the families of these employees are double that of the family member working for the town, we find that even the better paid of these employees would find it very difficult to buy a home in the

community in which they work. The range of employee jobs and pay is intended to stand as a surrogate measure for the housing situation in which the majority of community residents find themselves.

Part V presents the above-mentioned housing market data on the Metrowest and Metrosouthwest communities included in this study. Demographic information is combined with asking prices for homes and interviews with area developers and consultants. In general we are presented with a very grim picture regarding the prospects for affordable (\$130,000 or under) housing production under spring 1986 market conditions.

In a small fraction of these communities conversion of existing rental apartment buildings into condominiums provides a minimal amount of homeownership opportunities from \$80,000 to \$130,000. In a small fraction of these communities a minimal amount of new condos is being developed and marketed in the \$115,000 range. In another small fraction of communities just outside of the Route 495 arc, there are even some condos being marketed for \$100,000-\$115,000, but long-stagnant land prices have shot up there in the past six months. By the end of 1986 there may be virtually no new condos anywhere in the area studied for under \$110,000. In sum, extremely little new home development is going on in the study area for under \$115,000, and very little for under \$130,000.

With this background on the central city and suburban housing environments, Part VI examines the state's new initiative in affordable homeownership, the Massachusetts Housing Partnership. The Partnership has two new programs, one intended

essentially for lower-income areas within central cities, and another, the Homeownership Opportunity Program, largely intended to bring new construction affordable homeownership opportunities to the suburbs. The second program has enough resources to provide income-qualifying first-time homebuyers with 5% below-market rate interest mortgages for homes priced at up to \$86,000, and 2% below-market interest mortgages for homes priced at up to \$110,000.

Within the suburban area studied, the Homeownership Opportunity Program faces a hostile housing market environment. According to a number of area developers interviewed, current market conditions are such that developers can be kept busy developing higher-priced, more profitable homes, and hence developers will see little reason to do Massachusetts Housing Partnership projects. While the program does contain an average of \$2,000 in infrastructure subsidy per unit, this is not enough to overcome the problem. The substantial subsidies go to homebuyers not developers.

Municipalities, not developers, apply to the state for these program subsidies. However, this author thinks that within at least the next year few communities will produce the additional subsidies and/or increased allowable building densities required to stimulate qualified developer participation. Part VI includes a financial analysis of a hypothetical Partnership development in each of three income-level communities in the region, called "higher-," "middle-," and "lower-middle/working class" communities. Only in the latter communities is the

additional subsidy required to stimulate developer participation within the \$10,000 per unit range.

Few communities in the study area have experience putting such public-private partnership residential developments together. Quite apart from the above-economic difficulties, the Partnership will have to provide technical assistance resources to help communities learn how to use the program. Currently available resources for this purpose are far too limited.

Even if these economic and development experience difficulties can be overcome, the leadership in most of these communities has a stereotypical image of "affordable" housing as dense, unattractive public housing projects. They will not give the Partnership an unbiased hearing until the Partnership presents them with examples of the finest affordable homeownership opportunities that the program is capable of presenting. Only then will they realize that such developments would appropriately meet the housing needs of existing residents of their own communities.

The higher the income of a community, the greater the subsidy and/or allowable building density required to write down land costs to levels necessary for Partnership developments. Even in communities where required subsidies would be the greatest, Partnership projects are possible. Two such examples are provided in earlier parts of this study. Part VI concludes with this recommendations for how the Massachusetts Housing Partnership can confront the spring 1986 market conditions which are so antithetical to the Massachusetts Housing Partnership homeownership goals. If the regional economic growth rate

declines and mortgage interest rates stabilize or continue to drop, the current Partnership program will be reasonably successful. But as long as current extraordinary housing market conditions remain, the Partnership will have to change along the lines suggested if it is to stimulate much affordable homeownership development in the suburbs within the Route 495 arc.

## A SAMPLING OF BOSTON CITY AFFORDABLE HOMEOWNERSHIP PROGRAMS

Seven affordable homeownership programs representative of current Boston City efforts are examined and compared in the following pages. Boston City in the 1980's is emphasizing the creation of affordable homeownership opportunities much more than it ever did in the past. Previously rental housing had always been the priority, but the emphasis has shifted rapidly, and most of the principal actors in City government think that homeownership will be the priority over the next few years at least.

All seven of the projects examined have four things in common:

- 1) Provision of mortgage financing from the Massachusetts Housing Finance Agency (MHFA).

- 2) Leveraging of City-owned land and provision of a below-market land-cost writedown.

- 3) Reliance on nonprofit or limited-profit developers, or on the City itself as nonprofit developer.

- 4) Provision of in-kind City staff assistance in obtaining regulatory approvals and packaging development projects.

### MHFA MORTGAGE FINANCING

MHFA mortgage financing vies with the leveraging of City owned land as the most important of the four common elements, and the most important aspects in general of the Boston City's affordable homeownership efforts. MHFA obtains its lendable funds from state-authorized and backed tax-exempt bond issues. Because of the tax-exempt source of funds, MHFA is able to lend at (usually about 2%) below-market interest rates. It requires

only 5% down payments. Such down payments were occasionally obtainable by moderate-income families up until October of 1985, but subsequently (due to Federal National Mortgage Administration guideline changes) 10% is required. Thus, the state's MHFA program is in a certain sense the backbone of all of the Boston City programs.

#### LEVERAGING VACANT CITY-OWNED LAND

The second common feature, the provision of below-market-price land is in dollar terms of minor significance in the most of the deep- subsidy projects, and of major significance in the shallow-subsidy projects. The range of land subsidy in the seven projects studied is from \$238 to \$2,925/unit, according to City staff in five cases and this author's estimates in two cases.

An argument could be made, however, that in overall importance, the provision of land is just as important a common element as the existence of the MHFA program. If affordable housing -- housing affordable to low and moderate-income families -- is to be built, the cost of land to development entities must be relatively low. There is a good deal of buildable, relatively low cost land available in Roxbury and North Dorchester, and very limited numbers of small parcels available elsewhere in Boston. The City may own half of the land that has a market value in the range that makes it appropriate land for affordable housing. A significant part of available land was acquired in the 1960's through the urban renewal process and then not built upon. Other land has become vacant since that time through abandonment, fire, and City tax-title foreclosure acquisition. Thus, the City becomes

the key to affordable housing development partly by historical accident and neglect.

Most of the land acquired by the City in the 1960's Urban Renewal Program had structures on it that were condemned and demolished. Most of the structures were residential, and most of the cleared area had new residences built on it. In the nation's largest Urban Renewal Program at the time, nearly 8,000 dwelling units were demolished in Roxbury's Washington Park and the South End. In Washington Park 2,570 units were demolished, and by 1967 1,100 new subsidized rental units were built. Another 450 were completed shortly thereafter. In the South End 5,200 dwellings were demolished and 4,100 were built by the end of the decade. The key to the new construction was federal 3% interest financing under the 221(d)3 program. Two of the seven projects studied here, Garrison-Trotter and Fountain Hill Square, are being built upon Washington Park land that supported housing until the Urban Renewal bulldozers came so long ago. The Fountain Hill Square Project will see the development of around 120 condominiums which will replace 125-150 dwellings that were demolished 20 years ago.

Old Urban Renewal land, however, accounts for only a fraction of the vacant land with which we are concerned. Another fraction is the state-owned Boston State Hospital land in the same Roxbury-North Dorchester part of the city, much of which will be made available by the deinstitutionalization of mental patients. While Boston doesn't own this land, the City will be able to largely control its use, in conjunction with its evolving planning for vacant land in the city.

Most of the remaining vacant land in the city is also in the

Roxbury-North Dorchester area. Owned by private residential, commercial, and industrial interests, it also had houses or businesses standing on it in prior years. The lots are now vacant land due to the shift of low-income residents into the area, absentee landlord maintenance of low-income families and failure or inability to adequately maintain property, abandonment, arson, the lure of much more profitable downtown commercial real estate development, and nearly two decades of neglect by both the City and private institutions.

It is worthwhile to note these causes, because expectations of declining values and disinvestment have changed into a web of forces that bode appreciating values and investment in much of the Roxbury-North Dorchester area. The City has rediscovered this part of town, and is making considerable strides in addressing an extremely severe crisis in affordable housing.

Since the city can see to the revitalization of fairly large and fairly concentrated areas, it has the power to turn neighborhoods around. The most resounding evidence of this fact is the rise in land values that followed the preparation of and the announcement of revitalization of the Dudley Station area of Roxbury. Land in that area had been worth basically nothing for a generation, and its value is now spiraling upward. The metropolitan area has experienced the most rapidly appreciating land values in the nation in the past two years. Larry Brophy, Boston Redevelopment Authority Senior Planner, thinks that the city controls enough land to heavily influence land values in surrounding areas. Therefore, the city will be able to keep land

cheap enough--in the face of rapid land value appreciation in the City--to provide affordable housing. This author thinks that the city does not have that much control over values for this surrounding land, which makes it imperative that the City act quickly, forcefully and efficiently if it is to succeed in leveraging significant amounts of affordable housing before land values get so high that affordable housing will be impossible without hitherto unimaginable levels of land-cost write down.

Let us now see some examples of how the City is leveraging its land-ownership position: One of the two shallow-subsidy approaches studied relies on a land cost subsidy. In the Andrew Square Project the second largest of all seven land subsidies is essentially the only subsidy provided. It amounts to \$2,642/unit. In a quite unique approach for the City, the private, nonprofit developer is making a significant contribution to the project by laying out a non-recoverable \$6,667 per unit.

What is so unique is the fact that a substantial outlay is coming from a nonprofit development sponsor. In this case the explanation lies in the fact that the sponsors, the Bricklayers and Laborers' unions hope to demonstrate that union-wage levels can produce affordable housing in a series of projects of which this is the first. While the public subsidy is shallow, the combination of the two adds up to a moderate \$9,309 subsidy per unit.

#### **NONPROFIT OR LIMITED-PROFIT DEVELOPERS**

The third common element among the seven projects is reliance upon nonprofit or limited-profit development entities, or, in the case of the Homesteading program, on the Department of

Public Facilities itself as the nonprofit development entity. The primary rationale for this approach is that amount of money that would have gone toward developer profit can go into reduction of the purchase price of an affordable home.

However, necessity, not this rationale, is responsible for a significant part of the nonprofit development mechanism: Congress only permits Community Development Block Grant (CDBG) funds to be used as housing subsidies on non-profit, or limited-profit developments. As discussed below, Boston relies more on CDBG resources than on any other single source for its homeownership development subsidies. Hence, the City currently has no choice but to make most of its homeownership initiatives nonprofit or limited-profit developments.

Even if this were not the case, however, the majority of City affordable housing projects would still be done through nonprofits because a strong network of nonprofit development corporations has come into existence within the past decade, and a substantial set of state government programs has come into being to support them. Hence, the City can also draw in some additional state resources by doing housing development with community-based nonprofits.

Furthermore, the record of nonprofit rental housing production testifies that for-profit developers have been either unwilling or unable to produce much affordable rental housing. However, private rental developers have been forthcoming when generously subsidized with Urban Development Action Grants (UDAG's) or Housing Development Action Grants (HODAG's) along

with state or federal rent supplements and/or State Housing Assistance for Rental Production (SHARP) subsidies. These federal and state programs have been targeted to private developers, and community-based nonprofits have only been allowed to get in on the rent supplement programs, and the now-defunct Section 8 rehab program. It is difficult to say how nonprofit performance would be in the programs made available only to for-profit developers.

#### **NONPROFITS ARE AT A DISADVANTAGE IN NEW CONSTRUCTION FROM A LACK OF EXPERIENCE**

Some City housing staff would like to rely more on for-profit developers who have more experience for the production of affordable housing, because they are more experienced, may enjoy some economies of scale in production and purchasing, and may run more efficient operations.

Like Boston, other Massachusetts cities and towns had until recently developed only affordable rental opportunities. As a result, the community-based non-profits that have grown up over the past decade are extensively experienced in rental housing. Likewise, almost all of their experience was in rehabilitation. Consequently, none of the Boston community development corporations (CDC's) -- community-based nonprofit developers are CDC's -- had new construction experience prior to the City's New Construction Initiative (NCI) program (both of the Round I NCI projects are examined in this study).

#### **CDC'S SHOULD NOT BE HELD RESPONSIBLE FOR THE COST OF EXTRA TRANSACTIONS AND APPROVALS THAT THE COMMUNITY DEVELOPMENT BLOCK GRANT PROCESS ENTAILS**

One City housing program director thinks that the CDBG-

nonprofit developer process is costly because it is too slow and inefficient. Part of the reason is the lack of homeownership and new construction experience on the part of the CDC's, and the comparative above-mentioned advantages of some for-profit developers. The primary reason in his opinion is not the drawbacks of the nonprofits, however, but the requirements of the CDBG process. Six City departments must approve the CDBG contract with the development entity, a process that normally takes three months. While I did not have time to pursue this matter in detail, my bet is that federal requirements do not require six separate approvals. I think that the City could streamline this process if more efficient City-supported development was a top priority.

One of the difficulties with the process is that the CDBG program, according to federal requirements, only reimburses following project completion. Nonprofit developers are not endowed with extra cash to use as front-end money, so every project involving a deep CDBG subsidy requires separate bridge-loan fundraising efforts. This is a difficulty that the CDC's would dearly love to overcome, but the present rules of the nonprofit game prevent them from doing so. As we shall see, the state is playing a significantly increasing role, while federal resources dwindle. The state must take care to provide adequate front-end resources to ease this bridge financing problem.

Of the seven projects studied, two are done by Community Development Corporations who are in business precisely to develop affordable housing, Urban Edge and Codman Square Housing Development Corporation. One is being done by an employment

training center that is only now taking on a housing development role, the Opportunities Industrialization Center. One is being done by the Public Facilities Department of the City itself. One is being done by an unusual nonprofit development entity that is not community based, but has been formed specifically for affordable housing development by two labor unions, Bricklayers and Laborers Housing, Inc.

### MINORITY DEVELOPERS

The community-based nonprofits mentioned above have many minority officers and staff, and they generally attempt to work with minority contractors. They are encouraged and supported by the City in these efforts. Urban Edge, for example, played an important role in the rise of the independent Hispanic contracting firm, Cruz Construction. The Codman Square HDC director is Black, etc.

Two of the subsidized Boston projects studied are not being undertaken by nonprofits, but by for-profit developers who are undertaking these specific projects on a nonprofit or limited-profit basis. Both projects are in the Roxbury-North Dorchester area dominated by minorities, and both the City and the community are eager to see more development in that area done by minority developers, contractors, and construction workers. Minority developers are few, however. In the case of the Garrison-Trotter Project, community leaders in some sense drafted Black attorney Thomas Simmons to be the developer. He has no development experience and is learning on the job, a process which puts some inefficiency and increased cost into this development. Richard

Taylor, a Black Harvard MBA with moderate development experience, has been given preliminary designation by community groups and the Boston Redevelopment Authority (BRA) to develop the Fountain Hill Project. Both developers are expected to take quite limited profits from the developments.

Richard Taylor heads the Boston Minority Developers Association, and may well play an important role in the emergence of minority developers and builders. Because of the City's unprecedented efforts to increase the role of minority developers and builders, a small number of such businessmen will probably profit handsomely in the next few years. Along with them, a larger number of construction workers and staff will increase their standards of living.

To the extent that Boston's affordable homeownership initiatives focus on the area where minorities are concentrated, the lack of experienced minority developers will continue to constrain the pace at which affordable housing can be developed. This lack of experience is a meaningful handicap, because of the race against rising land values and the need to quickly make a dent in the critical affordable housing shortage.

#### **IN-KIND CITY DEPARTMENT SERVICES**

The fourth common element is the provision of in-kind staff services, primarily by Public Facilities Department (PFD) or Boston Redevelopment Authority (BRA) staff, but also by staff from other departments. The primary contributions are by City housing people who shepherd housing projects along from beginning to end, and who help select and package city land to be used in a subsidized development, or sold at market rates to housing

developers who will develop under strictly market conditions.

In-kind staff time subsidy is difficult to quantify in dollar terms, and the City does not do so itself. In the financial analysis of a number of projects which follows in this study, I have guessed at the dollar costs of in-kind staff contributions. One purpose of the analysis is to compare some subsidized to unsubsidized projects. Since public staff time is involved, a guess at its cost makes the comparison more accurate than ignoring this cost factor completely. My estimates are probably low, but in any case the amount of in-kind dollar subsidy involved is either roughly equal to or less than the land subsidy, depending on the particular case. In general it is smallest subsidy in dollar terms, but the accomplishments involved are invaluable, since these staff bear much of the responsibility for putting the projects together and greasing the wheels throughout the regulatory approvals process.

The most important aspect of City in-kind staff assistance on a project is becoming an advocate for a particular development and working within the City structure to ease and hasten the regulatory approvals process, and assist in securing timely subsidy payments or reimbursements.

Ned Daily, who coordinates the New Construction Initiative at the Department of Public Facilities, feels that one of the most effective forms of assistance on those projects is gathering together appropriate representatives of all of the regulatory agencies to discuss a project with the nonprofit developer at the early stages of project concept development. This reduces to a

minimum pre-development expenditures and saves a good deal of time.

#### CURRENT RELIANCE ON WANING FEDERAL PROGRAMS

Four of the seven City programs rely primarily on federal grants to the City for their subsidies. One of the four relies on a mortgage financing subsidy, like the MHFA program above. This is the Winslow Court condo development, which uses a federal Urban Development Action Grant (UDAG). The City gets to keep the grant and uses it in such a way that it will hopefully be recycled. In the Winslow Court case \$15,000 in UDAG funds is made available to each homebuyer family as a no-interest second mortgage. If the family remains in the home for at least ten years and then sells, the principal must be repaid to the city. Increasingly onerous penalties are incurred as the staying period becomes shorter.

While this is a financing and not a production subsidy, it functions essentially the same as a production subsidy, by lowering the effective purchase price confronting the homebuyer. The other three projects that rely primarily on federal grants use the grants directly as production subsidies. In fact, all of the remaining six projects studied rely on production subsidies. In these three cases Community Development Block Grant (CDBG) funds subsidize the development costs of either nonprofit or limited-profit developers. In the shallow-subsidy Garrison-Trotter Project there is a CDBG of \$1,300 per unit. In two deep-subsidy projects there are much larger CDBG's. Urban Edge's New Construction Initiative (NCI) Round I Project, there is a \$14,502/unit CDBG. In the Codman Square Housing Development

Corporation's NCI Round I Project there is a \$15,667/unit CDBG and a \$1,190 Management Assistance Program (MAP) grant, which also uses CDBG resources.

It is highly likely that the UDAG program will go out of existence in 1987. CDBG resources have been significantly cut by the Reagan Administration and Congress each year for the past five years, and further significant cuts are expected in the coming year. Since one of the five deep-subsidy approaches relies primarily on the UDAG program, and two of the five rely primarily on the CDBG program, it is clear that the City will have difficulty maintaining its new momentum in the creation of affordable homeownership opportunities. A companion program of UDAG, the HODAG program, which is exclusively for housing, is also set to expire in 1986. This program has also been used by Boston.

#### **MA. HOUSING PARTNERSHIP AND LINKAGE TAKE UP SOME SLACK**

Part of the slack left by the waning and disappearing federal programs will be taken up by the new Massachusetts Housing Partnership which began operation in 1986. This state program devotes some of its resources to the creation of affordable homeownership opportunities in the forms of mortgage financing subsidies that piggy-back on top of the MHFA program, or infrastructure subsidies. It is unlikely that such state programs will soon equal the amount of withdrawn federal resources. It is interesting to note that in the spring of 1986 Massachusetts state government has a budgetary surplus of several hundred million dollars. At \$5,000 per unit, \$50 million would

subsidize 10,000 homeownership opportunities, or 5,000 units at \$10,000 per unit.

The City has a two-year old mandatory linkage program, where developers of 100,000 square feet or more of market-rate space must contribute \$5 per square foot to a linkage fund for the creation of affordable housing, or use their contribution to build the housing directly. Developments in progress will contribute \$40 million over a seven-year period. This affordable housing resource will undoubtedly grow to some significance, if it can overcome the court challenges that have confronted its implementation. Its importance, however, will be relatively minor within the next two years. It is quite unlikely that within the next two years the Ma. Housing Partnership and Linkage combined will fully replace withdrawn federal resources dollar for dollar. If linkage remains in effect, this combination would add up to quite substantial affordable housing resources within three or four years.

Showing its determination to succeed at some form of cross-subsidy among developments, the City has responded to a legal challenge to linkage by going after the same thing in a different way: In May of 1986, Mayor Flynn proposed an inclusionary zoning ordinance which has the same effect as the City Council's linkage ordinance. The inclusionary zoning approach avoids some of the legal pitfalls in the former linkage ordinance.

#### **HOMESTEADING**

We have seen in the above paragraphs how different combinations of subsidies form different approaches to the creation of affordable homeownership opportunities. A grant or

loan, an infrastructure subsidy, or a land cost write down may be emphasized in each case, or they may all be present, with an equally important in-kind staff time subsidy. The Homesteading Program is another approach which might draw from any or all of these subsidies, and is placed in our deep-subsidy category. Homesteading usually works out to be a moderate subsidy program in comparison to the other deep-subsidy approaches studied. Existing vacant and/or dilapidated houses that are owned or acquired by the City are rehabilitated to code by the city and sold at pre-set affordable program prices to buyers. The buyers paint or wallpaper the interiors. The buyers must remain occupants for 10 years or they will get none of any capital gain from resale of the unit. Depending on the case either the land or the CDBG subsidy will be the greater. The total amount of subsidy is the amount necessary to bring the price down to the pre-set program price. In the case of 13 Esmond Street, it will probably work out something like this: CDBG subsidy \$7,240/unit, land subsidy \$1,000.

#### **INFRASTRUCTURE SUBSIDY AND THE URBAN RENEWAL ACCOUNTS**

The final deep-subsidy approach relies primarily on combined government infrastructure resources. These subsidies are largely a combination of City and state resources, primarily City resources from old Urban Renewal Accounts. In what is probably the largest such account, that of the Washington Park Urban Renewal Area, \$2 million remains. One of the eligible uses is infrastructure.

It is currently projected that the Fountain Hill Square

development will receive an \$800,000 infrastructure subsidy, mainly from this account. Fountain Hill Square plans have not been finalized. The project will probably end up with about 120 condos. One of the several likely schemes would have the entire project subsidized by the infrastructure and other subsidies. This would enable 40%, or 48 of the units to be sold for a moderate \$60,000 apiece. If the entire infrastructure subsidy is used to moderate the prices of the 48 affordable units, this would work out to an infrastructure subsidy of \$16,667/unit.

Another part of the City in which these Urban Renewal resources will be used is the South End, where the BRA will orchestrate the development of 80 vacant Urban Renewal parcels. The Urban Renewal money will largely be used for infrastructure, but also for other purposes, and will assist the development of about 1,000 units of housing. Approximately 250 of those units will be homeownership opportunities for low and moderate-income buyers.

The Urban Renewal and other infrastructure subsidies are flexible, in that they can be used for shallow or deep subsidies, but are restrained by particular federal infrastructure program requirements that make deep subsidy impossible in many cases. The total amount of deep infrastructure subsidy possible is also very limited by both the availability of funds and the small portion of development sites in the city that need deep infrastructure subsidy.

#### **WAIVER OF FEES AND BUILDING PERMIT CHARGES**

This subsidy was important in one deep-subsidy case. In the Codman Square HDC's New Construction Initiative Project

\$762/unit was saved by waiving fees. The Public Facilities Department retained title to the land through the subdivision and permitting process, thus omitting these fees from the development's cost structure. This subsidy was made available to the Urban Edge NCI Project, but timing circumstances prevented this opportunity from coming to pass. The initial pro formas for the Fountain Hill Square Project omit such fees, indicating that some fee waiver is a possibility in this case. BRA Financial Analyst Ann Wilson believes that building permit and inspection fees will not be waived, but is inquiring regarding the feasibility and advisability of waiving Traeger Bill subdivision fees. In the Fountain Hill scenario analyzed in this paper, such a waiver would be a substantial \$59,500.

#### PRIVATE SUBSIDIES TO SUPPLEMENT PUBLIC SUBSIDIES

Earlier in this paper the City's \$2,462/unit land subsidy for the Andrew Square project was noted. While I have not been able to reach the head of the Bricklayers Union for confirmation, information from PFD's Mark Campbell indicates that the Bricklayers and Laborers Unions are providing a subsidy of \$6,667/unit to the Andrew Square Project. In this case a subsidy is being provided by a private nonprofit entity.

Another example arises in the Codman Square HDC New Construction Initiative case. Alan Green, president of Green Co, a developer of luxury condominiums, is a Codman Square HDC Board member. His firm provided half-price construction management and general contracting to the project for an in-kind contribution worth \$3,571/unit.

The Linkage Program spoken of earlier is another type of private subsidy, where profits from one development cross-subsidize another development. Similar, is cross-subsidy within the same development. Such subsidy is not considered to be part of a linkage program per se, but amounts to the same thing as linkage, and is negotiated on a project by project basis.

If the possible Fountain Hill Square scenario explained in Appendix II were to unfold such that the costs to the developer for completing the moderated units exceeded sales receipts for those units, then some profit from the market-rate portion of the development would have to cross-subsidize the moderated portion. Later in this report a Cambridge, Ma. shallow subsidy development will be discussed, in which a substantial cross-subsidy is provided within the project by the developer.

Such internal private subsidy is the kind of thing the City would love to leverage in its housing development projects. The main problem, however, is that in the areas where the City has the land to leverage, market-rate housing prices are too low to allow market-rate units to cross-subsidize moderated units within a given project. While this may not be the case a few years from now, it remains the case today. Hence, the opportunities for using this type of private subsidy are very limited at this time.

Subsequent material in this report and in the appended data on each of the seven projects, use financial information ranging from the most recent pro formas available, to original project pro formas supplemented by interviews which update the most important figures. In one case, the Fountain Hill Square Project, the basic development concept of the project is still

being defined; so the developer's initial concept and pro forma guestimate have been combined with an alternative concept being put forward by the City. The result is a financial analysis of one likely outcome. In the case of the Homesteading Econdominiums Project (Econdominiums meaning affordable condominiums) at 18 Esmond Street, the rehabilitation has not yet been done, and figures represent the DPF's best estimate following bids. In all cases this author has added in an estimated dollar value for in-kind City staff time, and in a few of the cases has estimated the land subsidy. In some cases there are probably small donated services that have been missed in this review.

Likewise, in all cases the total development cost (TDC) for each project appears higher than any TDC projected or recorded by the City or the respective developer. This is because all, or nearly all of the subsidies in each case are not included in the project budgets. Since we are concerned with total real resources used to produce each unit, regardless of source, they have all been included in each TDC. Sales prices represent actual cost to homebuyers.

The following three pages are the first of such financial data presented. These pages summarize some of the salient features of the seven approaches represented in the seven subsidized Boston projects analyzed. These pages also include a number of other developments both within and without the city of Boston. These additional projects are also described in detail in Appendix II, along with the seven that we have already

highlighted. Subsequently in this report these additional projects will be used to draw out certain characteristics of the Boston subsidized projects, and to illuminate changes that the City might make in its approaches:

BOSTON CITY HOMEOWNERSHIP PROGRAMS IN THE 1980'S

SHALLOW SUBSIDY

1) CDBG, LAND, BRA STAFF TIME, AND LIMITED DEVELOPER PROFIT.

CDBG Subsidy	\$1,300	Garrison-Trotter Project
BRA Staff Time	400	Conkling Development Corp.
Land Subsidy	700	18 condos, 1,340 sf, 27/acre
Total	\$2,400	TDC \$75,700 Price \$73,300

2) LAND AND NONPROFIT DEVELOPER CASH CONTRIBUTION

Land Subsidy	\$2,642	Andrew Square Project
DPF Staff Time	250	Bricklayers & Laborers, Inc
Total	2,892	18 condos, 1,377 sf, 32/acre
Union Subsidy	\$6,667	TDC \$79,458 Price \$69,900

DEEP SUBSIDY

3) PRIMARILY CDBG, PLUS \_\_\_\_\_, LAND, PFD STAFF TIME, AND THE SERVICES OF A NONPROFIT DEVELOPER.

CDBG Subsidy	\$14,502	New Const Initiative Round I
-----	2,063	Urban Edge
Land Subsidy	500	16 condos, 1,000 sf, __/acre
PFD Staff Time	375	TDC \$66,315 Price \$48,875
Total	\$17,440	

4) PRIMARILY CDBG, PLUS A CDBG MAP GRANT, WAIVER OF FEES, LAND, PFD STAFF TIME, SUBSTANTIAL DONATED CONSTRUCTION MANAGEMENT SERVICES FROM A PRIVATE DEVELOPER, MINIMAL PRO-BONO LEGAL WORK, AND THE SERVICES OF A NONPROFIT DEVELOPER.

CDBG Subsidy	\$15,667	New Const Initiative Round I
CDBG MAP Grant	1,190	Codman Square Hsng Dev Corp
Waiver of Fees	762	21 fee smp, 1,264 sf, __/acre
Land Subsidy	238	TDC \$61,890 Price \$43,938
PFD Staff Time	95	
Total	17,952	
Const Mng Subs	3,571	
Pro Bono Legal	\$2,000	

5) PRIMARILY UDAG, PLUS BRA STAFF TIME, LAND, AND THE SERVICES OF A NONPROFIT DEVELOPER

UDAG Subsidy	\$15,000	Winslow Court
BRA Staff Time	750	Opportunities Industr Center
Land Subsidy	625	24 condos, 1,197 sf, 36/acre
Total	\$16,375	TDC \$88,625 Price \$72,250

6) PRIMARILY EITHER CDBG OR LAND, WITH SOME PFD STAFF TIME, AND A LITTLE SWEAT EQUITY FROM BUYERS.

CDBG Subsidy	\$7,240	13 Esmond St. Econdominiums
Land Subsidy	1,000	Boston Public Facilities Dpt
PFD Staff Time	1,000	3 condos, 900 sf, 3-decker
Total	\$9,240	TDC \$55,240 Price \$46,000

7) PRIMARILY A COMBINATION OF CITY AND STATE INFRASTRUCTURE SUBSIDY (MAINLY FROM THE CITY'S URBAN RENEWAL ACCOUNT), WITH SUBSTANTIAL SUBSIDIES IN WAIVED FEES AND LAND, BRA STAFF TIME, AND LIMITED PROFITS FROM A PRIVATE DEVELOPER.

Govt Infrastrctr	\$19,048	Fountain Hill Square	
Waived Fees	2,167	Taylor Properties	
Land Subsidy	2,925	42 condos, 982 sf, 36/acre	
BFA Staff Time	500	TDC \$84,640	Price \$60,000
Total	\$25,640		

#### CAMBRIDGE SHALLOW SUBSIDY

8) CDBG SUBSIDY, IN-KIND CITY STAFF TIME. (I am only listing public subsidies in my subsidy calculations, hence this project appears as a shallow subsidy project. The developer, however, is providing much deeper additional subsidies to these affordable units than is the case in any of the subsidized projects listed above. This private subsidy is a cross-subsidy from profits from sale of the market-rate units in the larger project.)

CDBG Subsidy	\$4,200	Lincoln School	
City Staff Time	1,200	Lincoln House Assoc. (OKM)	
Total	5,400	5 condo, 1,153 sf, 26/acre	
*Pvt Subsidy	\$63,550	TDC \$128,950	Price \$55,800

#### BOSTON STRICTLY MARKET DEVELOPMENT

9) Bernard Place  
South Bay Development Corp.  
13 fee smp, 1,100 sf, 34/acre  
TDC \$49,123 Price \$55,231

10) Costello Place  
South Bay Development Corp.  
15 fee smp, 1,100 sf, 24/acre  
TDC \$51,300 Price \$60,000

#### WEYMOUTH STRICTLY MARKET DEVELOPMENT

11) Whitman Pond Village  
Robert Fox Co.  
77 condos, 686 sf, 13/acre  
TDC \$\_\_\_\_\_ Price \$91,429

#### ASHLAND STRICTLY MARKET DEVELOPMENT

12) Ledgemere Country  
Fafard Companies  
400 condos, 1,475 sf, 8/acre  
TDC \$\_\_\_\_\_ Price \$123,000

13) Spyglass Hill  
Fafard Companies  
300 condos, 1,575 sf, 8/acre  
TDC \$\_\_\_\_\_ Price \$145,000

## PART II

### BOSTON SUBSIDIZED HOMEOWNERSHIP COMPARED TO STRICTLY MARKET DEVELOPMENT IN BOSTON AND SURROUNDING SUBURBS

#### DEEP INTERNAL CROSS SUBSIDY

The principle of cross-subsidy within a given project introduced a few pages previously, is exemplified in the case of the Lincoln School in Cambridge, Ma. Cambridge sold the municipally-owned school to a private for-profit developer with no land-cost writedown. There are 15 market-rate condos and 5 moderated condos in the development. One of the 5 moderated units will receive a public subsidy of \$6,000 for a price write-down for the purchasing handicapped family. A neighborhood association that has previously received jurisdiction over some CDBG funds will use around \$5,000/unit to write down 3 of the units. Thus, four of the units receive these subsidies, for an average subsidy of \$4,200/unit averaged out over all 5 of the moderated units.

The \$24,000 end acquisition cost to the development entity is far, far higher than the acquisition cost of any of the other subsidized developments studied here, and the rehab costs are also higher than the construction costs of any of the other subsidized projects studied. Actually the acquisition cost is far higher than that (and hence underestimated in my figures) because operating profits will be evenly split between the developer and the city after a developer fee is paid. This reflects the far higher land and building values in Cambridge than in the parts of Boston in which the studied projects are located. Hence, the Lincoln School developer will end up cross-

subsidizing each of the moderated units out of the profits from the market-rate units. The project is not complete, and all of the relevant marketing data is not available, but based on the information at hand the cross-subsidy will be around \$70,000 for each moderated unit. That is in addition to the above-mentioned \$4,200/unit write-down, and an estimated \$1,200/unit in in-kind City staff time. The market-rate units will sell for such high prices that these enormous cross-subsidies are possible, the developer will share the profit with the city, and still be left with a reasonable developer profit. The Lincoln School Project illustrates what can be done with cross-subsidies in a strong housing market. Contrast this with the situation in Roxbury-North Dorchester, where the market may still not be strong enough to provide for any internal project cross-subsidy. The extent to which internal project cross subsidies can be used depends upon local market factors.

#### STRICTLY MARKET DEVELOPMENT

To gain perspective on the Boston City's subsidized affordable homeownership work, and to prepare for a following examination of affordable homeownership development in the suburbs, we will look at some affordable homeownership developed under strictly market conditions--with no public subsidies. The fact that one unsubsidized developer sold new homes in the same price range as the 5 Boston deep-subsidy projects above, suggests that there is still room for improvement in the City's deep subsidy approaches. The suburban projects to which we now turn illustrate that strictly-market affordable homeownership projects (\$130,000 or less) are rare in the 1985-86 suburban market, and practically

nonexistent within Massachusetts Housing Finance Agency limits (\$110,000 proposed for 1986).

The reader will note that five developments appear on the preceding list which were not mentioned previously. These projects were not subsidized in any way by the City of Boston. Three of the projects did not even take place in the city. One occurred in a close-in south-shore suburb, Weymouth, the other two occurred in a far-out western suburb near Route 495 in Ashland.

The Bernard Place and Costello Place Boston projects are as affordable as one could hope to find for strictly market developments within Boston. The Whitman Pond Village development in Weymouth is as inexpensive as one is likely to find in any of the suburbs. One of the Ashland developments is a bit more expensive, but at the bottom of the new construction market in its area. The other Ashland development is a bit more upscale, but there is little new construction in its area available for less.

#### **SOUTH BAY DEVELOPMENT CORPORATION, BOSTON**

It is interesting to note that the Bernard Place Project in South Boston and the Costello Place Project in Dorchester cost less to develop per square foot than any of the seven subsidized Boston projects examined in this report. While no other strictly market homeownership developments with such low development costs have come to my attention, there probably are a few, but they are certainly rare.

The land was acquired fairly cheaply in an open City

auction, inexpensive modular manufactured housing was assembled on site, and relatively little was taken in profit. Part of the reason for the low prices for these zero-lot line town homes was unexpected repairs which had to be made after sale of the units. The cost of these repairs came out of the developer's profits. The repairs were due to poor quality product and poor basic on-site module assembly on the part of the manufacturer.

Three subsidized Boston projects studied sell to buyers for less, three for more, and one at the same price level as these two unsubsidized developments by South Bay Development Company. However, the only reason that any of the six studied new construction projects sell for less than the South Bay ones is the deep subsidies they were provided with. The five deep subsidy projects had an average subsidy of about \$17,000 per unit.

Not only did the South Bay developments have to pay more for the City-owned land they acquired, but they had to bring in new roads and water and sewer lines. Several of the City-aided developments studied also had substantial infrastructure costs. While the South Bay developments have about 150 square feet less of finished living space than the average for the seven City developments, the total occupyable space, both finished and unfinished, is comparable to the other projects.

This author thinks that the existence of such developments indicates that public facilitation of, or slight no-red-tape subsidies of such strictly market developments, would generate many more of them. The point is not that there is something amiss with the City-aided developments, but that there is

obviously room for improvement in Boston City's efforts to create affordable homeownership opportunities.

#### COSTS OF SUBSIDIES

Everything costs something. Even a cash grant subsidy is not free. Considerable time and money go into shaping the development project to meet grant program eligibility, applying for the grant and carrying out particular grant requirements throughout the development process. Some of the resources from any subsidy merely compensate for the costs of obtaining and using the subsidy.

The time and money involved in UDAG and HODAG application processes, for example, are not insignificant, and this is the case even though it is the municipality, and not the developer which makes the application. The main problems are uncertainty regarding the outcome of the application for subsidy, regarding the waiting time necessary for approval, and regarding successful contract compliance during the subsidized development process. Earlier in this study we noted the problem nonprofits have with front-end development money. This structural problem clashes with the CDBG program in that CDBG payments can only be made after completion of work. This is one example of how subsidy program requirements can create difficulties for development entities.

Another source of uncertainty and delay is the usually greater amount of community participation and community politics that go along with subsidized developments. The City has one or more subsidies available that the developer and other community

groups or institutions want to go into a particular project. This gives the City added control over the project. The development entity is willing to give up some control in return for the subsidy.

Since subsidized development uses tax dollars, the electorate holds the City more responsible for the outcomes, and expects to be able to have more influence on the process.

In the case of the community-based nonprofit developers, the process is even more delicate, because the local residents are members of the Community Development Corporations and can vote on important CDC matters in annual meetings. Furthermore, neighborhood representatives sit on the CDC boards of directors. While the greater accountability and participation involved in subsidized affordable homeownership developments does increase the likelihood that low and moderate-income housing consumers will get what they want, the more time consuming processes involved necessarily translate into increased costs.

Many of the state's Community Development Corporations have 7 or more years of experience, and continue to become more effective and productive. There is every reason to conclude that as as these nonprofit developers and builders gain more new construction and homeownership development experience over the course of the next few years, they will close the part of the cost gap resulting from inexperience.

Having taken stock of the fact that subsidies have their own costs, let us return to our introduction to private development experience on the lower end of the housing market. South Bay's developments have shown us that very affordable town homes can be

developed in Boston without subsidy. Robert Fox Company developed affordable homes in a close in southern suburb, Weymouth, and Fafard Companies did likewise in Ashland, which is nearly out to Route 495 to the west of Boston.

#### **ROBERT FOX COMPANY, WEYMOUTH, MASSACHUSETTS**

The Whitman Pond Village example is intended to illustrate that suburban market (unsubsidized) development with the lowest developm costs, is more costly than its Boston counterparts, both subsidized and unsubsidized. Even in the least expensive opportunities available, the quality of amenities is likely to be higher, the density of a given development less, and the land cost per unit considerably more. All of these differences translate into both higher development costs and sales prices.

Subsequently in this study we will discuss how local zoning in all but a few of the roughly 100 suburban communities within the Route 495 area makes affordable homeownership development extremely difficult, or impossible. For the moment, let us just point out that opportunities for either strictly market affordable developments like Whitman Pond Village, or subsidized developments are much rarer in the suburbs.

#### **FAFARD COMPANIES, ASHLAND, MASSACHUSETTS**

The Ashland, Ma. developments of the Fafard Companies illustrate what is happening to the concept of affordable homeownership opportunities in most of the suburbs surrounding Boston, going all the way out to Route 495 (the area within 495 is a semicircle with an average radius of about 26 miles). Compared to both the subsidized and unsubsidized Boston

developments studied, these have a density of 8/acre instead of an average of around 30/acre. They are two stories instead of the usual 3. They are located in more affluent surroundings.

Ashland is in the Metro West (Greater Framingham) area west of Boston close to Route 495. It is one of the lowest-income towns in the area, and Fafard Companies' Ledgemere Country development represents the lower end of the housing market in the larger area. The Ledgemere units are 1,470 square feet compared to an average of 1,170 sf for the seven subsidized Boston projects. The development is quite large and had a 4-year build out. The last units were completed early in 1984.

Ledgemere units were reselling at the end of 1985 for around \$123,000. If a family was fairly large and had a qualifying income the price was still within MHFA limits (\$134,000 is the maximum price for existing units). Since MHFA guidelines are widely considered as limiting or defining what can reasonable be called "affordable" housing, Ledgemere will be so considered in this study. The seven subsidized Boston projects have an average end of 1985 price of \$56,338. This is less than half of what the bottom of the new-construction market is producing in the greater Metro West area. According to Aurie DeCollibus, Fafard Real Estate's Residential Sales Manager, there were still some condo conversions coming on the market in that area at the end of 1985 for \$70,000 or \$80,000, making the bottom of the existing housing market an average of \$20,000 (36%) higher than the average price of the Boston subsidized developments considered here. It would be impossible to reproduce the Ledgemere units anywhere in the greater Metro West area in 1986 for less than \$130,000-\$135,000,

because of the increasing scarcity and increasing price of land, and because of the increasing unwillingness of any of the towns in the area to allow affordable housing to be built.

The Fafard Companies' Spyglass Hill development followed the Ledgemere Country development. Because the Ledgemere buyers often requested additional optional amenities such as microwaves, skylights, and high-grade carpeting, the Spyglass Hill units incorporated these amenities, along with a few extra square feet, more attractive building design and a more wooded environment. The result was end-1985 resale prices of \$145,000. Units originally sold at the end of 1983 for \$79,000-\$85,000.

While this price exceeds the maximum allowable by MHFA, and may well be considered beyond a reasonable definition of "affordable housing," there is very little new housing being built within the Route 495 arc for any less. In a certain sense, the reality of the housing market has redefined "affordable" in an upscale manner. In the vast majority of cities and towns in the 495 arc outside of Boston, Cambridge and Somerville, there are virtually no affordable new construction homeownership opportunities, and only minimal condo-conversion affordable opportunities being created. Minimal as they may be these suburban opportunities are very important to their residents and they demonstrate that more suburban opportunities could be created. In the next section of this study we will note the limited number of affordable units being created in Boston. In comparison to the suburbs, however, Boston's affordable homeownership production volume is far greater on a per capita

basis than suburban production volume. Thus, Boston's efforts are important in an absolute numbers sense, as well as in terms of example.

Of course, even if the suburban cities and towns made much more of an effort to create affordable homeownership opportunities, they could only reach the level of affordability that Boston City is reaching if developments included subsidies as deep as the cross-subsidy in the Lincoln School example. But considerable affordable housing could be created in the suburbs by this means, or by this means complemented with other forms of subsidy, because of the strength of the housing market. Homes can be sold at market rates for enough money to successfully cross subsidize. In most cases it would be quite adequate to create affordable units that sell for much more than the \$54,000 mean price of the Boston deep-subsidy units, the Lincoln School units, or the Muzzey School units in Lexington that we will discuss in the next part of this study. Far smaller cross-subsidies could create affordable units anywhere in the \$70,000 to \$130,000 range and still make crucial contributions to the creation of affordable homeownership.

The following table presents some more detailed comparative information on the seven Boston subsidized developments, the one Cambridge cross-subsidy development, the two Boston strictly market developments, and the three suburban strictly market developments.

DEVELOPMENTS COMPARED

BOSTON CITY SUBSIDIZED

CAMBRIDGE SHALLOW BOSTON STRICTLY SUBURBAN STRICTLY MARKET  
 SHALLOW MARKET

	SHALLOW SUBSIDY (Usually Land and Regulatory Assist)			DEEP SUBSIDY (Shallow Subsidy + Grant)			DEEP SUBSIDY	CAMBRIDGE SHALLOW	BOSTON STRICTLY MARKET	SUBURBAN STRICTLY MARKET				
	CONKLIN	BRICK LAYERS & GARRISON TROTTER	URBAN EDGE NCI I	COOMAN SQ NCI I	OIC WINSLOW COURT	CITY HONESTEAD 18 ESMOND HILL SQ	TAYLOR PROPERTIES FOUNTAIN SQ	MEANS	LINCOLN HS ASSOC LINCOLN SCHOOL	SOUTH BAY BEARNARD PLACE	SOUTH BAY COSTELLO PLACE	ROBERT FOX CO WHITMAN POND	FAFFARD COMPANIES LEDGEMERE VLG	FAFFARD COMPANIES SPYGLASS HILL
TOTAL DEVELOPMENT COST	72,866	79,458	66,315	61,890	88,625	55,240	86,143	71,643	128,950	51,916	51,300	0	107,000	123,500
AVERAGE PRICE/UNIT	73,300	69,900	48,875	43,938	72,250	46,000	60,000	54,213	54,600	62,000	60,000	91,429	123,000	145,000
AVG SF FINISHED	940	1,082	949	864	1,197	900	1,117	1,005	1,153	800	800	686	1,350	1,450
AVG SF TOTAL	1,340	1,377	1,000	1,264	1,197	900	1,117	1,096	1,153	1,100	1,100	686	1,475	1,575
AVG P/SF FINISHED	78	65	52	51	60	51	54	54	47	78	75	133	91	100
AVG P/SF TOTAL	55	51	49	35	60	51	54	50	47	56	55	133	83	92
AVG COST/SF FINISHED	78	73	70	72	74	61	77	71	112	65	64	0	79	85
AVG COST/SF TOTAL	54	58	66	49	74	61	77	66	112	47	47	0	73	78
AVG SUBSIDY/UNIT	2,400	9,558	17,440	17,962	16,375	9,240	26,143	17,430	5,400	0	0	0	0	0
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE														
TDC	72,588	74,817	65,613	50,700	88,000	54,240	65,000	64,711	104,700	46,640	49,500	0	81,000	91,500
AVG PRICE	73,022	69,900	48,375	43,462	72,250	46,000	40,419	50,101	26,350	60,724	58,200	85,065	89,000	105,000
AVG P/SF FINISHED	78	65	51	50	60	51	36	50	23	76	73	124	66	72
AVG P/SF TOTAL	54	51	48	34	60	51	36	46	23	55	53	124	60	67
AVG COST/SF FINISHED	77	69	69	59	74	60	58	64	91	63	62	0	60	63
AVG COST/SF TOTAL	54	54	66	40	74	60	58	60	91	46	45	0	55	58
LAND SUBSIDY	YES	YES	YES	YES	YES	YES	YES	YES	NO	NO	NO	NO	0	0
LOT AREA/UNIT	278	1,321	?	?	1,215	?	1,162	475	5,295	1,231	1,800	3,301	5,295	5,295
OWNERSHIP FORM	CONDO	FEE SIMPL	CONDO	FEE SIMPL	CONDO	CONDO	CONDO	CONDO	CONDO	FEE SIMPL	FEE SIMPL	CONDO	CONDO	CONDO
FUTURE AFFORDABILITY PROVISION	NONE	?	WEAK 5YR	WEAK 5YR	WEAK 10YR	100%	?	WEAK 7YR	?	NONE	NONE	NONE	NONE	NONE
DENSITY	27	32	?	?	36	?	36	?	26	34	24	13	8	8
SOURCES OF FUNDS														
SALES	73,300	69,900	48,875	43,938	72,250	46,000	60,000	54,213	60,000	62,000	60,000	91,429	123,000	145,000
CDBG SUBSIDY	1,300	0	14,502	15,667	750	7,240	0	7,632	4,200	0	0	0	0	0
OTHER SUBSIDY	0	6,667	2,063	1,190	15,000	1,000	17,917	7,434	0	0	0	0	0	0
CITY IN KIND	400	250	375	857	750	55,240	2,083	11,861	1,200	0	0	0	0	0
LAND SUBSIDY	700	2,642	500	238	625	0	6,143	1,501	0	0	0	0	0	0
TOTAL	75,700	79,458	66,315	61,890	88,625	55,240	86,143	71,643	65,400	62,000	60,000	91,429	123,000	145,000
USES OF FUNDS EXCEPT NON-DEVELOPER EXPENDITURES														
ACQUISITION	278	0	500	476	0	1,000	0	395	0	1,276	1,800	6,364	0	0
SITE COSTS	18,888	11,028	19,254	18,945	9,375	1,500	0	9,815	24,250	9,231	7,600	5,600	30,000	36,000
MANUFACTURED STRUCTURES	30,000	0	32,155	26,714	0	1,500	0	IRRELEVNT	2,000	26,750	30,000	0	7,000	8,500
HAIRD & SOFT CONSTRUCTION	21,700	65,539	7,782	13,541	72,872	51,240	56,145	IRRELEVNT	0	11,128	5,470	30,720	0	0
SPONSOR	2,000	0	6,423	1,119	5,003	0	3,855	3,280	97,575	3,531	6,430	?	63,000	72,000
TOTAL	72,866	76,567	66,113	60,795	87,250	55,240	60,000	65,880	5,125	51,916	51,300	?	7,000	7,000
SURPLUS/DEFICIT	434	(6,667)	202	0	0	0	0	40	128,950	10,084	8,700	?	107,000	123,500

52

### PART III

#### OBSERVATIONS, IDEAS, AND RECOMMENDATIONS REGARDING BOSTON'S AFFORDABLE HOMEOWNERSHIP PROGRAMS

##### EFFICIENT REGULATION AND SLIGHT SUBSIDIES FOR MARKET DEVELOPMENTS WITH SOME AFFORDABILITY COMPONENT

Stephen Lasorda, one of the principals of South Bay Development Company, believes that for-profit developers could play a larger role in creating affordable homeownership opportunities in Boston, even without subsidies, if only the City would organize and execute its regulatory functions in such a way as to reduce impediments.

His chief complaints are improper packaging of city land, lack of uniformity in addressing regulatory approvals, and unnecessary delay in the execution of regulatory functions. He maintains that some problem on all three scores is likely in the course of a given development. The combination is a negative factor when it comes to developers considering whether or not to undertake an affordable housing venture that would usually be a little riskier and a little less profitable at best than alternative development possibilities.

With regard to the packaging issue, for example, Mr. Lasorda cites his own South Boston Bernard Place Project. The real value of the available contiguous vacant land was in securing it as one piece, yet the Public Facilities Department failed to package the three lots together into one 1/2 acre parcel. Mr. Lasorda was lucky. He had to bid in three separate auctions to purchase the three lots. This is, of course, quite risky, since an investment could be made in one or two of the lots, and then someone could either outbid, or drive up the winning-bid price for the final

lot or lots. According to Mr. Lasorda, such poor packaging of public land is more the norm than the exception. The result is both less development period, and less inexpensive development in low and moderate-income neighborhoods. Economies of scale grow as more units are produced in the same location. Buying more materials brings a greater materials price discount, transporting materials to one location rather than scattered sites saves transportation costs, encompassing more units in the same approvals and permitting process saves development time and money, and development and construction labor productivity is higher. Several developers and consultants interviewed indicated that another level of economy of scale is reached at around 30 units, so that a number in the 30 range is often a cut-off point for developers considering somewhat risky or marginally profitable projects. In the case of Mr. Lasorda's South Boston development, assembly of the three lots made it possible to develop 13 units and achieve some economy of scale. This land package, coupled with lower-cost modular manufactured units, made all of the units more affordable.

Mr. Lasorda maintains that the regulatory agencies of the city lack uniformity in their application procedures and permitting requirements. He claims that a small developer such as himself, without clear political connections within the regulatory apparatus, can never be certain that he is going down to City Hall with all of the proper pieces of paper in hand. The risk of a wasted trip is often present. He also maintains that the Inspectional Services Department makes the waiting time for

inspections unnecessarily long and unnecessarily unreliable. It is often hard to pin down precise inspection appointments. Other interviewees for this study reflected Mr. Lasorda's criticisms of Boston's permitting process. Brett Doney, a consultant to small housing developers, echoed Mr. Lasorda's remarks, for example, and added that resolution of zoning questions is also extremely difficult, in that the entire city has only one person available to discuss zoning questions.

The limited resources available for this study did not permit interviewing of Inspectional Serviced Department staff. Among staff interviewed in the Department of Public Facilities and the Boston Redevelopment Authority there was agreement that Mr. Lasorda's criticisms of Inspectional Services' standardization and efficiency had at least some merit.

These comments indicate that if the City wants smaller, developers to play a larger role in creating affordable homeownership opportunities, it could improve regulatory efficiency, and standardize permitting requirements. Improved packaging of City land might also help. These improvements might stimulate a good deal more affordable homeownership without subsidies. There are some measures afoot in the City to do just that, but this author knows little about the seriousness of the effort. If the City meets its housing objectives for the next couple of years, the sheer increase in volume may force the Inspectional Services Department to improve standardization and efficiency as a practical necessity.

If Mr. Lasorda's criticisms are substantially correct, it is interesting to speculate not only on what homeownership such

regulatory reforms alone might stimulate, but also to reflect upon what additional affordable homeownership could be stimulated by coupling such reforms with some of the smaller subsidies that have been discussed above. Land cost write-downs, the assistance of City staff in shepherding a project through, and the waiver of fees are all relatively low cost subsidies that could be made available in varying degrees to essentially market developments in cases where the small additional subsidy might make the difference between a project going ahead or not. If a proposed strictly market development of affordable homes appeared just a bit too risky or not quite profitable enough, a shallow subsidy from the city of one form or another could make the difference.

Of course, extending the City in this direction would require some extra staff, and would result in the foregoing of a small amount of land sale and fee income. The results, in residential and economic revitalization, as well as in the corresponding increase in resultant property tax revenue, would very likely pay a handsome return to the City's investment. The City would have to get the work out to developers that the city might be disposed to help a faltering affordable homeownership development with a small, relatively hassle-free assist of some kind.

Larry Brophy, Senior Project Planner at the BRA, believes that at this time very little can be accomplished in this vein, because the housing market is so strong that there aren't enough developers who would participate. As long as the market remains strong enough to keep everybody busy building higher-cost

housing, such marginal subsidies for affordable housing production won't attract much developer participation. If the housing market softened a bit, however, this author believes that such a new emphasis might produce some significant results.

#### COULD PRODUCTION ON SMALL, VACANT CITY-OWNED PARCELS INCREASE?

PFD's Ned Daily thinks that a little more staff time would be used productively in the small vacant parcels area. more with a little more staff time available in in the small vacant parcels area. He thinks that there are around 1,000 building lots capable of taking 1-4 units each scattered about Boston. These parcels are either currently owned by the City or could be obtained through foreclosure for overdue taxes. This potentially adds up to 4,000 housing units. Mr. Daily concedes that in the 1986 market, however, many more properties are redeemed by owners at the last moment. This might reduce the number of potential units from 4,000 to as low as 3,000.

Mr. Daily thinks that the City should put more effort into selling these parcels with modest land cost subsidies to developers. The City auctioned off municipal land until recently; now every parcel sale is negotiated. While this policy is good overall, largely because it increases both the City's leverage and its flexibility in promoting affordable housing; the new process is much more time-consuming than the old auction process. Hence, current staff time does not allow dealing effectively with the small vacant parcels.

Bigger projects are naturally higher priorities, and on small sites, abandoned structures are more threatening to neighborhoods than vacant lots. The small vacant parcels end up

on the bottom of the priority list, but as a result a significant amount of housing production is being foregone.

PFD's Frank Tate thinks that even if there were a small increase in staff resources so that some serious attention could be paid to the small vacant parcels, developer interest would be minimal while the housing market is so strong. Developers are putting their efforts into larger sites or sites in more upscale neighborhoods. If, however, the metropolitan market for more upscale homes becomes relatively saturated, Mr. Daily's suggestion would certainly be appropriate. This author thinks that such market conditions may arise around the end of the 1980's.

#### **BOSTON HOMEOWNERSHIP PROGRAMS: DEMONSTRATION OR PRODUCTION? NEW CONSTRUCTION INITIATIVE PROGRAM**

Ned Daily, coordinator of Public Facilities New Construction Initiative, explains that the NCI is a demonstration program not a high-volume production program. It cannot do much better than make a drop in the bucket of immense affordable homeownership need in the City. Why is the program so constrained? Primarily because of the limited supply of federal CDBG resources upon which the program depends.

If the supply of resources were considerably increased, but the program were still required to function only through community-based nonprofit developers, then the extra resources could only result in a limited increase in volume because of the limited capacity of the nonprofit developers. In Fact, CDBG resources will probably be even scarcer next year (Graham-Rudman would cut them 30% beginning in June), HODAG and UDAG resources

will probably be gone next year.

Frank Tate, Assistant Director of Development at the Public Facilities Department, would like to see subsequent rounds of the New Construction Initiative include a mix of market-rate and moderate units, instead of all moderate units. The ideal result would be no reduction in the number of moderated units produced, but the leveraged addition of market-rate units to go along with them. NCI Round I produced 37 units, Round II may produce 37. Mr. Tate would like to see the mixed moderated/market approach produce 150-200 units each round.

#### LEVERAGING AVAILABLE RESOURCES

The BRA's Urban Renewal financial resources probably do not exceed a few million dollars, and therefore must be highly leveraged if they are to have much impact over a period of years. The real Urban Renewal resource is land, and it is the land that makes it possible to effectively leverage the modest financial Urban Renewal resources that remain.

City land-cost writedowns, in-kind development services and fee waivers even taken together comprise very scarce resources capable of a solid ongoing demonstration capability. The emergence of the Massachusetts Housing Partnership (MHP) and the continued growth of Massachusetts Housing Finance Agency programs bring limited volume production beyond mere demonstration into the picture. The continuing vibrancy of the state's economy makes increased state support for affordable homeownership a likelihood for the immediate future, and the state has some land to throw into the pot as well. The City linkage program will

probably expand considerably and, in combination with all of the other resources, make significant limited volume production possible.

It remains clear, however, that attaining maximum leverage from these limited resources is the only way to go. If participation and contributions from private sector institutions and individuals could be significantly increased in the next few years, these limited resources could step over the threshold into some degree of significant volume. The Ma. Housing Partnership is developing this insight and attempting to pull more private individuals and institutions around the state into the network of people and institutions committed to increasing the supply of affordable housing.

#### **MASSACHUSETTS HOUSING PARTNERSHIP**

Boston sparked the creation of the Massachusetts Housing Partnership with its own prior creation of the Boston Housing Partnership (BHP). The BHP is a voluntary collection of people and institutions that has committed itself to rehabilitating salvageable structures into affordable rental housing. While the City's Homesteading program has accomplished such work at a minimal demonstration pace, the BHP leapfrogged into a mammoth 760-unit initial project coordinated by Greater Boston Community Development, Inc. and relying on 10 established Boston Community Development Corporations for the development work. The City's efforts for the creation of affordable rental housing have surged in recent years, and have gone beyond the demonstration level into significant limited-volume production.

The Ma. Housing Partnership is important for its role in

drawing out more private resources, but its key impact is in the magnitude of its raw resources. Over the next few years at least, it will pump over \$35 million a year into the creation of affordable housing in the state. These are new resources coming on-stream in 1986 for the first time.

In March of 1986 the City applied for \$6 million from the Partnership's Abandonment Program for one year's work. This is one of two principal MHP programs, and it can be used for either rental or homeownership purposes. Boston will be focusing on homeownership with the Abandonment resources.

If all requested funds were to be awarded, they would be applied to around 600 units, among which over 250 would be affordable homeownership opportunities. Over 1/6 of the total units would be in the Fountain Hill Square development analyzed in this report.

The other key MHP program will pump \$20 million into first-time homebuyer mortgage interest subsidies which will piggy-back on top of the MHFA interest subsidies. The new MHFA bond issue should generate between \$35 and \$50 million for mortgages at approximately 8-8.5%. The MHP resources would write this interest rate down to 6-6.5%.

According to PFD's Frank Tate, this program will greatly increase the leverage of City resources. Less City resources will have to go into each unit of subsidized housing to bring that housing into the reach of low and moderate-income buyers, because more of the total amount of subsidy needed will come in the form of the MHP interest subsidy. The result will not be the

same number of units at lower prices to homebuyers, but more units at the same prices as before.

Hopefully, the City's recent emphasis on homeownership, along with the new MHP support, can continue to pick up speed for the next year or two. Along the way, enough additional participation and contributions from private-sector institutions and individuals can generate a surge in volume that resembles the contributions that the Boston Housing Partnership is now making in rental housing.

Timing may be of the essence, in the eyes of this author, since the race against rising land values becomes more desperate with each passing season. Larry Brophy of the BRA disagrees. He feels that the City controls so much land, and has enough influence on other real estate development factors, that it can keep the cost of land in general, and subsidized land in particular low enough for many years to come.

#### THE GREAT FEAR: LOSS OF TAX EXEMP BOND STATUS

Federal tax reform threatens to remove tax exemption from many types of public bond financing. If this were to happen to MHFA resources, the essential reason for the Agency's existence would disappear; unless, that is, some other way were found to provide the Agency with resources which could be used to write-down mortgage interest rates. The only apparent alternative resources are yet additional state budgetary appropriations, and nobody wants to talk about that until the bomb actually drops.

It seems relatively unlikely now that MHFA bond tax-exemption will be removed this year, but the following year remains in doubt. The impact of such a removal would be

devastating to affordable homeownership and rental property creation throughout the state. A 2% drop in market interest rates would temporarily offset unfavorable congressional action on this matter, but continuing market interest rate decline cannot be counted on.

#### **LOWER INTEREST RATES INCREASE THE VOLUME OF PRODUCTION**

The bottom line for affordable homeownership is the cost of carrying a home. The goal can be reached by lowering the end housing price to the consumer or by lowering the monthly carrying costs via lowering the interest rate on the mortgage. The new Ma. Housing Partnership complements existing mechanisms and resources in reducing both aspects of carrying costs, but the MPH's major contribution is lowering mortgage interest rates farther than MHFA can acting alone.

In the mid-1980's the most important factor enabling the City to maintain or increase the pace of affordable homeownership creation is falling interest rates throughout the economy. Around five years ago mortgage interest rates were in the 14-18% range. Subsequently rates have inched downward, particularly within 1985 and 1986, to the point where mortgage interest rates below 10% have been a possibility for the last year or so. At a spring, 1986 realtor association conference in Boston, national and local association leaders forecast 8.8% mortgage interest rates by the end of 1986.

Rising interest rates in the late 1970's and early 1980's increased housing costs far more than MHFA and all other public programs combined could reduce costs. More recently, falling

rates have reduced housing costs more than MHFA, but not more than the combined effect of MHFA and Ma. Housing Partnership financing terms combined.

Public Facility's Frank Tate points out that for the moment the most important single solution for the loss of federal resources is falling market interest rates. While this is completely out of control of the City or the state, the impact of the falling rates, when combined with the other resources now at hand essentially makes up for the federal losses. However, interest rates may well go up again, which would considerably reduce the number of units that the City could produce within the limits of its affordability objectives.

BRA's Larry Brophy thinks that the volume of both affordable and market-rate homes will increase in Boston over the next two years.

#### BOSTON HOPES TO SEE THE CREATION OF 3,400 HOUSING UNITS IN 1986

At the beginning of 1986 Mayor Flynn announced that his administration intended to develop 3,400 units of housing in the current year. Jerry Rubin, one of the key figures in Public Facilities housing division, believes that reaching this goal is possible, and that around half of these units will be for homeownership (including fee simple, condo, and coop), possibly even more than half. It's the intention of the plan that a significant minority of these units be affordable to low or moderate-income families. If this objective translates into roughly 1,000 units of additional affordable homeownership opportunities, the step toward substantial limited volume production will have become a reality, at least temporarily.

Kevin McCall, Planning Director for PFD housing programs, thinks that roughly 1/4 of the housing units created in the City in the next two years will be affordable units. BRA's Larry Brophy thinks 1/3 may be affordable. All City staff that were asked think that only a small portion of the sought-after 3,400 units will be market-rate units in mixed subsidized & market developments, and believe that virtually all the market-rate units will be produced in strictly market-rate developments.

**WHAT WILL THE AFFORDABLE HOMEOWNERSHIP/RENTAL MIX BE?**

The housing stock in the city of Boston is 70% rental and 30% homeownership, undoubtedly one of the lowest rates of homeownership among the nations large cities. In low income areas the percentage of homeownership goes below 10%. If the portion of the subsidized units created by the City in these low-income areas were no higher than the citywide 30%, this would still increase the homeownership rate. But PFD's Kevin McCall thinks that the affordable units created in these areas will exceed the citywide 30% level. BRA's Larry Brophy feels that 50-75% of the affordable units created in the next two years will be owership units citywide.

All City personnel interviewed thought that the City was placing a higher emphasis on affordable homeownership creation than in the past. This emphasis is desirable because homeownership creates pride and self-interest in maintaining properties and neighborhoods. Homeownership is a powerful stabilizing force in lower-income and insecure housing market areas. Homeownership in general is better from the individual

consumer's point of view, because some of the housing resources remain with the individual or family in the form of building equity, and people have the chance to participate in appreciating values. Converting tenants to homeowners is one way that low and moderate-income tenants can be protected from a rapidly rising rental market.

Larry Brophy thinks that the shift in emphasis toward homeownership is emerging from the City staff, not from a policy formulated by the administration. Kevin McCall thinks that the shift in emphasis is the result of the administration's and its housing agencies' increased responsiveness to neighborhoods. The neighborhoods want mostly homeownership. What appears to be a rather organically arrived-at shift in emphasis probably bodes well for the continuation of this greater homeownership thrust.

With help from falling interest rates, the City's Homesteading program discovered that condo conversion could increase the leverage of City resources. The program rehabs abandoned or dilapidated housing that has come into city ownership until the building meets code, and then sells them with subsidies that meet affordability guidelines.

As an example, Frank Tate says that 2 3-family structures rehabbed and sold to two buyers at the required \$90,000 apiece are likely to require subsidies of up to \$20,000/unit. If 6 condominium units are created in the 2 structures instead, and sold for the required \$46,000 apiece, the required subsidy would probably go up to no more than \$10,000/unit. In this case, serious efforts at creating affordable housing are naturally producing a shift toward an increase in the homeownership share

of units in the Homesteading program. In the above example all of the units become homeownership, instead of 1/3 of them. Mr. Tate thinks that about 20% of Homesteading projects will now be done this way. Such units are called "Econdominiums" by the program, and one of them, 18 Esmond Street, has been examined in this report.

To try to make sense of these goals and opinions, this author prepared a list of developments known to him, to get a sense of what the City's goal of 3,400 housing units might be comprised of. With very incomplete knowledge of developments the city is engaged I made a list, which is presented as Appendix I. Some City staff thought that 1/4 of new or salvaged units created in the city in the next two years would be affordable to low and moderate-income families. Some thought that that the affordable (subsidized) portion could well be higher. I used the goal of 1/4 in my list. This means that 850 out of 3,400 units would be affordable. Listing the developments I was aware of produced a guesstimate of how 320 affordable homeownership units and 390 affordable rental units could be created. It is very likely that the City has another 140 units in the works that I am unaware of, which would bring the affordable number up to 850. Among the developments producing affordable homeownership were several which were mixes of moderated and market-rate units. All together, the 320 moderated units were accompanied by 497 market-rate units. This leaves a shortfall of 2,053 units in strictly market developments that the private sector must produce to meet the overall 3,400 goal.

## NEHEMIAH HOMES APPROACH FOR BOSTON DEEP-SUBSIDY PROJECTS

The following approach relies on manufactured components, economies of scale, high productivity of on-site labor, and deep public and/or private subsidies. The system is capable of producing larger condos or town homes at lower prices than was the case with the five deep subsidy developments studied in Boston. This can even be accomplished with union on-site labor. There is a problem with the Nehemiah system's monotony, but this could be ameliorated by introducing slight variation among units and by interspersing clusters of units with different kinds of housing.

The Nehemiah system maximizes manufactured components but stops short of manufactured modular units. Nehemiah's developer, Mr. I.D. Robbins, told this author in November, 1985 that the quality of his system was far superior to manufactured modular units, because of shear problems with modular units (movement among modules) and better quality control. Mr. Robbins also feels that maximizing manufactured components up to a point is more cost effective than complete manufactured modules (where a few modules assemble into a unit).

Manufactured components consist of wooden 18 ft floor joists, 32 ft roof trusses, and steel end walls. All other studs are precut, packed in kits and numbered by a manufacturer.

Soft costs are minimized by mass-production. 300 or more contiguous units are built, all the same, in row houses, with any desired number of units attached, with staggered fronts. The scale, uniformity, and simplified on-site construction enables the development overhead and regulatory costs to be quite small.

Mr. Robbins insists that in infill areas where the stability of the surrounding neighborhoods is questionable, such large projects guarantee future stability. They have critical mass in themselves that is enough to stabilize a larger area, regardless of problems somewhere on the project's periphery.

The units offer 1,150 square feet of finished space, and 500 square feet of unfinished concrete basement space, for a total of 1,650 sf -- a lot of house. The exterior is brick, a parking pad is in the small front yard, and there is a small back yard. On-site construction is with union labor.

Deep subsidies are at about the same level as in the five Boston deep-subsidy projects studied in this report, but the production costs and sale prices per square foot of finished space and per square foot of total space are much lower than in the Boston projects. For example, the finished sf cost 30%/sf less to develop than the mean per sf cost of the Boston units, and the price to the buyer are \$11,000 less per unit.

The disadvantage of the system is the large number of identical units at fairly high density. Nice as the units may be, the large number of repetitive units gives something of the negative aura of a "housing project" to the Nehemiah development.

The advantages to Boston of experimenting with such a development would be the superior economics of the Nehemiah development compared to the mean values of the Boston developments. Part of this advantage is derived from high labor productivity in on-site work. This is so in spite of the fact that on-site labor is expensive union labor.

Thus the Nehemiah system would enable Boston to produce affordable homeownership opportunities with union labor. Such an experimental development of several hundred units would be a welcome and fitting reward to the Bricklayers and Laborers Unions for their efforts at producing affordable homeownership opportunities in Boston. A small number of bricklayers could be kept busy on a 300-400 unit development for at least two years. The Nehemiah system uses far less union labor than would a conventionally stick-built development, but all on site labor can be union. Most of the appeal of using complete manufactured modular units for affordable homeownership opportunities is the appeal of cutting union labor costs. In both the maximization of manufactured components and complete manufactured modules most or all of the manufacturing labor is non-union, or is union, but at far lower hourly rates than union construction labor. The Nehemiah system offers a compromise for organized labor between the unpleasantness of complete modular units and conventional stick-built units. The compromise is excellent for the affordable homeownership objective, since it is the most cost efficient of the project building systems we have studied in this report.

While not discussed with Mr. Robbins, who toured Boston in November, 1985 to see how a Nehemiah approach would fit there, this author thinks that the same savings could be obtained by developing clusters of 10 to 30 units within an area such that the new units occupy 1/4 to 1/3 of the land in the area. That is to say, the clusters of Nehemiah units will be broken up by different types of construction and open space. This should

largely mitigate the single most important negative factor, the repetitive mass that looks somewhat like a "project." Both Boston and the state have land available and suitable for this modified Nehemiah approach.

According to Mr. Robbins, the breaking up of a large mass of units loses the self-contained critical mass of area stabilization which he feels is central to his concept. While this may be true in large urban areas that have little going for them, this author thinks that likely areas in Roxbury and North Dorchester have turned the corner and will experience enough upgrading on their own that very little risk would be incurred in breaking the Nehemiah-type units up into clusters.

Boston has targeted the Dudley Station area and is tying a \$410 million downtown development to a \$102 million Parcel 18 development in Roxbury. The latter development, pending the outcome of legal battles over linkage, will include \$7 million in housing linkage funds from developers of the downtown development. 150-200 housing units are slated for Parcel 18.

The City has clearly implemented its decision to focus on the area adjacent to the largest tracts of city and state-owned vacant buildable land. It has done so not only by initiating the Dudley-Parcel 18 developments, but by its entire approach to developing more affordable housing. The same Roxbury/North Dorchester areas are the focal points of the housing development strategy, which seeks to leverage the city-owned vacant land.

Housing values have doubled in five years in Roxbury and vacancies have declined significantly. In 1985 the average

selling prices for a Roxbury single family home in wards 8-12 was \$50,000. Housing is being developed following a 25-year net loss of housing from abandonment and neglect. There is at least a few years of important development slated for the area. It has a public commitment and public initiative going for it. There is a significant pent-up market for affordable and somewhat more expensive market-rate housing. Community organizations and leaders are organized into the Greater Roxbury Neighborhood Authority to shape the course of expected development. There is some growth at least left in the regional economy.

All of this argues that there is no appreciable risk in breaking a Nehemiah-type development up into clusters scattered in a moderate-sized area. This is not to argue that the best way to do such an experimental Nehemiah-type development is necessarily the employment of Mr. Robbins and his building system, but it, or a quite similar system would be indicated. It would seem that such a system could be adapted for use by a local developer, or developers, should that be a priority objective for such a Boston project.

Even if several profit or nonprofit developers were involved, single, project-wide, cost-saving contracts for purchase of the manufactured parts could be negotiated. The number of developers should probably not exceed three, or losses in on-site union labor productivity would probably become significant.

The mass production orientation of this system means that it could be very helpful in meeting the city of Boston's objective of developing a large number of affordable housing units in a

short period of time. The same is true at the state level. If such an initial experimental Boston project were successful, it could be repeated once or twice in Boston and in a few other cities in the state. In Appendix I I have constructed an incomplete list of housing developments known to me to understand how Boston City hopes to see the development of 3,400 housing units in 1986. The developments I was aware of included 320 affordable homeownership opportunities. It is interesting to note that one pilot Nehemiah-type development would produce as many affordable homeownership opportunities as all of the other 1986 Boston developments known to me. Such a pilot development would not happen in one year however, but would extend over at least two years. To the extent that Boston is aiming towards a high volume production of affordable homeownership and not just a solid demonstration program, the Nehemiah-type building system and high volume approach are appealing.

## SOME BOSTON AFFORDABLE HOMEOWNERSHIP RECOMMENDATIONS FROM THE AUTHOR

Boston's commitment to increasing the supply of affordable homeownership opportunities and the dedication of its staff is very impressive, and it is backed up by what is perhaps the best state housing organization in the country. Yet higher volume production depends on streamlining procedures and policies. Obsolete codes and ordinances must be revamped and coordination among the Public Facilities Department, the Inspectional Services Department and the Boston Redevelopment Authority must be improved. In several of the homeownership projects studied in this report, a key form of assistance was city staff people leading a development entity through the bureaucratic maze. How much more effective it would be to eliminate the maze. If small developers could count on a consistent permitting process they would develop smaller parcels. If a special streamlined regulatory process were established at least for one or two high-volume production programs and coupled with a uniform \$500/unit land cost and some basic per unit subsidy, the City could take the step into high-volume production. This streamlining process rests on three key elements: 1) revamping codes and ordinances, 2) close cooperation and common purpose under a comprehensive housing plan among the above-mentioned three agencies, and 3) City respect for and commitment to extensive community planning participation and the commitment of community groups to abide by decisions of this planning process.

The Department of Public Facilities has officially just been

made the central City housing development entity, yet the Boston Redevelopment Authority seems to be developing as much housing, and has key regulatory approval over far more market-rate housing development that DPF does. If the City's affordable homeownership efforts are to take a meaningful step forward into higher-volume production, comprehensive planning and coordination that goes beyond the current relationship between the two agencies will have to be developed.

- 1) ESTABLISH A TASK FORCE OR SOME OTHER MECHANISM INCLUDING BOTH CITY STAFF AND OTHERS TO STREAMLINE AFFORDABLE HOUSING DEVELOPMENT PROCEDURES AND POLICIES. Determine what can be done administratively and what requires legislation.
- 2) PROVIDE SLIGHT SUBSIDIES FOR DEVELOPMENTS WITH AFFORDABLE COMPONENTS. Under current market conditions, market-rate developments that are all or partly in the affordable range may not get the consideration they deserve from developers or may be considered as not quite profitable enough and rejected. The City would have to get the word out to the development community that essentially market developments that just don't quite make it, might get a shallow subsidy and a regulatory speed-up if that will make them go.
- 3) INCREASE DEVELOPMENT PACKAGING ACTIVITY TO INCREASE PRODUCTION ON SMALL, VACANT CITY OWNED PARCELS. Additional staff and priority cooperation from between the Public Facilities Department and the Inspectional Services Department will be required to make this work. This effort must be promoted among the smallest developers and the Community Development Corporations. This is an area where little or no development is happening, and minimal resources could be highly leveraged.
- 4) DEVELOP 600 AFFORDABLE HOMEOWNERSHIP UNITS IN SCATTERED-SITE, MIXED-INCOME RESIDENTIAL ENVIRONMENTS USING A UNIFORM 2-DESIGN BUILDING SYSTEM WHICH MAXIMIZES MANUFACTURED COMPONENTS OR USES MANUFACTURED MODULES. In order to accomplish this step into high-volume production, the recommended streamlining will be necessary, along with a uniform land cost of \$500 per unit, no more than 3 developers, and provision of technical assistance to neighborhood-based community organizations.
- 5) DETERMINE WHICH DEVELOPABLE AREAS IN THE CITY COULD BE EXCLUSIVELY DEVELOPED WITH THREE TO FIVE STANDARD AFFORDABLE HOMEOWNERSHIP DESIGNS. The proposed streamlining, temporary design selection resources, a uniform \$500 per unit land acquisition cost, city or state provided utility connections, and a guaranteed maximum construction contract will be

required for all affordable units. One or two designs will be the above manufactured component or modular system, and one or two will be a conventional stickbuilt system. There will be at least one row house and one three-decker design.

## PART IV

### WHAT HOME PRICES CAN TOWN EMPLOYEES AFFORD IN NATICK, SOUTHBORO, AND SUDBURY?

In conversations with residents, town officials, and planners in Eastern Massachusetts communities I have noted a good deal of consistency in affordability concerns. It seems that the first level of concern is for young families seeking their first home. Either they can't buy in the community they grew up in, the community where family and friends are, or they can't buy at all, anywhere in Eastern Massachusetts.

Close behind this concern is concern for middle-aged or elder empty nesters who want and need to move to smaller quarters than the residence they currently own, but can't afford to do so in the communities where it would make sense for them. While most people who have mentioned this to me do not express the following corollary concern, the planners always do: Not only is the affordability problem severe for the empty nesters, but as long as these people are batting around in big houses they no longer want to be in, those large homes are kept out of the hands of large families who need them.

A less frequently heard concern, but a real one for town planners and officials is the concern that town employees can't afford to buy a home in the town where they work. This concern meshes with the young family and empty nester concerns because town employees who already have housing in the town are concerned for their children or parents. By looking at what home prices town employees can afford, we also illuminate the first concern about young families in search of their first homeownership experience. This is so because

the family incomes of many town employee families are at or near the income levels of many of the young families in the towns who are looking for their first home. The following examines what home prices selected Natick, Southboro, and Sudbury town employees could afford in the latter half of 1985:

The following are 1985 gross incomes provided by the town of Natick to the listed employees, and the homes they could afford to buy under FNMA guidelines. Incomes are from the 1985 Town Warrant:

NATICK TOWN EMPLOYEE INCOMES

Job	Pay	Home Price	Mtg	Mtg Pmt	Ins&Tax
42 Patrolmen	\$24,899	\$49,000	44,100	5,475	750
60 Firefighters	\$24,899	\$49,000	44,100	5,475	750
22 DPW Laborers	\$18,936 (mean)	\$37,000	33,300	4,134	600

Multiple listings for 1985 indicate that there is virtually no housing supplied by the market in these four Metro West towns that can be purchased on conventional fixed-rate mortgage terms with a household income of less than \$47,000. That income is double the average of the three Natick incomes listed above, and it will buy a \$93,000 house. Even if these Natick town employee households had two or more incomes and total household incomes double the above town employee average of \$23,000, they would find few \$93,000 homes offered on the Natick Market, where the median price is \$126,000.

The following table presents the range of 1985 Southboro town employee incomes from the 1985 town Warrant, averages the range of income for each type of employee (i.e., Laborers), and doubles the mean income for that type of employee. For example, Laborers in different departments, with different lengths of time on the job, and different skills, earn different levels of pay. The entire of pay

is given, then averaged, then doubled. This poses the question, "What if the employee's spouse were earning the same amount of money in some other job?" The second table goes on to ask what priced home such a two-income family could afford:

SOUTHBORO TOWN EMPLOYEE INCOMES DOUBLED

		Range	Average	Double
Laborers	9,100	- 11,400	10,250	20,500
Library Clerks	9,600	- 12,000	10,800	21,600
Receptionists	10,100	- 13,200	11,650	23,300
Clerks	11,200	- 14,000	12,600	25,200
Custodians	11,800	- 14,600	13,200	26,400
Skilled Laborers	11,800	- 14,600	13,200	26,400
Secretaries	12,400	- 16,200	14,300	28,600
Head Librarian, Town Accountant	19,300	- 29,300	24,300	48,600
Cemetary Superintendent, Treasurer, Building Inspector, Water Superintendent				

HOME AFFORDABLE BY TWO-INCOME SOUTHBORO TOWN EMPLOYEE FAMILY

	Doubled				
	Income	Home Price	Mtg	Mtg Pmt	Ins&Tax
Laborers	\$20,397	\$40,000	36,000	4,469	630
Library Clerks	\$21,634	\$42,500	38,250	4,748	660
Receptionists	\$23,398	\$46,000	41,400	5,140	710
Clerks	\$25,299	\$49,000	44,100	5,475	850
Custodians	\$26,666	\$50,000	45,000	5,586	1,080
Skilled Laborers	\$26,666	\$50,000	45,000	5,586	1,080
Secretaries	\$28,520	\$52,000	46,800	5,810	1,320
Head Librarian, Town Accountant	\$48,610	\$94,000	84,600	10,503	1,650
Cemetary Superintendent, Treasurer, Building Inspector, Water Superintendent					

Even department heads with spouses earning as much as they do couldn't afford to buy the lowest-priced homes being offered on the market in Southboro, where median-priced homes are being offered in 1985 for around \$225,000. With double the department head's income his/her family could afford a \$95,000 conventionally purchases home. To strike the point home, the reader should now look back at the star chart showing Southboro MLS listings in 1985. No homes were offered in May, August, or October for \$96,000 or less. In fact, the lowest-

priced homes were offered at prices between \$100,000 and \$110,000. Only 13 out of 93 total offerings were for less than \$160,000.

Now let us look at selected Sudbury town employee incomes doubled--DOUBLED! Information is from the 1985 Sudbury town Warrant:

SUDBURY TOWN EMPLOYEE INCOMES DOUBLED

		Range		Average	Doubled
Clerks	\$11,200	-	15,300	13,250	26,500
Secretaries	\$13,900	-	16,200	15,050	30,100
Laborers	\$14,000	-	17,000	15,500	31,000
Engineer's Aids	\$13,300	-	20,400	16,850	33,700
Assistant Department Heads: Clerks, Accounting, Treasurer	\$15,800	-	18,400	17,100	34,200
Highway Foremen	\$19,700	-	21,400	20,550	41,100
Firefighters	\$19,500	-	21,400	20,450	40,900
Patrolmen	\$20,200	-	22,100	21,150	42,300
Fire Chief, Police Chief, Head Engineer	\$35,800	-	37,400	36,600	73,200

HOME AFFORDABLE BY TWO-INCOME SUDBURY TOWN EMPLOYEE FAMILY

	Doubled	Income	Home Price	Mtg	Mtg Pmt	Ins&Tax
Clerks	\$26,499	\$49,000	44,100	5,475	1,150	
Secretaries	\$30,093	\$55,700	50,130	6,223	1,300	
Laborers	\$30,914	\$57,000	51,300	6,369	1,360	
Engineer's Aids	\$33,756	\$63,000	56,700	7,039	1,400	
Assistant Department Heads: Clerks, Accounting, Treasurer	\$34,055	\$63,400	57,060	7,084	1,430	
Highway Foremen	\$41,114	\$78,300	70,470	8,748	1,530	
Firefighters	\$40,960	\$78,000	70,200	8,715	1,525	
Patrolmen	\$42,400	\$81,000	72,900	9,050	1,550	
Fire Chief, Police Chief, Head Engineer	\$73,083	145,000	130,500	16,201	2,070	

While no longer a great rarity, it is still unlikely that the spouses of these full-time employees would also be employed full time and earning as much as the town employee. This may be more likely for the higher paid town employees. For the lower-paid town employees, it is likely that the spouse is working full time, and almost a certainty that the spouse is working part time.

At any rate, we discover that some of the most highly paid town employees, even if their spouses were making as much as they were,

would not be able to afford the lowest priced homes on the Sudbury market. There were only three listings in the May, August and October Multiple Listings for under \$150,000, and only one of those was a 3-bedroom. There were only 10 out of 198 listings for less than \$160,000 and the median-priced 1985 Sudbury home goes for \$300,000.

A \$79,600 income is required to buy a \$160,000 house. Of the listed houses the following percentages were over \$160,000:

	NATICK	SUDBURY	ASHLAND	SOUTHBORO
Total	176	198	108	93
> 160	64	188	49	80
%	36%	95%	45%	86%

Indeed, the median-priced home in Southboro appears to fall in the \$225,000 range. The Sudbury median is \$300,000, as reported in "Going Up: Housing Values Climb in News West Area," (News West, October 9, 1985. The same article reminds us that the greater Boston real estate market has been rising faster than any in the nation, going up 37% in the 12 months ending in June, 1985, and standing at a median home price of \$131,000 in October, 1985. From figures based on statistics compiled by the Suburban Publishing Corporation and provided by brokers, the article informs us that the October, 1985 (presumably) median home prices for the following Metro West area towns are:

Natick	\$ 126,000	Weston	\$ 350,000
Sudbury	300,000	Sherborn	250,000
Wellesly	275,000	Dover	306,000
Wayland	135,000	Needham	130,000

#### WHAT HOME PRICES CAN NATICK, SOUTHBORO, AND SUDBURY TOWN EMPLOYEES AFFORD EIGHT MONTHS LATER IN THE SPRING OF 1986?

The same incomes from the Town Warrants are used here, but prevailing interest rates have dropped from around 12% to around 10%. This author's estimate of property taxes and insurance has increased in proportion to the increase in the home price that employees can afford. The increase in affordable prices is solely due to the drop

in interest rates. The same FNMA guidelines are applied and the same 10% down is assumed:

NATICK TOWN EMPLOYEE INCOMES

Job	Pay (mean)	Home Price	Mtg	Mtg Pmt	Ins&Tax
42 Patrolmen	\$25,167	\$57,000	51,300	5,442	850
60 Firefighters	\$25,167	\$57,000	51,300	5,442	850
22 DPW Laborers	\$19,141	\$43,000	38,700	4,105	680

The mean of these three salary numbers is \$23,000, just as before, but the mean of the three affordable home prices is now \$52,000, \$7,000 (16%) more than it was at the higher interest rates eight months before. The chart on page , "Metrowest Multiple Listings," informs us that the mean of asking prices for homes listed in the MLS increased 39% during this period, from \$178,000 to \$247,000. While houses sell for a bit less on average than they are listed for, the rate of increase informs us that even with the drop in interest rates, the Natick town employees are less able to in the spring of 86 than they were in the summer of 85. While lower interest rates increased the conventionally-purchased home they could afford by 16%, the market was racing ahead about twice as fast.

If we repeated this exercise for Southboro and Sudbury we would find the same 16% increase in affordable home prices. Mean multiple listing prices went down 2% in Soughboro and up 8% in Sudbury, and were \$228,000 and \$392,000 respectively. While relative affordability improved in both communities, this is essentially irrelevant to low and moderate income buyers. Even Sudbury's top town officials salaries doubled could qualify for no more than \$171,000 homes. There were only a handful of homes being offered that these officials' two-income families could afford.

Appendix VI shows how a 1% drop in interest rates cannot come close to compensating for an anticipated 1986 20% appreciation rate of half the 1985 rate. This is not to belittle the enormous impact of mortgage interest rate decline since 1981.

WHAT DIFFERENCE DOES MHFA FINANCING MAKE TO THESE TOWN EMPLOYEES?

Since a leading concern for Metro West communities is the plight of new families seeking their first homes, the existence of the Mass. Housing Finance Agency's (MHFA) first-time homebuyer program makes the bleak landscape a little brighter. Unlike the new FNMA regulations, MHFA requires only 5% down, and provides financing at interest rates that are usually about 2% below the market, or about 10% during 1985, and hopefully about 8% at some point during 1986.

Moreover, now that FNMA requirements have become more strict, MHFA will allow mortgage payments, insurance, and taxes to total 31% of gross income (compared to FNMA's 25%), and total housing qualifying payments plus other debt to total 38% of income (compared to 33%). All of the above figures use FNMA qualifying criteria. Let us compare them with MHFA requirements (only for first-time buyers). These figures are based on estimated 1986 interest rates of 10% market (FNMA) and 8% tax-exempt bond subsidized (MHFA):

FNMA REQUIREMENTS

	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
PRICE	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
MTGAGE	54,000	63,000	72,000	81,000	90,000	99,000	108,000	117,000
MTG PMT	5,728	6,683	7,638	8,592	9,547	10,502	11,457	12,411
INS&TX*	1,320	1,380	1,450	1,510	1,590	1,660	1,740	1,810
TOTAL QUALIFYING HOUSING EXPENSE	7,048	8,063	9,088	10,102	11,137	12,162	13,197	14,221
INCOME	28,193	32,252	36,351	40,410	44,549	48,647	52,786	56,885

## MHFA REQUIREMENTS

	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
PRICE	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
MTGAGE	57,000	66,500	76,000	85,500	95,000	104,500	114,000	123,500
MTG PMT	5,063	5,907	6,751	7,595	8,439	9,282	10,126	10,970
INS&TAX	1,320	1,380	1,450	1,510	1,590	1,660	1,740	1,810
TOTAL QUALIFYING HOUSING EXPENSE	6,383	7,287	8,201	9,105	10,029	10,942	11,866	12,780
INCOME	20,591	23,507	26,454	29,370	32,350	35,298	38,278	41,226

\*Insurance and Tax estimates are again the author's very conservative ones.

MHFA financing, assuming that it can make mortgages available for interest rates that are 2% below market, can increase the price of the affordable home by 1/3 or more for any given income. In the spring of 1986 the MHFA maximum single-family home prices for a family of 4 are \$94,000 for new construction and \$124,000 for existing homes. As always, this financing is available only for first-time homebuyers.

In Natick a town Laborer's family could buy their first home with MHFA's help on the Laborer's income alone, as long as the house or condo didn't cost more than \$70,000. They would probably never find such a home, however. In the three months studied in 1985 the only listing in Natick for \$70,000 or less was one 2-bed condo. If the Laborer's household could muster a second \$15,000 income to add to his/her \$19,000 income, then the family's \$34,000 income could buy a \$124,000 home with MHFA's help. Unfortunately, they would probably be able to find such a home in today's Natick market. In the three months studied in 1985, only one 3-bedroom home was listed in the \$120,000-\$130,000 range, and one in the \$110,000-\$120,000 range (see the previously-presented MLS star chart).

Natick's Patrolmen and Firefighters would fare little better. Their \$25,000 incomes alone would qualify their families for \$90,000 homes. Unfortunately, they would have to fight with everyone else over

the single unit listed in the three months studied. However, if their spouses added \$15,000 in income for a family income of \$40,000, they could qualify for \$150,000 homes under MHFA terms. However, the MHFA price limit is \$124,000, so these families would be no better off than the Laborers' families. The employee families in Sudbury with similar incomes wouldn't have a chance, because not a single listing appeared in these price ranges.

METROWEST AFFORDABLE HOMEOWNERSHIP  
AT THE OCTOBER 1985 HOUSING COST PEAK

An analysis of Multiple Listing Service data  
Ashland, Natick, Southboro & Sudbury, Massachusetts

In what follows we will try to capture the reality of affordable housing in these four towns West of Boston. They lie in the generally more prosperous Western suburban zone and are both part of greater Boston and part of greater Framingham. Framingham is a rapidly growing metro area in its own right. If people of moderate means are to find reachable employment they need to live in an area such as this. If suburbs with above average incomes are to do their share in providing affordable housing, then these are good examples to look at.

Ashland is the lowest-income of the four communities, and the mean price of its residential multiple listings in 1985 was somewhat below the mean of the 67 cities and towns carried in the Greater Boston book. Natick is somewhat above average in income and mean home price. Southboro above Natick in both regards, and Sudbury is near the top. Within the Metrowest area, the area around Framingham, Ashland is in the lower third in home price, Natick is in the middle, Southboro is a bit higher, and Sudbury is once again near the top.

Observing the situation in 1985 shows the affordability problem at its worst. The problem became noticed in 1979, shortly after mortgage interest rates began a steep upward climb across the nation, going from 9.6% in 1978 to 15.1% in 1981. As rates started to drop following 81, relief to the homebuyer did not come in Massachusetts. Easing interest rates were counteracted by rising price tags. Then prices soared throughout 1984 and 1985. The median price of housing in the Greater Boston area rose 37% from the second quarter of 84 to the second quarter of 85. During 85 they rose 38%. Meanwhile mortgage interest rates continued their gradual decline. At the end of 85 the decline in rates steepened, and had dropped two percent by the spring of 86. House prices in Eastern Massachusetts continued to climb from the late fall of 1985 to the spring of 1986, but much less sharply. Hence, with lower interest rates and more moderate price increases, area housing was clearly more affordable in the spring than a few months before. The snapshot we are taking in what follows shows the area's affordability problem at its worst in mid-to-late 1985.

The following pages show each listing in the Multiple Listing Service for May, August and October, 1985 for all residential listings in the four Metro West towns of Natick, Sudbury, Ashland and Southboro Massachusetts. This will give us a rough idea of housing availability in these communities. Over 90% of residential sales are listed in the MLS. It is quite unlikely that either less or more expensive houses are significantly underrepresented in the MLS, so the following listings give us a pretty good indication of what is available. House usually sell for a little bit less than they list for. However, price

went up since May and the overall Metro West market is still rising, so this exercise gives us a fairly accurate picture.

### NATICK MULTIPLE LISTINGS 1985

Each star represents a residence listed for sale in either the May, August, or October 1985 Multiple Listing Service. A small number show the same houses appearing more than once.

PRICE (\$000)	50	60	70	80	90	100	110	120	130	140	150	160	>160
CONDO 1 BED													
CONDO 2 BED		*					*		*				*
CONDO 3 BED													***
SNGFAM 1 BED									*				
SNGFAM 2 BED						*		*	*****	*****	***	*	
SNGFAM 3 BED				*					*****	*****	*****	*****	*****
SNGFAM >3 BED								*	**	*****	*****	*****	*****
MLTFAM 2 UNIT									*	*	**	**	***
MLTFAM 2 UNIT													
MLTFAM >3 UNIT													*

## SOUTHBORO MULTIPLE LISTINGS 1985

Each star represents a residence listed for sale in either the May, August, or October 1985 Multiple Listing Service. A small number show the same houses appearing more than once.

PRICE (\$000)	50	60	70	80	90	100	110	120	130	140	150	160	>160
CONDO 1 BED													
CONDO 2 BED													
CONDO 3 BED													
SNGFAM 1 BED													
SNGFAM 2 BED							*					*	
SNGFAM 3 BED							*		*	****			***** ***
SNGFAM >3 BED													***** ***** ***
MLTFAM 2 UNIT													
MLTFAM 3 UNIT													
MLTFAM >3 UNIT													

### ASHLAND MULTIPLE LISTINGS 1985

Each star represents a residence listed for sale in either the May, August, or October 1985 Multiple Listing Service. A small number show the same houses appearing more than once.

PRICE (\$000)	50	60	70	80	90	100	110	120	130	140	150	160	>160
CONDO 1 BED								**					
CONDO 2 BED							*		****				
CONDO 3 BED							*		***				
SNGFAM 1 BED				*									
SNGFAM 2 BED								*	*	*	*		**
SNGFAM 3 BED								***	*****	**	*****	*****	*****
SNGFAM >3 BED								*	**		***	*****	*****
MLTFAM 2 UNIT								*		**			*
MLTFAM 3 UNIT													
MLTFAM >3 UNIT													

### SUDBURY MULTIPLE LISTINGS 1985

Each star represents a residence listed for sale in either the May, August, or October 1985 Multiple Listing Service. A small number show the same houses appearing more than once.

PRICE (\$000)	50	60	70	80	90	100	110	120	130	140	150	160	>160
CONDO 1 BED													
CONDO 2 BED													
CONDO 3 BED													
SNGFAM 1 BED								*					
SNGFAM 2 BED										*			
SNGFAM 3 BED										*	***	***	***** *****
SNGFAM >3 BED											*		***** ***** ***** ***** ***** ***** ***** ***** ***** *****
MLTFAM 2 UNIT													
MLTFAM 3 UNIT													
MLTFAM >3UNIT													

Nothing is available for \$50,000 or less, one house is available for \$60,000, none between \$60,000 and \$70,000, one between \$70,000 and \$80,000, and none between \$80,000 and \$90,000. Out of a total of 570 listings, only 3 are for \$100,000 or less. 15 listings appear for multi family structures. Generously estimating an average of two rent units per multifamily structure, and generously estimating that 2/3 of rentals in these units are affordable by some reasonable definition of moderate income household, we come up with 20 affordable rental units.

A slack economy and economic uncertainty that caused high interest rates both put pressure on mortgage lenders. In addition bank deregulation caused a difficult period of adjustment for savings and loans institutions. High interest rates combined with massive layoffs in the industrial Midwest led to a high level of mortgage defaults. For all of these reasons, the Federal National Mortgage Administration (FNMA) made lending guidelines stricter in October of 1985.

Under FNMA guidelines, if a person or family bought a house for \$100,000, what would be the maximum household income required? With 10% down, the mortgage would be \$90,000. A 30 year mortgage at the recently prevailing level of 12% interest yields an annual mortgage payment of \$11,172. Assume typical annual home insurance and property taxes of \$1,300, and assume non-mortgage debt of \$3000 a year for total annual debt payments of \$15,472. We use FNMA's 33% of gross income as the typical limit, which would require a gross (pre tax) income of \$46,885. But mortgage, insurance and taxes can't exceed 25% of gross income, which requires an income of \$49,889. The required income is the larger of the two figures, or \$49,889 gross income per year for a \$100,000 home.

Since only 3 out of 570 listings appeared for a \$100,000 price or less, I am regarding \$100,000 as the bottom of the market, a market where a household must have between a \$47,000 and a \$50,000 income to have a minimal shot at homeownership in this area. This is 50% above the median household income in Massachusetts for a family of four (\$32,250), 88% above the Section 8 moderate income qualifying ceiling (\$25,850), and 13% above the MHFA qualifying limit (\$43,000). Note that from 1970 to 1983 (Census) Boston homeowners on average had household incomes from 125% to 132% of the SMSA median household income. We have just identified a typical family of four in 1985 that needs 150% of SMSA median income to buy a \$100,000 house at the lower end of the market, when the median priced home is going for \$131,000.

Assume for simplicity that non-mortgage debt rises with income so that mortgage, insurance and taxes as a percentage of income are the determinant figure in qualifying for mortgages. Hence the following incomes are required to purchase homes at the following prices (10% down, 12% interest, 30 year term):

PRICE	90,000	100,000	110,000	120,000	130,000	140,000	150,000	160,000
MTGAGE	81,000	90,000	99,000	108,000	117,000	126,000	135,000	144,000
MTG PMT	10,056	11,173	12,290	13,408	14,525	15,642	16,759	17,877
INS, TAX	1,250	1,360	1,470	1,580	1,690	1,800	1,910	2,020
TOTAL QUALIFYING HOUSING								
EXPNS*	11,306	12,533	13,760	14,988	16,215	17,442	18,669	19,897
INCOME	45,223	50,132	55,041	59,950	64,859	69,768	74,678	79,587

\*Insurance and property taxes are estimated by the author and would vary slightly from community to community. In all similar tables in this report, property taxes are estimated very conservatively. Ma. property is now officially assessed at 100% of market value, yet in fact this has very rarely been the case in the past five years, in part because actual market appreciation has been racing ahead of assessed valuation. This has been taken into account, so property tax estimates have been lowered even further, to make the case that even under the most optimistic assumptions, housing remains out of reach.

## PART V

### PROSPECTS FOR DEVELOPING AFFORDABLE HOMEOWNERSHIP OPPORTUNITIES IN THE METROWEST AND METROSOUTHWEST SUBREGIONS

In this section we will look at characteristics of four towns, Ashland, Milford, Marlboro, and Franklin. These towns are in the Metrowest and Metrosouthwest subregions. After making some observations about the affordable housing climate presented in these towns, we will glance at some data regarding 37 additional communities in these two subregions. Then we shall note some efforts being made in the direction of affordable housing by the Metrowest Planning Committee and the town of Lexington, which is not in the two subregions, but offers a good example of what many communities in those subregions could be doing to provide affordable housing.

#### METROWEST AND METROSOUTHWEST

In this study, the terms "Metrowest" and "Metrosouthwest" refer to groupings that are the invention of this author, and are not to be confused with any other regional organizations of the same name. By "Metrowest," I mean the list of 25 cities and towns listed on the following page. I do not mean the Metrowest as defined by the 8 member communities in the "Metrowest Planning Committee." The only time the term actually refers to this committee, is in a subsection which describes some of the group's work. The subregional definitions as I am using them are not used by other agencies.

The "Metrowest Multiple Listings" chart on the following page includes about 80% of the cities and towns in the Greater Metrowest (Framingham) area. The first column gives the mean asking price for the March 16, and April 3, 1986 MLS listings.

AFFORDABLE HOMEOWNERSHIP IN EASTERN  
MASSACHUSETTS IN THE 1980'S

Richard Krushnic MIT  
Dept Urban Studies & Planning  
April, 1986

METROWEST MULTIPLE LISTINGS

LOCATION	APR MAR 86	AM 86 # LST	% > 86-85	% > 85-84	% > 86-84	POP 1980	POP % >	75 SQ MILES	DENSITY
MAYNARD	140	11				9,590	-3.1%	5.4	1,793
HUDSON	155	42	8%	18%	28%	16,408	-2.5%	11.8	1,389
WHITINSVLE	157	8							
GRAFTON	182	14	-12%			11,238	5.7%	23.3	482
ASHLAND	186	52	4%	48%	55%	9,165	2.9%	13.0	707
HOPEDALE	197	13	28%	28%	64%	3,905	-2.7%	5.3	741
UPTON	198	26	14%	30%	48%	3,886	2.9%	21.8	178
NORTHBORO	202	35	24%	1%	25%	12,246	1.0%	18.0	682
MARLBORO	205	100	5%	67%	75%	30,617	1.2%	22.0	1,389
WESTBORO	215	26	7%	29%	38%	13,619	-2.4%	21.5	633
FRAMINGHAM	218	139	-5%	50%	43%	65,113	-0.8%	25.5	2,549
BOYLSTON	220	5							
SHREWSBURY	228	23			65%	22,674	3.2%	21.8	1,039
HOLLISTON	228	30	13%	47%	66%	12,622	-2.3%	19.1	661
SOUTHBORO	236	24	-2%	25%	23%	6,193	-2.1%	15.4	402
NATICK	247	58	39%	15%	59%	29,461	-5.3%	16.0	1,842
HOPKINTON	274	80	18%	45%	72%	7,114	11.1%	27.9	255
MEDFIELD	279	39	11%	33%	47%	10,220	1.9%	14.5	704
BOLTON	307	11			139%	2,530	4.2%	20.0	127
BERLIN	311	3				2,215	-2.9%	13.2	168
WAYLAND	340	34	31%	4%	36%	12,170	-9.4%	15.9	766
SUDBURY	392	67	8%	33%	44%	14,027	-6.2%	24.5	573
WELLESLEY	403	56	11%	25%	39%	27,209	3.5%	10.5	2,589
SHERBORN	426	17	-18%	92%	57%	4,049	-1.6%	17.1	237
WESTON	674	27	42%	3%	47%	11,169	-2.7%	17.4	433

AFFORDABLE HOMEOWNERSHIP IN EASTERN  
MASSACHUSETTS IN THE 1980'S

Richard Krushnic MIT  
Dept Urban Studies & Planning  
April, 1986

METROSOUTHWEST MULTIPLE LISTINGS

LOCATION	APR MAR 86	AM 86 # LST	% > 86-85	% > 85-84	% > 86-84	POP 1980	POP % >	75 SQ MILES	DENSITY
NORTON	119	19			41%	9,869	28.6%	29.4	432
BLACKSTONE	142	34	33%	31%	75%	6,570	1.3%	11.3	582
BELLINGHAM	148	75	33%	37%	82%	14,300	-1.2%	18.6	771
FRANKLIN	160	90	21%	17%	42%	18,217	-0.9%	27.0	675
MILFORD	176	119	15%	28%	47%	23,390	0.2%	15.0	1,560
PLAINVILLE	176	12	-8%		43%	5,857	7.2%	11.4	510
UXBRIDGE	178	21	29%	84%	137%	8,345	-1.8%	29.8	278
MEDWAY	180	44	7%	27%	37%	8,447	3.4%	11.7	724
WRENTHAM	190	37	9%	44%	57%	7,580	3.2%	22.7	334
MENDON	195	51	17%	23%	44%	3,108	14.5%	17.9	173
WALPOLE	210	42	-18%	68%	39%	18,859	1.9%	21.1	894
NORFOLK	245	68		31%	57%	6,363	6.8%	15.4	415
MILLIS	268	24	64%	22%	100%	6,908	5.7%	12.3	563
SHARON	293	61	46%	35%	97%	13,601	0.1%	24.3	559
WESTWOOD	337	37	1%	39%	40%	13,212	-5.8%	11.2	1,175
DOVER	444	18	-5%	52%	45%	4,703	-4.5%	15.3	307

The second column tells how much this mean price is compared to a May, 1985 MLS book. The third column indicates how much higher the May 85 mean price is compared to a July, 1984 MLS book. The remaining information is from the Universal Atlas of Metropolitan Boston & Eastern Massachusetts, 1985 edition. First comes 1980 population, then the percent increase over the 1975 population, square miles, and density (population/square mile).

The mean asking price is around \$210,000 in Boston now. Framingham has become a metropolitan center in its own right, but a suburban metropolitan center in character. It is also the highest-income metropolitan center in Eastern Massachusetts. The chart notes that the spring-1986 mean listing price there is \$218,000. The chart lists the towns starting with the lowest mean asking price and going up in price while going down on the chart. Framingham is roughly in the middle of the list of towns, but only 13% of the way up the relative mean home price ladder.

Following this chart is a "Metrosouthwest Multiple Listings" chart of communities that are similar in character except that they do not cluster around any urban center. The price range is essentially the same as in Metrowest, except that Metrosouthwest goes a bit lower and Metrowest a bit higher. Since we are concerned about affordable homeownership, it turns out that these minor differences between the subregions are important. If we are confining our interest to homes at or under \$130,000, we will find prospects for affordable housing much better in the Metrosouthwest subregion. If we are concerned with Massachusetts Housing Partnership-assisted "affordable" homes, which cannot be marketed for more than \$110,000, we will find market conditions

much more propitious in Metrosouthwest than we will in Metrowest.

## ASHLAND

In comparing the Ashland MLS star chart for mid-85 with Spring-86, we find that the price range has increased a bit. The "Metrowest Multiple Listings" chart on the next page indicates that the mean offering price has increased 4% to \$186,000. The Ashland-based Fafard Companies made a significant contribution to affordable homeownership in the early 1980's with several hundred attractive condominium units. For example, 100 moderate-sized 2-bedroom units with garages sold for \$65,000 apiece in 1983.

Another Fafard development of similar units in a nicer setting, with improved design, and more amenities was selling initial units that year at from \$79,000-\$85,000. AT the end of 1985 resales in the first development were going for \$123,000 and in the second for \$145,000. Fafard is marketing Pine Lake in Ashland in the spring of 1986. All but 3 of the 84 units are made with a new building system. The foundation and the walls of the house are all concrete, poured in one giant form. These units repeat the larger (long L) design used in former Fafard developments. These 2-bedroom condominiums sell for \$150,000.

Fafard Companies' work is a good example of what is going on at the bottom of the homeownership market in the Metrowest area. Fafard condo buyers from 1979 to the present have consistently wanted better amenities than those provided in the first development. There have always been enough of these buyers to outbid the buyers who could only afford the more basic amenities. Hence, all developments that followed the initial one have been

ASHLAND MULTIPLE LISTINGS 1986

Each star represents a residence listed for sale in either the February, March or April 1986 Multiple Listing Service. Many properties appear more than once. Column one is \$0-\$50,000. Mean April 1986:

PRICE (\$000)	Price \$187,000						Top 5 \$283,000					>160	
	50	60	70	80	90	100	110	120	130	140	150		160
CONDO 1 BED								**					
CONDO 2 BED									***	*****	*****	*****	**
CONDO 3 BED									*	*****	*****	***	
SNGFAM 1 BED													
SNGFAM 2 BED									**	**	**	*	**
SNGFAM 3 BED								*	*	*****	*****	*****	*****
SNGFAM >3 BED								*	*	**	***	*****	*****
MLTFAM 2 UNIT								*		**			***
MLTFAM 3 UNIT +													***
LAND Acres	.94		.72	1.0	.72	1.3					4		\$262,000 for 17 (3times)
			.86	*2	*4	*2					4		
						1.1							
						*2							

more upscale and higher priced in their own right, in addition to the effect of the increasing prices in the housing market in general. This is reflected in the current \$145,000 and up models that are being developed. Information on three Fafard developments is in the Appendix.

Lots for homebuilding are up in the \$55,000-\$60,000 range. To justify such a land cost, few builders/developers will build and sell for less than \$160,000. For new construction, only attached dwellings are likely to go on the market for much less. If the new Fafard attached units were at the amenity level of the original ones 6 or 7 years ago, they could probably be profitably developed in 1986 and sold for \$120,000-\$130,000.

For a few years to come, at least, Ashland could produce what we might call high-end affordable housing (\$120,000-\$130,000) without subsidy. The density of 707/sq mile should allow some more before land prices make it impossible. However, as long as the market continues to support more expensive homes, even these high-end affordable homes will not be built without some political intervention from the town.

## MARLBORO

Marlboro had the largest population in Metrowest outside of Framingham itself, and Natick was the next runner-up. Both Natick and Marlboro have about 30,000 people. Natick, however, is one of the most dense Metrowest towns, at 1,800/sq mile. The only remaining very large tracts of developable residential land in Natick were rezoned upward in 1985 from 1/2-acre to 1-acre lots, to make sure that nothing remotely resembling affordable housing could be built on it. The 1-acre required for each unit

makes the land cost too high to support affordable housing without either public subsidy or reduced developer profit from cross-subsidy within a multiunit development.

Marlboro has a relatively high density also, 1,400/sq mile, and has provided a good deal of the affordable homeownership opportunities in Metrowest outside of Framingham. In the late 1970's and the 1980's the vast majority of Marlboro's affordable homeownership units have been conversions of existing apartment buildings to condominiums. Following the subregional charts is another MLS star chart, this time for Marlboro in the spring of 1986. Since these listings are from three consecutive months, a significant number of residences are represented by more than one star. Again, what the star charts reveal are the relative proportion of the kinds of homes being offered, not an accurate picture of the number being offered. In comparison to the four Metrowest communities examined earlier, there is a much higher proportion of lower-priced offerings. This is particularly the case for condominiums in the \$70,000-\$110,000 range.

Industrial space is currently expanding. New development generates new tax revenue, but costs new city services, such as more police protection and more schools. The return in local property tax revenue, compared to new public services which must be provided, is usually much better with commercial and industrial development than with housing. Hence most towns that are allowing significant residential expansion are also encouraging commercial and industrial expansion.

In the Boston Globe's "The Suburbs" (2-19-86), Marlboro





FRANKLIN MULTIPLE LISTINGS 1986

Each star represents a residence listed for sale in either the February, March or April 1986 Multiple Listing Service. Many properties appear more than once. Column one is \$0-\$60,000.

Mean April 1986:

PRICE (\$000)	Price \$162,000						Top 5 \$295,000					
	60	70	80	90	100	110	120	130	140	150	160	>160
CONDO 1 BED		***	*** ***									
CONDO 2 BED				*** *** *** *	***** ***** **	***	***	***** ***** *	**	***** **		*
CONDO 3 BED			***		*	**	*** *** *	***	***			
SNGFAM 1 BED												
SNGFAM 2 BED			**	**			***	**	*****	*		***
SNGFAM 3 BED						**	***** ***	***** ***** ***** ***** **	***** ***** ***** *****	***** ***** *****	***** *****	***** ***** *
SNGFAM >3 BED							**	***** ***	***** ***** ***** **	***** *	***** **	***** ***** ***** ***** ***** *
MLTFAM 2 UNIT							*		**			***
MLTFAM 3 UNIT												***
LAND Acres			1.0		3.0							

Mayor Chester Conary sees industrial growth as a fiscal asset. He says that the town's level of services is dependent on industrial property taxes, and that the town has averaged \$1.2 million a year in new revenue in the last four to six years.

#### **MILFORD**

In the Metrosouthwest area note that Milford has the largest population (23,000) and is the most dense (1,600/sq mile. In both respects it is similar to Natick and Marlboro. It is also similar to Marlboro in that it has supplied a significant proportion of the affordable units in its area, again from condo conversions. Milford's MLS chart follows the Marlboro chart, and shows a similar pattern of more condo offerings in the \$70,000-\$110,000 range. It is unlike any of the other star charts we have seen, including Marlboro's, in a substantial offering of 2 and 3-bedroom single-family homes in the \$110,000-\$130,000 range.

#### **FRANKLIN**

Finally, in the Metrosouthwest area note Franklin, one of the subregion's towns with the targets populations (18,000) but with a much lower density (675/sq mile). It shows the same clustering of condo-conversions units in the \$70,000-\$110,000 range. Unlike Milford, it does not have a large cluster of homes with \$110,000-\$120,000 price tage. It does, however, have a great concentration of 2 and 3-bedroom single family homes in the \$120,000-\$140,000 range.

The relatively high density of Marlboro and Milford imply that they will play a declining role in the future in the provision of affordable housing in the Metrowest and Metrosouthwest subregions. This is due to the increasing

resistance to future development as the density level rises to a certain point. Franklin is a likely candidate for supplying an increasing role in the future because of its lower density its large size, and its relatively large population.

According to "Growth Puts New Strains on Suburbs" (Boston Globe 2-19-86), Franklin woods and fields are being cleared for over 1,000 housing units in various stages of approval or construction. At a hypothetical 3 persons per unit, 1,000 units would increase Franklin's population by one sixth, and increase its density from 1980's 675 to 786/sq mile. This is still about half of Milford or Marlboro's densities in 1980. Commercial development, including retail, is also expanding in Franklin.

In the spring of 1986 Franklin is offering some new 2-bedroom condominiums at from \$105,000 to \$115,000, and some new 3-bedroom condominiums at \$128,000. The bottom of the new single family market is \$160,000. Another new 2-bedroom condo development is selling units with some appealing amenities for \$128,000. The fact that new construction homes are still coming on the market from \$105,000 to \$115,000 tells us that the market is capable of producing without subsidy units that fall in the Massachusetts Housing Partnership's definition of affordable units. This tells us that MHP/MHFA-assisted developments could be produced without additional subsidy in Franklin, whereas they could not in Ashland.

## **BLACKSTONE**

Blackstone is just outside of the Route 495 arc that this study focuses on. It is in the Metrosouthwest grouping, on the

Rhode Island border, and a suburb of Woonsocket, Rhode Island. Blackstone is part of a number of Metrosouthwest communities that are somewhat depressed economically by Massachusetts standards. Its mean spring 1986 home asking price was \$142,000, second from the bottom in the subregion (see previous Metrosouthwest table), up 75% from two years earlier. The town also has a relatively low population density.

For over a year Designed Ventures, Inc., under the leadership of Woonsocket's Robert Branchaud, has been building Castle Hill, a 252-unit condominium development slated for completion in 1989. The first units are being occupied in the spring of 1986. One-bedroom, 850 square-foot flats are priced at \$86,000; two-bedroom, 960 sf flats at \$98,000 (1,200 sf at \$125,000); two-bedroom town houses with 1,200 sf average \$117,000; and two-bedroom, 1,600 sf units are priced at \$126,000. The two-bedroom units priced at \$98,000 and \$117,000 indicate that strictly market development is still capable of producing in the MHP \$110,000 range.

Blackstone has adopted an overlay district zoning vehicle that enables the town to create overlay districts for specific, extra-density multifamily developments with approval of town meeting. This is one relatively simple mechanism which creates opportunities for affordable homeownership without requiring the creation of new zoning districts. The town has also recently adopted a stringent growth planning mechanism, reflecting a new sensitivity to growth pressures. The mechanism allows an exception for affordable housing as long as it has minimal impact on town services. Philip Herr, of Herr Associates, a growth

policy planning consultant to cities and towns, has been working with Blackstone, and says that the effect of these recent zoning changes is conditioned by another recently adopted provision: Since the town also adopted a limit of ten units per development per year, the only way a developer could build at a larger scale would be via development of affordable units.

#### **METROSOUTHWEST COMMUNITIES THAT WANT AFFORDABLE HOMEOWNERSHIP**

Blackstone is exemplary of a few other Metrosouthwest communities, and other communities even farther outside of Route 495 to the southwest, which actually want more affordable homeownership development. According to Philip Herr, who has had a number of such towns as clients, these communities feel overwhelmed by growth that has come upon them suddenly within the past few years. Their top priority is to be able to limit growth so that they can get their bearings, and then proceed with more cautious growth that can be controlled for the communities' benefit.

An important priority is the creation of more affordable homeownership. The residential development that has come with recent growth pressures has been too expensive for the townspeople to buy. While much of the housing has been in the \$130,000 and under range, it has been too expensive for townspeople. The new residential growth hasn't been meeting the needs of local people.

Mr. Herr thinks that the \$130,000 upper limit for affordable homeownership chosen for this study makes sense at a metropolitan Boston level. However, he points out that in communities like the

above (and others like them to the north of Boston), it is quite debatable whether or not the Massachusetts Housing Partnership's \$110,000 affordable limit makes any sense. He suspects that it doesn't, and that only a tiny minority could qualify for such prices. Even with MHP/MHFA assistance, a \$110,000 home may be an inappropriately high affordability limit.

#### OTHER METROWEST AND METROSOUTHWEST TOWNS

There are half a dozen other towns in the lower half of spring Metrosouthwest 1986 MLS home prices. Mean asking prices for March and April went from \$119,000 in Norton (which has some new \$115,000-\$120,000 condos) to \$190,000 in Wrentham. All of them should be able to support land costs low enough to allow for the development of meaningful numbers of strictly market development of affordable homeownership. Again, such strictly market development will not take place if there is an ample market for higher-priced homes.

From Wrentham, with asking prices for homes at \$195,000, to Dover at \$444,000, it is increasingly unlikely that the land markets in the towns will supply any land inexpensively enough for strictly market development. With rare exceptions in Eastern Massachusetts the wealthier the community, the less likely it permits the development of affordable housing in their communities, with the exception of elderly housing.

#### METROWEST AND METROSOUTHWEST SUBREGIONS

All of these communities could make meaningful contributions to the provision of affordable housing. This author thinks that the buyers are waiting to respond favorably to an increased supply of moderately-priced units in the \$70,000 to \$130,000

range. The more affluent and least disposed communities could most afford the provision of moderately-priced land, buty could not do so without subsidy, since market prices are so high.

In all of these communities the level of market rate residential building lot prices creates problems for the provision of affordable housing. In all of them the problem could be eased or removed by zoning mor multifamily dwellings at higher allowable densities of units/acre. This measure is not a subsidy, and would be adequate to allow for acceptably-priced land costs for development of affordable homeownership opportunities in the vast majority of these communities. As mentioned above, however, higher density, multifamily zoning will not be enough by itself in the highest-income communities. In these communities, the proper zoning would have to be accompanied by some form of public or private subsidy to write down land costs.

The relative densities, the propensities for development, and openness to affordable homeownership, all effect the extent to which any of the likely communities will provide affordable homeownership opportunities. Developers, builders, housing consultants, and many in state government agree that the most important single constraint on the provision of affordable housing is the zoning ordinances of the respective cities and towns, as well as the manner in which these ordinances are implemented and enforced. If the people who are influential in town government and business don't want affordable housing in their communities they can prevent it by passing restrictive

zoning laws, poorly enforcing any provisions which do allow affordable housing, and resisting any pressures from the real estate development community and state government.

Affordable housing is accepted more in the lower half of the communities when they are ranked by wealth or income. This study is essentially using mean home price listings as a proxy for the level of wealth and income. Affordable homeownership in considerable numbers is certainly possible in any of the somewhat less dense communities with lower current home prices.

Another important factor is ease of access to major transportation networks and accessibility of one or more of the metropolitan areas that can be reached from the Metrowest and Metrosouthwest towns. Boston, Framingham, Worcester, Providence and Brochton, if not more, are all larger urban cores which draw on the Metrowest and Metrosouthwest subregions.

Density itself is a major factor. In a city or town is in the lower half of a subregion's income levels, and if density is low, there is good reason to think that developers and financing institutions would want to develop affordable housing. This is because these towns will have the lowest land acquisition costs.

Land accounts for 20% to 33% of development costs. In a \$240,000 home price is often included \$80,000 for land. If the residence is to be priced at \$130,000, the land can cost no more than \$40,000-\$50,000 if unsubsidized market development is to be the development means. It is difficult to find land at the right prices in any of the Metrowest and Metrosouthwest communities, but it will certainly be easier in the less dense and less affluent communities.

All members of the development community interviewed for this study acknowledged that homeownership developers could get by now without building affordable housing, because the market was still strong enough in higher-income brackets. However, those interviewed were also unanimous in their view that the development community would be producing more affordable housing right now if local zoning ordinances and supportive zoning implementation allowed it.

#### **METROWEST PLANNING COMMITTEE**

Eight communities in the Metrowest subregion have formed a planning committee to plan for development in their area. They are Ashland, Framingham, Southboro, Natick, Sudbury, Wellesley and Weston. Framingham and Ashland will make additions to the affordable housing stock. It remains to be seen, however, if any of the other communities participating in the Planning Committee will do so in the foreseeable future.

In Sudbury and Weston relatively high density multifamily zoning would need some additional subsidy. In Wellesley, the relatively high density of 2,600 and accompanying resistance to further development, makes a meaningful role in affordable homeownership provision unlikely. All of the other communities could make a contribution to affordable homeownership with proper zoning alone. While Natick could also meaningfully contribute, its relatively high density of 1,800 provides it with a legitimate argument for why others in the Planning Committee area should each add more affordable housing than it should.

The Metrowest Planning Committee participated in a day-long

workshop in which representatives from four member communities discussed affordable housing and other concerns. The Committee is in its second year with a small planning staff, and will continue to discuss the problem.

#### **BUSINESS INTEREST IN AFFORDABLE HOUSING**

The Metrowest Chamber of Commerce has made affordable housing its top priority for 1986. The chamber reflects the increasing concern of many larger employers in the region that home prices are raising living costs so much that firms cannot afford to pay professional and technical employees enough to enable them to live in the area. The Industrial Relations director for Natick's Prime Computer Corporation addressed the chamber and the public regarding its serious concerns. The Chamber has not undertaken work in this area before, and is examining ways to proceed. It remains unclear at this point what will emerge from these efforts.

The high-tech slowdown in California's Silicon Valley is partially due to the rapidly-rising price of homes in the surrounding area. Due to housing prices, employers had to pay employees so much that employers' competitive market positions eroded. The only disagreement is over how much of the slowdown to attribute to housing, with some analysts concluding that housing costs were decisive. While Massachusetts is experiencing a similar problem, high-tech growth has been a little slower and spread out over a wider geographical area. Hence, the rise in housing prices has not gone so far above the norm as the Silicon Valley area's housing prices did a few years ago.

In 100 Eastern Massachusetts cities and towns, essentially

the area within Route 495, a total of 6,300 single-family homes were built, according to the Massachusetts Home Builders Association. This is the highest level since the early 1970's. Commercial developer Spaulding & Slye notes that all metro-Boston communities combined except for Boston now have as much leased space as Boston's downtown. Spaulding & Slye's recent survey indicated that 58 new office buildings were built in Boston's suburbs in 1985. Suburban leased office space doubled in the past 5 years, and office space completed or scheduled for completion in 1985 and 1986 will exceed the amount developed throughout the 1970's. Actually the suburban office space shift is not quite that dramatic, since some of the Cambridge development should be considered spillover from downtown Boston.

The shortage of housing is not only for highly paid scientists and engineers, but also for clerical and maintenance workers, workers in businesses that sell printing services and office and research supplies, and in restaurants and retail stores. Employers are feeling the pressure of high housing costs regardless of what wage and salary levels their employees are in. Even for the firm that has to worry about only relatively highly-paid employees, the problem can be serious. Robert Boyer, Lexington Town Planner, who is quoted in the following paragraphs on Lexington, notes that Lexington's 1985 median home prices were \$210,000. It took a \$100,000 income to buy those houses in 1985, and few firms can afford to pay many employees that kind of money.

#### LEXINGTON

Lexington, closer in to Boston than its Metrowest neighbors, is a fairly populous (29,000) and fairly dense (1,700/sq mile) community that has decided to develop some affordable homeownership opportunities. By the end of 1985 500 affordable units had been created, including over 100 homeownership units. The largest development is the 71-unit condo conversion of the Muzzy School. All of the communities in these two subregions could afford the same degree of effort taken by Lexington. Even if that were all the towns were to do in the next few years, 100 units in each town would add over 4,000 units of affordable homeownership opportunities to the Metrowest and Metrosouthwest subregions.

Sixty to sixty-five percent of Lexington's 200 town meeting members support affordable housing. There is a good deal of support for moderate-income housing and a little for low-income housing. The idea is to provide housing that the market isn't providing on its own. Until recently the Lexington Housing Authority (LHA) had produced only low-income elderly housing, but more recently has become involved in scattered-site singly family housing on essentially free tax-title land from the town. Lexington is developing its first retarded and handicapped group residences. It has adopted an inclusionary housing program similar to that of Newton, Massachusetts. Lexington requires developers requesting extra density for housing developments to produce some affordable housing in the developments.

This inclusionary measure means that the Planning Board won't recommend a special permit or rezoning unless an affordable housing inclusion is provided in the development. There are 8

multifamily zoning districts in Lexington, but no developable land in any of them. Hence, multifamily developments are dealt with by town officials on a case by case basis. Recently, for example, one developer chose to make an in-lieu cash payment to the town rather than provide the affordable housing in its development. The town will have to use the resources to create affordable housing. Another developer will write down the cost of existing housing units off of the prime development site. A third will make half of the rents in its development \$650 a month and the rest \$1,200

Lexington has converted four public schools to residential developments which include affordable housing. Two are rental and two are homeownership. The most recent, the Muzzy school, is the most sophisticated of the four projects, in that it is the first one to employ resale controls which can guarantee some unit affordability into the future. This is a 70-unit limited equity condominium. This means that many buyers will have to put down even less than the 5% required by MHFA. Units will sell for between \$40,000 and \$60,000. If an owner sells at a later date, they will only be able to sell for the original price plus 4% appreciation per year. All buyers are income-qualified, all units must remain owner-occupied. Assets are not used as part of income determination.

In spite of the 4% appreciation cap, all units sold immediately. There was no formal preference for Lexington residents, but Lexington residents were the ones who found out about it first and applied first. All town employees were

notified by mail.

As permitted by Ma. Chapter 521 of the Acts of 1983, Lexington recently created Lexihab, the Lexington Housing Assistance Board. Lexihab has been created to begin to deal with moderate and middle-income housing, not low-income housing, which will remain the responsibility of the LHA. Selectmen assign tasks to the 1 1/2-year old board. Its first task is overseeing the Muzzy School development and the rental development mentioned above, where 50% of the rents will be capped at \$650 per month. The Board has the authority to become a development entity. At the moment it is all volunteer and in need of professional staff.

The new inclusionary policy requires developers who receive density bonus to make there developments include:

- a) 5% of units deeded free of charge to the LHA,
- b) 15% low-income units purchased by LHA at federal Housing and Urban Development (HUD)-allowable prices,
- c) 25% moderate-income rental units with rents up to \$600 per month, or
- d) 40% middle-income purchase units with prices up to \$100,000.

These limits are as of November, 1985, and will change with interest rates and with metro-Boston's median income. Hence, they have already gone up by the spring of 1986.

Robert Boyer, Lexington Town Planner, notes that fewer than 10 of the nearly 900 town and school department employees have salaries that are above the maximum for a middle income family. That means that 890 out of 900 town employees could have qualified for the \$100,000 homes, if theirs was the only family income.

The affordable homeownership units developed so far have involved significant land subsidies from the town, and the rental

developments have either been public housing, state-subsidized retarded and handicapped residences, or rental developments wubsidized with a 15-year deferment on land acquisition payment or a cross-subsidy by the development required by the inclusionary zoning policy.

Mr. Boyer says that Lexington took another affordable housing step by allowing accessory apartments attached to single family homes as a matter of right. One of the two units must be owher-occupied. The effect of this is mainly to legitimatize the widespread use of accessory apartments which have spread throughout the suburbs illegally in recent years because of the high cost of housing.

Planner Boyer thinks that the key in Boston's suburban areas is middle-income housing, housing that would sell for \$90,000 to \$100,000 at the end of 1985. With interst rates going down, this limit goes up so that a top limit for most of 1986 may be \$115,000 (Author's estimate). "This middle-incime housing, says Boyer, is more politically acceptable, it requires less public subsidy, but it does require greater density than most of the suburbs are used to." He believes that the limited Lexington affordable housing experiences so far indicate that affordable housing can be provided while maintaining town character. Lexington is evidence that affordable housing progress can be made in the majority of suburbs within Route 495, because these steps were taken in a town where serviced house lots sold for \$150,000 to \$200,000 at the end of 1984.

Lexington is studying how it can use available land to

develop affordable housing. A grant from the Ma. Exexutive Office of Communities & Development (EOCD) is assisting this effort. The town has identified 5 tax-title lots, a company that is not using 65 acres of its land, and some churches with extra land.

The town is considering using town pension funds for mortgages for town employees at below-market interest rates, or for investment in affordable housing developments. Perhaps these resources could be complimented by the resources of companies concerned about supporting the high housing costs of their employees.

Lexington is also looking into a program for its new Lexihab, which would oversee the development of a retirement community. To become eligible residents would sell their homes to Lexihab at a below-market rate and Lexihab will resell them at appropriate further discounts as middle-income housing.

## PART VI

### THE MASSACHUSETTS HOUSING PARTNERSHIP IN THE SUBURBS

The situation of town employees in three suburban communities has given us some idea of the magnitude of the affordable housing crisis in this region. An exploration of the Metrowest and Metrosouthwest subregions has shown us that the problem is severe everywhere, but that the affordable homeownership development prospects are better in the communities with relatively lower incomes. The new state Homeownership Opportunity Program (HOP) has been created specifically to address the suburban homeownership affordability problem. We will now examine this program and attempt to determine its chances for success within the context of the current housing market. Meaningful steps forward in the next few years can only come with state assistance, and the Homeownership Opportunity Program is the one and only state initiative. Hence, it is crucial that the program evolve with the right kinds and amounts of subsidies, guidelines, technical assistance, packaging and staff. This will be a difficult task because the housing environment is hostile.

The Homeownership Opportunity Program is one of several programs which together make up the Massachusetts Housing Partnership (MHP). The Partnership was established in 1985 and consists of five subcommittees made up of representatives of public and private institutions: Urban Abandonment, Rental Housing Production, Responsible Growth Management, Homeownership, and At-Risk Populations. These subcommittees will rely on both existing and new programs. Two new programs have come into

existence along with the Partnership: The Housing Abandonment Program is focused on reclaiming salvageable abandoned or dilapidated housing in core urban centers, and the Homeownership Opportunity Program with which we are concerned here. When I refer to the MHP in what follows, I am not referring to all of the MHP activities, but rather to the HOP part of the MHP.

Interviews indicate that so long as the housing market retains its current characteristics, the MHP will be unable to stimulate the production of much affordable homeownership in suburban communities located roughly within the Route 495 arc and a few miles beyond this arc unless significant subsidies are provided in addition to those currently offered by MHFA and MHP in the spring of 1986. The following indicates that extremely deep subsidies will be required in most cases in higher-income suburbs, subsidies as deep as those being used in Boston City's affordable homeownership projects will be required in middle-income suburbs, and smaller additional subsidies will be required in lower-middle/working class suburbs. In addition, these communities will have to be educated regarding affordable homeownership creation and provided with technical assistance and other resources in putting together public-private partnerships and nonprofit affordable homeownership development entities.

As long as the strong housing demand of a growing regional economy and interest rates in the 9% or above range continue, few suburban communities will be able to participate in MHP projects without these additional resources, and very few qualified developers will be willing to do MHP developments. The following

discussion examines: 1) how communities have responded to the initial MHP requests for program interest, 2) what sample economics are for hypothetical MHP projects in three levels of suburban income categories, 3) what some developers and consultants have to say about the MHP in the suburbs, and 4) what this author recommends to help the suburban MHP advance productively in spite of the current market conditions.

First, however, let us familiarize ourselves with the current Homeownership Opportunity Program guidelines:

### THE HOMEOWNERSHIP OPPORTUNITY PROGRAM

The Homeownership Opportunity Program has \$20 million in a revolving loan fund to be used in tandem with MHFA financing to lower the interest rate for first-time homebuyers another 2% or 3%. This is on top of the roughly 2% below-market interest provided by MHFA. The extra HOP interest reduction will be phased out over 10 years, while the MHFA reduction remains for the life of the mortgage. The buyer will get an estimated 1986 MHFA mortgage at 8.5% interest. HOP will reduce that interest to 5.5% the first year. The interest rate will go up about .3% a year so that after ten years the interest rate will be back up to the original 8.5% MHFA rate, where it will stay until the dwelling is sold or the mortgage is paid off. \$200 million in MHFA financing is being set aside for use with \$20 million of HOP loan funds. In addition \$5 million in Community Development Action Grants (CDAG's) has been set aside to subsidize development infrastructure costs. HOP projects would also qualify in some cases for assistance from other state agencies such as the quasipublic Community Economic Development Assistance Corporation

and the Massachusetts Government Land Bank. The resources available so far are enough for about 2,500 units.

An MHP-assisted homeownership development will include a mix of "Market," "Affordable," and "Most Affordable" homes. 25% must be "most affordable" and the remaining 75% may be all "market," all "affordable," or a combination of the two. A 75% market-rate development must weigh the pluses and minuses of 25% "most affordable" units. Since the municipality applies, it can control the income mix in any MHP-assisted development. For instance, a town may want a mix across income categories and require 25% "affordable" units in addition to the required 25% "most affordable" units. This would leave 50% market units in the development.

Market-rate units, of course, can be sold for whatever the market will bear. MHP is currently hoping to limit "affordable" units to end-prices of \$110,000. Buyers of these units would get below-market-rate MHFA mortgages, but no additional MHP interest writedown. There would be no limit on the resale price of a home at a later date. In nearly all of the area within the Route 495 arc, the limit on home prices to the consumer of "most affordable" units is \$86,000. The buyer will get a 1986 estimated 8.5% mortgage from the MHFA and a further interest writedown to 5.5% from the MHP Homeownership Opportunity Program.

If a buyer resells a "most affordable" unit, the allowable appreciation will be limited, and 20% of any capital gain must be paid to the MHP revolving loan fund. MHP is considering utilizing the following appreciation limit: At the time of

original purchase, an independent assessment will establish a market value for the home which will be a certain percentage above the price the buyer is paying. Upon resale, another appraisal will be done to determine market value at the time, and the selling price will be limited to the same percentage ratio determined at the original purchase.

In any local development concept, the resulting income mix does not depend solely upon the MHP/MHFA and developer resources. For any given development, the municipality could apply for state Community Development Action Grants (CDAG's). Municipalities may also have Community Development Block Grant (CDBG) or other resources which could further subsidize the development. Common uses for such resources include covering some infrastructure costs or writing down the purchase price to the homebuyers in exchange for limiting the profit that buyers can make from a resale.

The developer does not necessarily have to sell the finished units for the \$86,000 maximum allowable price. The additional resources available to the locality or the state could be used to buy the units from the developer for more than \$86,000, or to cover the cost of part of the development. For example, \$6,000 of CDAG resources could be used for each unit in a development. If the developer's sale price were \$92,000 per unit, the \$6,000 could be provided to the buyers as an interest-free second mortgage, the principal of which would only have to be repaid if the buyer resold the home at a later date. Thus the effective price to the buyer meets the \$86,000 limit, but the developer receives \$92,000 for the home. Alternatively, the developer

could sell for \$86,000 and the additional \$6,000 subsidy could be used to write the price to the buyer down to \$80,000. Instead of reducing the cost to the buyer at the point of purchase, the same \$6,000 could be used to provide the unit's share of street and utility costs. Thus, although the developer's price is \$86,000, \$6,000 of the production costs does not have to be provided by the developer. Alternatively, the price to the buyer of \$86,000 could be reduced to \$80,000 by such a production subsidy.

Under MHFA and MHP qualifying guidelines, a family of four could purchase a "most affordable" \$86,000 home with a \$27,000 gross (pre-tax) income, and purchase an "affordable" \$110,000 home with a \$43,000 income. The MHP is a resource that supporters of affordable housing in the suburbs did not have to draw on in the past. Use of its resources could help many towns get moving in affordable homeownership production.

It seems clear that MHP's Housing Abandonment Program will fit into affordable housing efforts in the city of Boston very productively, primarily because of the low site acquisition costs there. The program is designed for older central cities. MHP's Homeownership Opportunity Program (HOP) will fit in equally well in Boston, for the same reason. HOP was really created with the suburbs in mind, however, so the crucial question is how appropriate is it for current suburban conditions. To answer that question we need to look at the fit between the HOP and the housing market in the studied subregions.

## MASSACHUSETTS HOUSING PARTNERSHIP IN METROWEST & METROSOUTHWEST

At the beginning of 1986 the Partnership asked Massachusetts cities and towns to indicate interest in applying for MHP's Homeownership Opportunity Program, described above. As of April 18, 1986, 103 cities and towns had indicated interest. Among those, about a dozen were actually developing one or more specific development concepts. More indications of interest were expected on a rolling basis throughout the year. The Executive Office of Communities & Development had requested interest proposals by April 18, but had made it clear that applications would be accepted anytime that resources remained available.

Among the 103 responses, 10 were in the Metrowest communities listed in this study, and 7 were in the Metrosouthwest area communities listed. Altogether, the 17 communities indicating interest in these two subregions formed the most concentrated area of interest responses in the state. No other region has responded nearly as well. However, none of the dozen proposals that actually included a specific development concept were from Metrowest or Metrosouthwest.

Clark Zigler, a Massachusetts Housing Partnership coordinator at the Massachusetts Executive Office of Communities & Development (EOCD), is pleased by the level of interest in the new MHP so far. He doesn't know why Metrowest & Southwest are exhibiting more interest than other areas of the state, but he suspects it has to do with the level of citizen involvement in a few of the towns. Once citizens urge their town government to apply for a new state program like the Homeownership Opportunities Program (HOP), the word spreads to adjacent towns

through word of mouth, local newspapers, and political networks.

#### MEDFIELD AFFORDABLE HOMEOWNERSHIP CITIZENS GROUP

The only initiative that has come completely from local citizens, as far as Mr. Zigler knows, is Medfield's citizen-initiated Ad Hoc Committee. 20 residents appeared at the mid-March, 1986 Planning Board Meeting asking the town to apply to HOP. The response was to establish an ad hoc committee of two Planning Board members, a Housing Authority representative, and a Selectwoman. Not only did the group present HOP clearly and in detail, but it also presented a list of seven specific sites which could be used to build affordable homeownership opportunities. Sites ranged from 10 acres to 62 acres each, and totalled 230 acres.

According to reporter Donna DiCianni, in the March 20, 1986 Medfield Suburban News, the discussion was initiated by citizens who pointed out that the people interested in this affordable housing were not "welfare people" and that town employees, even those with two wage earners in the family, can't afford to live in the town. In the same vein one man said that his family was splitting up among several towns because his brothers couldn't afford Medfield home prices.

One selectperson said that "just because someone was raised in the town does not entitle him or her to be able to buy their first house there." A woman responded that she sensed an "elitist attitude." She then noted that she was a teacher, her husband was an accountant, and they were not welfare people.

In Medfield citizens who need the MHP program are asking

their town government to apply. It remains to be seen whether or not the town will do so, or whether those with an elitist attitude will prevent HOP-assisted housing from being developed. Many in the citizens group are renters who want to buy their first homes.

#### NO RESPONSE FROM SOME WEALTHIER COMMUNITIES

The Boston Globe surveyed some of the wealthier communities that have not indicated interest in MHP's Homeownership Opportunity Program. The March 21, 1986 "Some Suburbs Shun Housing Plan," included three Metrowest communities and one Metrosouthwest community in its survey. The three Metrosouthwest communities comprise three out of the top five Metrowest communities in terms of mean spring 1986 MLS home price listings.

Edward Perry, the Wayland selectmen's executive secretary, said that there was a general awareness of the need for affordable housing, but a lack of any prospective home buyers and developers who had expressed their interest in writing. J. Ward Carter, the Weston selectmen's executive secretary, said that the town had not yet considered the program. Sherborn's Lawrence Cameron, administrative assistant to selectmen, reported that there is concern about affordable housing, but with only two full-time people in town hall there is no one to administer a program.

Dover, with the highest Metrosouthwest mean MLS asking residential prices in the spring of 1986, has Beth Sutherland as selectmen's executive secretary. Ms. Sutherland said that there is no housing authority, no housing commission, no land, and no group willing to push. Of the 43 cities and towns included in

this study's Metrowest and Metrosouthwest MLS data tables, only four were less dense than Dover. I have a very large wall-map of the greater Boston area all the way out to Route 495 (30 mile radius). This map is so detailed that it shows individual streets. Dover is one of the handful of the hundred or so communities on the map that looks empty--hardly any roads or streets, no state parks or large reservation areas. It certainly has a low population density for the region--307 per square mile. It would appear that if anywhere, there is land available in Dover. What Ms. Sutherland means, of course, is that there is no land available for affordable homeownership development. Presumably, the town doesn't have, or isn't willing to sell, any sites at significantly below market prices, and all other buildable land is too expensive.

#### OTHER MHP FACTORS IN METROWEST & METROSOUTHWEST

As can be seen from the Metrowest and Metrosouthwest Multiple Listings charts on pages 95 and 96 of this study, the cities and towns that have indicated interest in the program are evenly distributed across the lower two-thirds of the home price/income spectrum. There was very little interest indicated from the upper-end of the home price/income spectrum. These initial responding towns in these two subregions indicate that there is no tendency for responses to be from either higher- or lower-density cities or towns.

In Metrosouthwest's Blackstone, according to MHP's Clark Zigler, a developer who is interested in developing subdivision, wants HOP participation to increase the possible market for his

project. The additional HOP mortgage interest subsidy increases the range of income of homebuyers who could consider buying. North Attleboro, on the southern edge of Metrosouthwest, has an actual development concept for its first proposed HOP-assisted project. Metrowest's Ashland has a large number of very interested citizens, according to the town's Executive Administrator. The number of inquiries from townspeople is running very high.

So, varying degrees of interest or disinterest have been expressed in the HOP. I would venture to guess that in all but a few cases, the "interested" communities have not yet tried to figure out how a HOP development would or could actually work. Let us hypothesize how a HOP development might fit, or not fit, into the housing markets in higher-income, middle-income, and lower-middle income/working class suburbs:

#### WHAT DENSITIES AND SUBSIDIES MIGHT BE REQUIRED TO MAKE AN MHP DEVELOPMENT WORK IN A HIGH-INCOME SUBURB?

Building lots in Metrowest and Metrosouthwest are rare for less than \$50,000. Anything less is likely to be in the most rural towns or on difficult terrain that will require significant additional infrastructure costs. In the wealthier communities building lots for less than \$80,000 are rarities. According to a Hopkinton developer, lots are \$100,000 there, and more in Southboro. Sudbury and Weston are even higher.

Sudbury is one of the wealthier communities that has expressed interest in the MHP Homeownership Opportunity Program. The price of building lots in the town are higher than the \$110,000 maximum price MHP's "affordable" units, and far more

costly than MHP's \$86,000 limit for "most affordable" units. Under current market conditions, it is unlikely that developers could be attracted unless land costs for \$110,000 units could be written down to \$15,000 per unit, and for \$86,000 units, to \$7,000 per unit. Let us assume that the market-rate land cost would be \$110,000 per unit, and run through a hypothetical case for towns like Sudbury, Southboro, Weston or Hopkinton.

An MHP project will definitely require both significant subsidies beyond the base MHFA/MHP interest subsidies and increased multifamily zoning density which lowers land costs to no more than 1/3 of the per-unit average for the town as a whole. To reduce land cost that much would probably require densities of approximately 8 units per acre. That density would leave land costs at \$37,000/unit, leaving an additional subsidy requirement of \$20,000/unit for MHP \$110,000 units and \$30,000/unit for MHP \$86,000 units. This additional subsidy could be provided by an internal project cross-subsidy provided by the developer, provided that a solid majority of the units were sold at market-rates.

If the town wanted a lower density of say, 5 units per acre, land cost would go up and the level of subsidy would have to increase. The town could make up the difference with a public subsidy of some kind. Any of the local subsidy devices used by Boston (except Urban Renewal resources) could be used.

The Lincoln School development in Cambridge offers us an example of how an internal project cross subsidy could be used to provide the kind of enormous land-cost write downs that would be needed in communities like Sudbury, Dover, Weston, Southboro, and

Hopkinton. In the Lincoln School development, 15 market-rate units subsidized the 5 moderate units. I estimate that the ultimate cross-subsidy in the Lincoln School case will be around \$69,000 for each moderate unit. Acquisition costs were \$24,000 per unit. Combined with a city subsidy of \$5,000 per unit, this cross-subsidy brought the price to buyers for moderated units down to \$55,000, far lower than we are even contemplating in our hypothetical example. I am estimating that the 75% market-rate Lincoln School units will sell for over \$200,000 apiece. Even higher prices for market-rate units could be expected in such higher-income suburban towns, ample for the required cross-subsidy, while still providing a reasonable profit to the developer.

Alternatively, a few MHP projects in such higher-income communities might involve inexpensively priced public facilities or land. This would eliminate the need for another form of local public subsidy, and possibly reduce the required level of internal project cross subsidy. This is the approach Lexington used in its Muzzey School development, discussed in the previous part of this study.

If a higher-income community did not wish to provide a significant land-cost write down subsidy, the need for it could be removed by allowing a 12 to 15 unit/acre density for the development. In combination with the above cross subsidy, the project would still attract a competent developer. If such communities did some experimental projects of 30 units apiece, there need be no fear of such development getting out of

hand. In order to do such projects the town need not provide as-of-right zoning for such developments in the future. Town control on a project-by-project basis can easily be maintained.

#### WHAT DENSITIES AND SUBSIDIES WOULD BE REQUIRED TO MAKE AN MHP DEVELOPMENT WORK IN A MIDDLE-INCOME SUBURB

In most Metrowest and Metrosouthwest municipalities market-rate building lots go for \$50,000 to \$60,000. Multifamily development at 5-6 units/acre brings land costs down to \$25,000-\$30,000/unit. At 8 units/acre land cost drops to \$15,000-\$20,000/unit. Under spring 1986 market conditions, where developers have desirable alternatives to this kind of development, a subsidy of \$5,000-\$10,000 per unit might be required for \$110,000 units and \$13,000-\$23,000/unit for the \$86,000 units. Since land cost is the same for either unit, the "most affordable" \$86,000 unit must receive a greater land-cost write down subsidy than the "affordable" \$110,000 unit. In return for permission to develop the majority of units as market-rate units, a good developer could still be attracted while agreeing to pay most or all of this additional subsidy in the form of an internal project cross-subsidy. The community would probably have to provide some of that subsidy, unless the state used some Community Development Action Grant resources for that purpose.

Once again, the use of a density of approximately 12 units/acre for one or two 30-unit projects might eliminate the need for public subsidy, reduce the amount of required cross-subsidy, or both. If private donors or the municipality subsidized a development by providing buildings or land at below-

market prices, required densities could be reduced below 8 units/acre, or prices of affordable units could be reduced further, or the need for any public subsidy beyond the land cost write down could be eliminated, or any combination of these alternatives could be the result. Boston is effectively demonstrating the leveraging power of below-market publicly-owned land in the creation of affordable homeownership. Suburban communities could learn from Boston's experience.

#### WHAT DENSITIES AND SUBSIDIES WOULD BE REQUIRED TO MAKE AN MHP PROJECT WORK IN LOWER-MIDDLE AND WORKING CLASS SUBURBAN COMMUNITIES?

In the lower-middle/working class communities of Metrowest and Metrosouthwest half of the price-ranked Metrowest and Metrosouthwest communities (to be found primarily in Metrosouthwest), market conditions alone are still capable of producing new units at or near the MHP \$110,000 affordable limit at densities in the 6-9 units per acre range. Yet the market is strong enough that higher prices can be claimed for similar units. Even here, under spring 1986 market conditions, developers are better off developing without MHP. Let us look at one example:

Designed Ventures, Inc., of Woonsocket, Rhode Island, is developing Castle Hill Condominiums in Blackstone, Ma. Fifty units will go up each year in a five-year buildout to 252 units. The first fifty are going up in 1986. Out of the total of 252 units, 35 (14%) will be one-bedroom units of 800-850 square feet, currently priced at 85,000-\$87,000. This is a few thousand dollars over the MHP "most-affordable" limit for a family of 2 (The \$86,000 limit is for a family of 4). 18 (7%) will be 960

sf two-bedroom units, currently priced at \$97,000. These units include one central garage space. If the garage space were eliminated, the one-bedroom units would be under the most-affordable limit and the two-bedroom units would be priced at around \$90,000. 20 (8%) are 1,200 sf two-bedroom town houses without garage, priced at \$100,000. In other words, if the garages were removed, we would have an MHP development, with 29% of the units in a mix of most-affordable and affordable units.

Robert Branchaud, principal of Designed Ventures, thinks that in the absence of any public pressure to do an MHP development, Designed Ventures is better off doing a strictly market development. This saves the firm the time and expense of putting an MHP deal together with the state and the town, and maintains the freedom to raise unit prices at any time. If a town in Mr. Branchaud's area was seeking a developer for an MHP project, and was serious about developing a good deal of affordable homes over a period of years, this author thinks that it would be in such a developer's interest to do the MHP deal, so long as the land cost was the same as in the Castle Hill development. By eliminating the garages, the developer could make very close to the same profit with the MHP deal, and would be cultivating a good relationship with the community.

Designed Ventures paid \$3,000 a unit for raw land for Castle Hill. In the spring of 1986, according to Branchaud, such land would cost \$6,000. Since the developer has to provide all infrastructure, including roads and all utilities, I am estimating that the cost to bring utility servicing to the street

edge would be \$7,000 per unit at 5 units per acre. That would bring serviced land costs to \$13,000/acre. At spring 1986 land costs, and with pressure from a town to do MHP developments, Mr. Branchaud's experience indicates that an additional subsidy of at least \$3,000/unit would be required to induce developer participation.

Mr. Branchaud says that land prices had been stagnant in the Blackstone Valley area for many years. Within the past six months, however, there has been an explosion of interest in area land and prices are shooting upwards. The recent jump from \$3,000 to \$6,000/unit for raw land at 5 units/acre could increase another few thousand dollars in another six months. This means that by year end it could take an additional subsidy of at least \$6,000/unit to attract developers to a 5 unit/acre MHP development.

If such lower-middle/working class suburban towns wanted MHP developments, and were willing to allow densities for one or more developments of 8-10 units per acre on a clustered basis, both the land cost and the infrastructure cost per unit would be reduced to the point that developers could be attracted with an additional subsidy of zero to \$3,000, depending upon the developers' perceived interest in developing long-term affordable homeownership relationship with these communities.

Cross subsidies could still be used in such communities, but on a very limited basis. According to Branchaud, the market drops off fairly precipitously above \$130,000. Let us look at his Castle Hill development again as an example. 57% of the units are priced between \$125,000 and \$138,000. The range of

unit types and prices have been tuned to the market, and any increase in the number of \$138,000 units brings additional marketing risks. To design any units for even higher prices is even riskier. Hence, if lower-middle/working class communities in Eastern Massachusetts package MHP deals to include internal project cross-subsidies, the chances of attracting developers would be minimal.

In the spring of 1986 real estate association spokespersons and individual realtors have been projecting residential appreciation of about 20%, one-half to two-thirds as much as in 1985. They are also speaking about a 1% drop in mortgage interest rates throughout the year. As noted in an Appendix about such a 1% drop, it would not compensate for 20% appreciation. By mid-1987 it may no longer be possible for these communities to produce within the \$86,000 and \$110,000 MHP limits without some significant additional subsidy. In any event, it should be considerably easier to produce MHP units in in these communities than in either of the other two higher-income suburban categories.

Philip Herr, who has had many such communities as growth policy planning clients, thinks that MHP limits may be too high for the residents of these lower-income suburbs. As pointed out in the previous part of this study, Mr. Herr thinks that even though a \$110,000, or even a \$130,000 home may fill a legitimate affordable housing need in the larger metropolitan context, a \$110,000 home is not affordable to the residents of the lower-income suburbs.

This, in turn, raises the possibility of a need for a different set of MHP home price limits for such communities. Based on some measure such as median income, a separate set of communities could be established with limits that are \$10,000 lower: \$76,000 and \$100,000 for a family of four. This would result in the need for additional public subsidy and/or internal project cross subsidy where none was needed before.

#### HOW IMPORTANT IS THE ALLOWABLE DENSITY OF DEVELOPMENT?

The reader may have noted in several references to density, that the land cost per unit does not go down in perfect inverse proportion as the allowable density goes up. For example, in the middle-income communities, single family house lots are around \$50,000 to \$60,000, and it doesn't matter much whether they are one-acre or half-acre lots. In these same areas the per-unit land cost goes down to around \$25,000 to \$30,000 at densities of 5 or 6 units per acre. At even higher densities, per-unit land costs decline even more slowly as allowable density rises. At 8 units/acre, maybe \$5,000 per unit would be saved over land costs at 5 or 6 units/acre. At 12 units/acre maybe \$2,000 or \$3,000 would be saved over 8 units/acre.

Moreover, the effect of increasing allowable density varies considerably due to unique local market factors and to the relative amount of land to which an increase in allowable density applies. In the most desirable and least desirable locations increasing density levels can have extremely little impact on per-unit land costs.

In the extremely strong market environment we are dealing with in this study, allowable density significantly impacts

housing development costs within the range of density levels we are discussing. However, in the vast majority of situations, increased density allowances will not go half the distance in the necessary lowering of home production costs, and other subsidies will have to make up for most of the gap. The exception is the case where a community allows a jump from one or one-half units per acre to five or more. In that case, the increase allowable density would probably close most of the affordability gap in a middle-income community.

We have taken what we learned in the previous part of this study about the subregional housing and land markets and then inserted the MHP program requirements into this real-world market context. It seems that under current market conditions, the program guidelines and subsidy levels will not result in a successful program unless municipalities are forthcoming with additional deep subsidies and increased allowable densities on their own. Now let us listen to the remarks of three developers and a consultant to small developers, and see to what extent their views correspond to the previous analysis.

The first of the four following interviewees is a developer who thinks that the HOP can work as is because it reduces risk by expanding the market to lower-income families. Furthermore, the upper levels of the housing market will soon be relatively saturated and developers will be forced to develop more affordable homeownership opportunities. He thinks that getting into the HOP now will position him for the future. The consultant thinks that the HOP simply isn't organized well enough

yet, and is therefore too full of risky uncertainties to attract small developers.

The second developer thinks that the economics are presently as described in the above hypothetical HOP examples, and hence developers would have to take smaller profits with HOP than they can get by developing higher-priced homes. In addition, he thinks that the market will get stronger for several years at least. In other words, the market will get even more hostile to affordable homeownership development.

The third developer agrees with the first one that higher-priced markets will become somewhat saturated in a few years, and has recently done two strictly market affordable homeownership developments in order to position himself to do more of them in the future. However, he is not interested in HOP because he finds the time and energy required to deal with publicly-assisted programs is something that a small developer such as himself cannot afford.

These viewpoints illustrate that there are no clear-cut answers, and corroborate in general the tentative conclusions illustrated by the above hypothetical developments in different income-level communities. Now let us capture the full flavor of these viewpoints by listening to them in detail:

#### WHAT DOES THE MASSACHUSETTS HOUSING PARTNERSHIP OFFER DEVELOPERS? "CERTAINTY AND A BROADER MARKET," SAYS ONE SMALL DEVELOPER

Peter Smith is a young, small developer, whose five-year-old Cottonwood Company is based in the Jamaica Plain area of Boston, Massachusetts. The company has undertaken a number of small developments in Jamaica Plain and has recently expanded

geographically. Homeownership projects have included the conversion of a nursing home into 8 condominiums. The project involved substantial rehabilitation and historical tax credits, and the 2-bedroom units were sold for between \$132,000 and \$165,000 in 1984.

About the same time another Jamaica Plain property, a 4-unit rental building, was moderately rehabilitated and condo units were sold for \$75,000. These two developments were strictly market-rate deals. In 1986, two years later, the same deal that produced the \$75,000 units would produce \$120,000 units. According to Mr. Smith, the difference would be essentially attributable to the increased costs of acquiring property to rehabilitate.

Mr. Smith thinks that the Massachusetts Housing Partnership offers developers a larger market, reduced risk, and more easily obtained financing in exchange for somewhat smaller profits than could be earned at greater risk by producing more upscale housing. The market is enlarged because families and individuals with incomes ranging from \$18,000 to \$43,000 are brought into the picture; that is to say the market for a given development is extended downward.

Obtaining construction financing is easier with MHP than without it primarily because permanent financing is guaranteed upon successful completion of the project. MHFA sets aside permanent financing resources for the project as soon as the initial project contracts are finalized among MHP, the municipality and the development entity. Construction financing

is also more easily obtained because the banks know that the local regulatory authorities have a stake in making the project succeed.

Risk is reduced partly by the enlarged market and easier financing mentioned above, but it is primarily reduced because the town itself has applied for the project and therefore some person or persons within the town government will be moving to facilitate and coordinate town regulatory activities in order to make the project succeed. In other words, the municipality itself has at least some stake in the success of the project, and some self-interest in executing its regulatory functions so that the project succeeds.

Risk is also reduced by the coordination of state and local resources made possible by MHP sponsorship. The very nature of the program automatically provides state MHFA and MHP resources, and automatically makes available the additional possibility of CEDAG resources. The state enters into projects on a negotiated basis with both municipalities and development entities, and in the process municipal resources are likely to be leveraged as well.

In 1985 the average price of new construction homes in Eastern Massachusetts was \$160,000. Both Zigler and Smith think that the upper layers of the regional housing market are at or near saturation in many localities, and that increasing developer interest in the relatively untapped lower levels will be seen in 1986. Given market conditions in the spring of 1986, Smith thinks that relatively few developers will actively pursue MHP projects because the market will still support additional more

profitable higher-priced development. He suspects, however, that during the following two years, increasing saturation of more upscale markets will make participation in affordable homeownership projects much more appealing. Mr. Smith is of the opinion that the Massachusetts Housing Partnership offers an opportunity for developers to position themselves now in the starter home market before competition becomes stiffer a year or two later.

The above scenarios in high-, middle-, and lower-middle/working class-income communities distill this author's conclusions about how the MHP Homeownership Opportunity Program fits, or doesn't fit, into the spring 1986 suburban housing environment. But what about the 1987 environment, or the 1990 environment? Published statements from builders and real estate brokers indicate a 1986 drop in interest rates of 1% and increasing appreciation of 20%, making homes a bit less affordable.

This study includes an appendix on "The Eastern Massachusetts Market for Affordable Housing 1986-1990," which indicates the likelihood of a strong housing market through 1989 at least and appreciation dwindling considerably from 20%/year until 1990. There is a likelihood of greater housing market price stability beginning around 1990, and a possibility of some drop in prices. Should such a scenario in fact be the case, there may be a period of two or three years during which time current MHP guidelines will fit the suburban context less well than it does today. Housing Opportunity Program upper home price

limits may need to be increased for some communities, while held the same or lowered for other communities.

For example, if metropolitan economic growth were to continue for a few more years much as it has in the past decade, increasing jobs may continue to chase a less-rapidly rising housing supply, forcing home prices to continue to climb. But the growing economy provides enough middle and upper income buyers to keep home prices bid up relatively high. Thus MPH's \$86,000 and \$110,000 homes will not be developed without even greater land-cost writedowns, densities and other subsidies than in the above scenarios.

In this case MHP/MHFA would have to either raise maximum qualifying home prices or increase subsidies. If it raised maximum home prices, the result could be even less appropriate for the lower middle/working class communities. It is possible that, even as the metropolitan economy continues to expand, many such communities may not share in the expansion. If this were to happen in any Metrowest or Metrosouthwest area it would be in the Blackstone Valley area communities near Woonsocket, Rhode Island. The recent take-off of land prices there makes this seem highly unlikely, however. If economic stagnation were to happen in such an area, MHP homes built there at the same \$86,000 and \$110,000 upper limits would be even less affordable than they are now, and the MHP would not meet the needs of those communities unless it created a lower home price maximum and additional subsidies for such communities.

If home prices stabilize around the end of the decade, and if mortgage interest rates continue stable, or decline further,

MHP's task will be much easier. At least some level of predictability about market conditions is essential for a public program that must operate within price and interest rate limits that are difficult to adjust in any less than a year's time. If home prices begin to decline by the end of the decade, then the affordable homeownership dilemma will become much easier to deal with, and MHP could play an important and increased role for several years.

#### WHAT DOES THE MPH OFFER DEVELOPERS?

**'UNCERTAINTY AND THE ADDITION OF A LESS DESIRABLE MARKET SEGMENT THAT DEVELOPERS DON'T NEED YET,' SAYS A CONSULTANT TO SMALL DEVELOPERS**

Brett Doney of Zarelli-Doney Associates consults to small builders on permitting, approvals and development project packaging. The firm consults with profit and nonprofit developers on projects with a large public interface. Mr. Doney's clients, just like Steven Lasorda's South Bay Development Company, can't afford to invest the time to stay on top of publicly assisted housing programs and to learn how to put public/private partnerships together. Zarelli-Doney and a small number of other consulting organizations are there to help fill this need for those small developers that are interested. The uncertainty that Doney thinks MPH brings to developers is summarized in the following sub-heading:

**HOMEOWNERSHIP OPPORTUNITY PROGRAM REQUIREMENTS AND APPLICATION PROCEDURES ARE NOT YET VERY CLEAR AND THE PROGRAM IS THEREFORE TOO RISKY TO ELICIT MUCH SMALL DEVELOPER INTEREST IN THE SPRING OF 1986**

Additional inquiries into the current status the new HOP indicated to me that Mr. Doney was on the right track. Indeed,

all of the steps necessary for completion of the MHP Homeownership Opportunity Program are not yet identified. Hence, no developer knows exactly what activities are part of the development process. Hence, developers can't adequately assess either predictable costs or risks. It is still too risky for small developers to take on any HOP projects, unless it consists of at least 30 units (several small developers indicated that somewhere around 30 units is a point at which a significant breakthrough so some economies of scale is achieved).

For example, it remains to be seen exactly what legal documents will be required to complete contracts with MHP and MHFA. Is a bond counsel opinion on Zoning required? Such a legal document is expensive. The circumstances of a given project may make it impossible to obtain a clean opinion stating that no successful zoning challenge could occur with any likelihood. MHP must make it clear in advance if such a clean opinion will be required.

At what point in the process will the actual MHFA long-term financing commitment be made? Will MHFA itself inspect the site? How can Chapter 774 be used for MHP projects if the municipality itself must be the agent that makes application to the MHP? Will MHP projects invoke the prevailing wage (Davis-Bacon) law? If so, unit costs could go up as much as 15%. Each of these questions and more must be clarified, according to Doney, before any small developer, without some real financial cushion to fall back on, should wisely invest funds in an MHP development.

The application procedures haven't been worked out in detail either. This adds on to the above uncertainty about requirements. Each of these potential development tasks involves its own expenses, but in addition each item of uncertainty is likely to increase the time it takes to develop a project. A 2-month delay on enough land for 30 units could easily cost \$15,000-\$20,000. or more.

#### **EOCD DOESN'T HAVE AN EXTENSIVE RELATIONSHIP WITH DEVELOPERS AT THE PRESENT TIME**

Brett Doney thinks that another part of the uncertainty MPH brings to developers is due to the limited relationship developers have with EOCD. This issue was not discussed with other interviewees. It is included here only because Zarelli-Doney Associates has had extensive experience working with developers who worked with EOCD and MHFA.

Developers have not worked extensively with EOCD since the 1970's, when they developed turnkey projects for the agency. Now there is far less developer contact with the agency, and what there is is largely over Chapter 774 zoning override appeals and the Teller affordable housing program. Now there will be another point of contact, the MHP. According to Mr. Doney, most developers who developed for the state in the 1970's did not have terribly satisfactory experiences, and are not eager to go back to state-supported work again. Doney's impression from developer clients is that developers who extended themselves on behalf of state programs did not find the state extending itself quite enough in turn to help developers resolve difficult junctures in the development process. The state was

not concerned enough with building long-term relationships with developers.

EOCD oversees MHFA to a certain extent, but MHFA is essentially an independent agency, and developers distinguish between working for the two of them. The 80-20 and SHARP affordable housing programs, for example, have clear requirements and procedures which involve developers with MHFA staff but with no EOCD staff. Hence, the greater certainty associated with the requirements and procedures of these MHFA-operated programs does not effect developers' perceptions of EOCD.

The present structure of the MHP indicates that guidelines are intended to be somewhat loose and flexible. EOCD wants to be flexible in order to adapt to differing conditions in different municipalities. This appears wise, given the resistance to the MHP in the suburbs. However, maintaining this negotiating position for EOCD means that developers will have to deal separately with EOCD and MHFA. First with EOCD on structuring the project and obtaining MHP resources, second with MHFA to obtain permanent financing. Even if the above-mentioned MHP uncertainties are ironed out, retaining EOCD's negotiating position for each proposed municipal program, requires that developers go through two separate processes with EOCD and MHFA. This is not an attractive feature to developers.

Thus, Doney thinks that the MHP uncertainty is due to unsettled requirements and procedures, a relative lack of ongoing EOCD relationships with developers, and the program requirement to deal independently with both EOCD and MHFA. According to Doney, all of the above factors will leave all but a few small

developers watching from the sidelines until one or two larger developers have been through the process.

**A MEDIUM-SIZED AND A SMALL DEVELOPER EXPECT FEW MHP HOMEOWNERSHIP PROJECTS TO MATERIALIZE IN THE SUBURBS WITHIN ROUTE 495 AS LONG AS CURRENT MARKET CONDITIONS CONTINUE**

Robert Fox, President of Robert Fox Company, thinks that the MHP Homeownership Opportunity Program will be of interest to few developers in the next two years. The reason is essentially the high price of (or relative scarcity of) land. Even if the MHP program were well-managed and efficient, the housing market is such that few opportunities will arise for developers anywhere within Route 495 to profit adequately from the development of homes that sell for \$110,000 or less. Mr. Fox explains that with land at \$25,000 per dwelling unit at 5 or six units per acre, it is difficult to develop much of a unit for sale at \$110,000, let alone for less. Even at 10 units per acre and per unit land costs reduced by several thousand dollars, more profitable opportunities in more upscale housing would keep him away from developing \$110,000 units. When Fox developed Whitman Pond Village in 1983 at 13 units per acre, the \$60,000 units had per unit land costs were \$4,500. Fox thinks that today's land costs make it impossible to build an acceptable unit for a sale price that met the Mass Housing Partnership's top limit. If that limit were raised from \$110,000, however, to \$120,000 a unit, the chances would be much better for finding possible development sites.

That would draw more developer interest, but within the next two years, not much more. Fox thinks that the housing market for

more expensive housing will remain strong enough for two years so that developers in general will be able to make more money building more upscale housing. Thus, even when somewhat rare opportunities arise for developing MHP homes, such opportunities are not likely to be taken in the next couple of years.

Fox thinks that some HOP projects will happen because some communities will be committed to making them work, and because some developers will want to be recognized for having participated in affordable homeownership projects. There may be a small number of cases where projects just work on their own merits. Before the combination of HOP resources and the conditions of the market attract much developer interest, however, either interest rates would have to go back up two or three percent, or the market would have to become much more saturated for more expensive houses.

Mr. Fox's firm is a medium-sized residential developer. A small developer, Steven Lasorda's South Bay Development Company, developed two strictly market affordable homeownership projects in Boston, and is now developing more upscale condos in Wollaston Beach, Quincy, Ma., just south of Boston on the Ocean, in which two-bedroom units sell from \$180,000-\$230,000. The firm is not currently pursuing any affordable homeownership developments. I have included Mr. Lasorda's general remarks because I think it is important to make small developers like South Bay aware of the MHP HOP program. The top MHP priority for the next two years will be getting initial/experimental projects to happen. Many towns will want to experiment with small developments in the 30-unit range, suitable for small developers, and often not

interesting to larger developers. Most small developers share Lasorda's disinterest in state-assisted work, because they cannot support the overhead required to be familiar with state programs. Hence, Mr. Lasorda's views also illuminate the need for the MHP to clarify its requirements, procedures, application process, and streamline its negotiating role.

Mr. Lasorda did the two affordable South Boston and Dorchester projects because the opportunities presented themselves and because he thinks that the affordable price range will be a market that will come back in the near future. He said that he wanted to develop a capability and a recent history of affordable homeownership development so that he could move back into that market easily.

Mr. Lasorda is not now, nor has he ever been interested in state-assisted projects. He has developed units previously, whose buyers applied for and received MHFA financing on their own, but that is as close as he has gotten to public partnership. South Bay, typically for a small residential developer, consists of himself and three other office people, and his brother and two other skilled builders on site along with a couple of laborers.

It is very difficult for a development company with such resources to stay on top of the shifting sands of government housing programs, especially new untried ones like the Massachusetts Housing Partnership. By April of 1986 Mr. Lasorda had not heard of the Partnership. When he does hear about such things, it is likely to be via the newspaper.

Steven Lasorda says that he could repeat his affordable

South Boston and Dorchester developments for sales prices as low as \$80,000 if he could get land for \$5,000 without bureaucratic hassles. Presumably he could do it for \$115,000 in the suburbs if he could get the land for \$25,000 without hassles. Mr. Lasorda doesn't want a land-cost write down, or any other kind of subsidy; just quick, clear, AND clean land acquisition, and permitting and inspection processes.

After I told Mr. Lasorda about the Massachusetts Housing Partnership, he said that MHP assisted housing would only go up in places like Boston and Fall River, possibly a little bit in a place like Quincy. Boston and Fall River would be the only municipalities in South Bay Corporation's operating area where land prices would permit MHP-assisted projects. All of the suburbs on the south shore and over in to Metrosouthwest territory would not see any MHP developments under current market conditions, he predicts, unless a developer did it for some strong public relations reasons. None of the suburban towns in South Bay's area of operations in Boston and south of it want this kind of housing, and many of them will do anything to stop it. Most of them can do so easily just through the carte blanche powers that their conservation commissions have.

Helping to make such a project happen with cross-subsidy among market-rate and moderated units in the same development would not work in any of the suburban communities either, he thinks. Since the towns don't want affordable housing anyway, developers won't get the chance to cross-subsidize. Even if a town and a developer wanted to do such a deal, there would be considerable difficulty in marketing it because the market-rate

unit buyers won't like subsidizing and sharing a development with subsidized units. Mr. Lasorda echoes Mr. Fox in saying that building lots anywhere in the southern and southwestern suburbs are around \$50,000, regardless of whether the lot is a third of an acre or a whole acre. Attached units in clusters at densities of 4-6 per acre are selling in the spring of 1986 for \$140,000 in Hingham, Cohasset, and Plymouth. Land costs at 5 units per acre runs \$25,000-\$30,000. Mr. Lasorda is firmly of the opinion that the MHFA and MHP mortgage interest subsidies will not be enough to overcome market-rate land costs in the suburbs. Only additional subsidies and the discovery of towns that actually want such housing could make any materialize.

#### **WHAT IF EASTERN MASSACHUSETTS HIGHER-INCOME RESIDENTIAL MARKETS BECOME SATURATED?**

My interviews with developers and consultants lead to the conclusion that under existing market conditions very few developers will develop MHP housing within the Route 495 arc without additional deep subsidies. They could profit from developing and building \$110,000 MHP/MHFA homes with \$15,000-\$20,000 land costs, but very few will, because more profit can be made building and selling more expensive condos on land with such costs. If the market for more upscale homes becomes saturated in the next two years, many more developers will be willing to do such reduced-profit MHP deals. Whenever the regional economy (employment) stops growing as fast as it has over the last decade, the market for more upscale housing will become smaller. Since the vast bulk of homeownership development resources are now being used to develop "unaffordable" homes, it

is critical to estimate when more upscale markets will become relatively saturated. Most residential development resources are local or regional in scope, and they will be staying around here, even if the more upscale market softens. Affordable homeownership developments that are not now appealing could become appealing quickly if such upscale saturation started to appear. To illustrate this point, let us look at some data regarding the work of several developers:

We have seen that South Bay could make a small profit from a strictly market development and sale of roughly 1,000 square foot units for \$61,000, with a \$1,600 land cost. The March, 1986 Multi-Housing News reports on J.L. Mason Group, Inc. is developing town houses for about the same price per square foot and the same land cost range in Missouri. The April, 1986 issue reports on Don Williams' \$65,000-\$73,000 town houses going up in Chessapeake, Virginia, within the same land cost range. These last two developments include either considerable recreational or internal unit amenities. John Hayden of Linpro Company's Metrowest, Ma. office is searching within and beyond Route 495 for opportunities to build \$55,000 to \$75,000 units with land costs at 10% of the price. Linpro has built a lot of these units in New Jersey in the last few years.

A rough averaging of these home products gives us something like a \$65,000 price, which covers among other things about \$4,000 in land costs and \$5,000 in street, sidewalk, and utility servicing. Such developments normally require densities of from 8-12 units per acre. Let us be generous to the developers here

and say a \$70,000 price with \$5,000 in land costs.

There is always a risk that a developer will have to carry the cost of land for an unforeseen extra period of months. As land costs rise, such risk becomes a larger part of total project risk. To compensate, a higher estimated profit must be planned into a development. By the time one gets to \$50,000 for a one-unit lot, few builders are going to consider building anything less than a house that will sell for \$150,000. In Massachusetts strong mid-1980's market, few builders would consider developing prices as low as \$150,000 on such house lots.

My interviews indicate that developers are building \$125,000 to \$150,000 attached townhouses with \$25,000-\$30,000 per unit land costs. If it is profitable to develop and sell new units for \$70,000 with \$5,000 land costs, it is profitable to develop and sell \$86,000 units with \$10,000 land costs, and \$110,000 units with \$20,000 land costs. (The ratio of land cost to home sales price is not constant. At the bottom of the market land cost is a small portion of the sales price. As one moves upscale, the land cost portion of price rises. Interviews indicated that land cost might represent 7% of a \$70,000-priced home and 30% of a \$150,000-\$160,000 home. Above that price range the ratio doesn't rise much.) Indications from members of the development community that were interviewed for this study are that they will not develop and sell \$110,000 units with land costs at more than \$10,000. They could profit from building and selling \$110,000 units with \$20,000 land costs, but in this strong market they won't develop such units unless land costs remain at or below \$10,000.

If there were not ample opportunities for more profitable development, developers could build MHP/MHFA \$110,000 units with \$20,000 land costs and still profit. If the more upscale housing market becomes relatively saturated within the next, say, two years, many more area developers will do just that, for want of more desirable alternatives. A few pages ago, I was saying that market conditions will probably get worse for the MHP before they get better, and that MHP had better figure out now how to respond to such an eventuality. Now I am saying that when the market for more upscale housing becomes relatively saturated, the MHP could easily find itself in a position where there is ample developer interest in the program. In that situation the issue will be the level of interest from the cities and towns. It remains to be seen to what extent the municipalities will be willing to provide some of the additional subsidies necessary for production of affordable homeownership. If the more upscale market were to become relatively saturated and developers wanted to participate, they would help pressure municipalities into more extensive participation.

Now that we have elucidated several serious problems that will by and large continue to confront the MHP for at least a few years more, let me provide some reflections on ways that the MHP can rise to meet the challenge of this temporarily hostile housing environment:

**SOME MHP RECOMMENDATIONS FROM THE AUTHOR:**

**MASSACHUSETTS AND MUNICIPALITIES SHOULD PROVIDE RESOURCES FOR TECHNICAL ASSISTANCE IN EXPEDITING APPROVALS AND PACKAGING DEALS WITH CITIES AND TOWNS**

Given the context in which the Partnership is starting up, additional technical assistance is needed to expedite approvals and to cement deals between developers and localities. Such assistance could be provided by additional MHP staff, by state resources made available to municipalities and developers for hiring consultants, or by a combination of both. Without such assistance MHP's Homeownership Opportunity Program will have a hard time getting up momentum in its first two years.

The Massachusetts Housing Partnership's Clark Zigler says that a number of towns say they are interested in the Homeownership Opportunity Program, but do not have the staff to put a deal together. Small developers face the same problem. Even though larger developers are prepared for larger overhead costs, it is the towns, not the developers which must initiate MHP proposals. Technical assistance for municipalities and developers is vital during 1986, the first year of the program, if the program is to reach its goal of undertaking HOP-assisted development of 2,500 units. At the very least, consulting assistance is necessary during 1986, while the above-mentioned application and requirement uncertainties are worked out of the program. Subsequently, technical assistance will still be required, at the very least for smaller communities with the least staff and experience at putting together public-private partnerships. If significant participation from small developers is a priority, then continuing approvals and packaging experience will be needed for them as well. After two or three years enough localities and small developers will be familiar with the program to allow such technical assistance to be largely withdrawn.

As described above, the economics of the 1986 housing market make the Homeownership Opportunity program most attractive for the lower-middle/working class suburbs. But it is precisely these communities that have the least staff and the least experience in putting together public-private partnerships. Designed Venture' Robert Branchaud thinks that these communities are reeling under the very recent flurry of land acquisition and development activity, and will be hard put to develop appropriate growth control policies. This picture makes it sound unlikely that they will also develop a capacity to put together public-private partnerships within the coming year. If MHP developments are to get going in these towns before land prices rise significantly higher, technical assistance will be imperative.

Through no shortcomings of MHP staff, they have no time to provide the detailed project-specific assistance required. The MHP is simply not adequately staffed to do this job. Whoever provides such detailed assistance, should such resources be made available, must have some experience with entrepreneurial real estate development dealmaking on the lower end of the homeownership market. Such consultants must be very effective, and very creative in assisting municipalities and developers in the structuring of public-private partnerships.

By public-private partnerships, I do not necessarily mean joint venture developments. The developer may remain sole development entity, but the locality must apply and set the parameters for development. According to the above analysis in this report, under current market conditions the locality will

probably be required to provide some additional subsidy, and the developer will probably have to provide some internal project cross-subsidy. Hence, regardless of the nature of the legal development entity, HOP projects will be public-private partnerships. Therefore, technical assistance mechanisms must be explored. One such mechanism is CEDAC:

**HAVE THE COMMUNITY ECONOMIC DEVELOPMENT ASSISTANCE CORPORATION PROVIDE TECHNICAL ASSISTANCE TO MUNICIPALITIES WITHOUT CDC'S**

CEDAC is a quasipublic nonprofit consulting corporation that provided technical assistance to community-based housing and business community development entities. The state should provide CEDAC resources for affordable homeownership technical assistance to municipalities, nonprofit community service agencies, and affordable housing citizens committees in communities where no community-based nonprofit housing development corporations (HDC's) exist. Assistance should be available regardless of the income levels of the communities, the clients of the agencies or the members of the affordable housing citizens committees, but relatively lower-income municipalities, agencies and committees should get priority. In this way the local individuals and organizations most interested in promoting MHP and other affordable homeownership opportunities will have direct access to affordable technical assistance.

Since the MHP will have a direct negotiating as well as financing position in MHP developments, direct provision of technical assistance from MHP would not have the desired objectivity that the towns require. CEDAC's slight organizational distance from MHP's parent, the Executive Office

of Communities and Development meets this requirement (CEDAC is funded by EDCD but is a separate organization). CEDAC's ability to supplement its own technical assistance with private technical assistance further enables it to meet the varying technical assistance needs of different kinds of communities.

Technical assistance should be provided by an agency such as CEDAC, because it is a part of the CDC support network of institutions that have developed over the past fifteen years. This will help familiarize this network with the affordable homeownership dilemma in the suburbs, and therefore contribute to the realization of the next recommendation:

**MASSACHUSETTS AND MUNICIPALITIES SHOULD PROVIDE RESOURCES TO ASSIST DEVELOPMENT IN THE SUBURBS OF NONPROFIT DEVELOPMENT ENTITIES THAT DEVELOP AFFORDABLE HOMEOWNERSHIP OPPORTUNITIES**

A variety of nonprofit institutions develop housing and businesses in the core cities of Massachusetts larger urban areas. Most of these organizations are community development corporations (CDC's), community-based institutions with some form of accountability to residents of the area in which it develops housing or businesses. This new kind of institution in the state multiplied starting about 15 years ago, and the state created other quasipublic nonprofit institutions to help finance the CDC's. As a result, CDC's have become the leading developers of housing in many urban areas.

Nonprofit housing development has arisen to develop affordable housing that was not being developed by the market, and in the process of so doing, help revitalize declining urban neighborhoods and commercial centers. The example of affordable homeownership development in Boston testifies to the important

role nonprofit development entities can play in affordable housing development. Boston CDC's have supplied a significant portion of the city's affordable housing production for a decade. In the inflated market of 1986 they probably supply the majority of newly built or rehabilitated affordable housing.

The Massachusetts Housing Partnership's Clark Zigler is unaware of the existence of any community development corporations (CDC's) in suburban areas of the state. There are CDC's in many urban and some rural areas, but no suburban areas. Zigler thinks that suburban CDC's are needed to help develop affordable housing in the suburbs. Zigler recalled discussions about MHP's Homeownership Opportunity Program in a number of communities where there was adequate interest, but where municipal governments did not have the development expertise to put Partnership deals together.

It is precisely during a very strong housing market like the present one that CDC's would be most helpful in the suburbs. When developers forsake affordable housing development because more profitable upscale housing development opportunities abound, the suburban CDC's would be there to fill the gap. Nonprofit organization means that there is no profit to be included in the price of a home, and the full energy of the CDC would be devoted to affordable housing development. Since nonprofit CDC's would be in business explicitly to develop affordable housing, they would do so to the extent of their capabilities regardless of the housing market.

There are a number of forms that affordable homeownership

development entities can take, only one of which is the CDC. In Massachusetts, Community Action Programs (CAP's)--largely social services agencies--develop affordable housing, some of the Boston deep subsidy developments studied in this report were developed by a vocational school and a social services agency.

As discussed at the end of Part V in this study, Lexington recently created Lexihab--the Lexington Housing Assistance Board, to help put affordable housing developments together and see them through to successful conclusions and operating lives. Lexihab is beginning by overseeing a recent conversion of a school to affordable homeownership units and a rental development with 50% moderate-income units. Lexihab will concern itself with middle and moderate-income units, and the Housing Authority will continue to be responsible for low-income units. The town is supporting the new Board with a requirement that all density bonuses to developers include provisions for some affordable units. Lexihab has the authority to develop on its own, but has not yet exercised a full development role.

Municipalities, or clusters of municipalities, like the 8 communities organized into the Metrowest Planning Committee, could establish nonprofit development entities, or spin such entities off from existing area nonprofits. Whether or not they play a full developer role, they can fill various parts of the development process, engage in development partnerships, produce development concepts, select sites, put deals together with the municipality, the state and developers, and develop local techniques for the use of local resources like municipal land and staff assistance.

A more serious, comprehensive approach would not only include such development entities as these, but would also provide for state assistance to suburban community development corporations. These CDC's are unique only in that they meet state requirements of accountability to residents in each CDC's development area, and therefore become eligible for some state grant and loan resources that other similar development entities are not eligible for.

The same network of state-supported institutions that supports the center city and rural CDC's would not automatically support suburban CDC's if they existed. Either the purpose and program guidelines of these institutions would have to be modified, or one or more new institutions would have to be created. Currently, CDC's are only eligible for assistance if they are developing housing and businesses in blighted and lower-income areas. This restriction would have to be dealt with by creating new lending or grant programs and allocating new resources specifically targeted for low and moderate-income housing development in the suburbs. This would be a modification to an already well-developed set of CDC-supporting institutions. Examples are the Community Development Finance Corporation, the Community Economic Development Assistance Corporation, and the Boston Housing Partnership.

Successful CDC's enjoy the cooperation and support of their municipal governments, including some degree of financial support for CDC development projects, and of local foundations. Resources available to CDC's from this support network include

state-authorized tax-free bond revenue, funds from the state budget, federal funds passed through the state or locality, local land-cost writedowns, and private charitable contributions.

There is no question that CDC's could fill the need for development entities ready and willing to pour their energies into the development of affordable homeownership opportunities. If existing institutions cannot be adapted to fill this suburban affordable homeownership development role, it would be worth the effort for the state to legislate the necessary changes in CDC-supporting institutions and program guidelines, and worth the appropriation of additional state resources to help get some suburban CDC's going. However, if it is possible to adapt existing institutions, this should be given a serious try first.

The municipalities can procede on their own to create affordable housing development entities, or entities that intend to fill only certain roles in the development process, without the creation of new support mechanisms for suburban CDC's. It would certainly be easier for localities to accomplish more with such additional state support. Either way the end results would depend largely on the cities and towns. Some of the ones that really want to develop affordable housing will establish and support nonprofit development entities, and municipalities that really don't want to develop affordable housing will certainly not establish them.

**INTERESTED MUNICIPALITIES, DEVELOPERS AND CITIZENS SHOULD BE INFORMED THAT DURING THE REMAINDER OF THIS HOT HOUSING MARKET PERIOD, EXTRA SUBSIDY OR DENSITY WILL BE NECESSARY FOR MHP PROJECTS**

In cases where additional subsidies and/or increased zoning

densities are needed to bring land costs into the MHP range of possibility, interested municipal officials, developers and citizens should be quickly helped to understand the real financial constraints. They should also be quickly shown sample subsidy approaches appropriate to their situation. Time should not be wasted exploring for months or for a year looking for the nonexistent project that will not require additional subsidies or increased allowable density. An interested community should be spared the luxury of fooling itself for an indeterminate period of time. Assistance should be provided to help a potential project, or an interested community to realistically determine from the beginning any extra, or less than desirable ingredients that must be added to one or more projects if the interested parties are really serious about participating in the program under current market conditions.

**MHP SHOULD SEARCH FOR A MECHANISM THAT WOULD ENABLE TOWNS TO DO AN EXPERIMENTAL PROJECT BEFORE MAKING SIGNIFICANT ZONING AND POLICY CHANGES**

Mr. Zigler feels that multifamily structures like row houses or town houses will be required in most HOP-assisted developments. Multifamily structure or single-family structure clustered developments of a higher than average density level for a town, can often be more effectively, efficiently and attractively built in clusters, with open space between the clusters. Towns can, and sometimes must, legislate cluster zoning, planned unit development districts, and other zoning innovations to make this kind of development possible.

Such zoning changes are big steps for many communities, and Mr. Zigler would like to see some mechanism created which would

enable localities to test the MHP programs without taking such significant steps. He thinks that special permits can provide such a vehicle for many communities. Philip Herr, growth policy planning consultant to municipalities, agrees that such a non-threatening experimental device would be nice, but doesn't know what that device might be. He thinks that special permits don't really fill the bill, because the creation of a special permitting process is itself a significant zoning change. Once it exists, the door is open to continuous requests for its use. It is true, however, that a community could use such a process as selectively as it chooses. If communities could safely experiment with an initial HOP development without fearing that they have opened the door for an endless stream of affordable homeownership attempts, many communities would be much more willing to try an initial project. MHP's Zigler says that, "We would be delighted to help communities with very small experimental projects of seven to ten units." It will be more difficult, however, to interest developers in projects this small. Most developers would want to realize the economies of scale that a 30-unit project would provide. But as long as a community felt that it wasn't opening itself up for a flood, a 30-unit development should be palatable. If some mechanism could be found to allow relatively hassle-free experimental HOP experiences, some of the towns that try them could move along fairly rapidly to larger-scale affordable homeownership development under a process of locally controlled growth.

**THE STATE SHOULD PROVIDE ADDITIONAL RESOURCES FOR EDUCATION ABOUT AFFORDABLE HOMEOWNERSHIP IN GENERAL AND ABOUT THE MASSACHUSETTS HOUSING PARTNERSHIP IN PARTICULAR**

Suburban local government is controlled by homeowners and businesses. They understand and respect homeownership and homeownership provides the way to bring suburban communities into the affordable housing network. Participation in suburban zoning conferences, growth policy planning workshops, and the interviews for this study have confronted me with the widely-held suburban perception of "affordable housing" as cramped, dense public housing projects. Minimal exposure to elderly public housing is all the affordable housing experience that many suburban municipalities have. The lack of experience with affordable homeownership programs as we are discussing them in this study, requires an extensive process of education to develop the constituency and skills required for effective suburban affordable homeownership programs.

While the Community Economic Development Assistance Corporation (CEDAC) is available for affordable homeownership assistance, additional MHP staff should be educating suburban municipalities, nonprofit community service agencies, and citizens associations and business associations about the MHP, CEDAC technical assistance, and the need to establish nonprofit affordable housing development entities. If the above recommendation to provide resources for the creation of suburban development entities were realized, then some state organization could also be provided with resources to provide seed money for staff to develop the local housing development nonprofits. Hopefully, some additional resources that EOCD is requesting from

the legislature will be approved and find their way to increased MHP staff that will educate municipalities, nonprofit agencies, citizens' groups and business groups about the MHP and--much more importantly--about how nice affordable homeownership can be when appropriately integrated into the landscape and fabric of a suburban community.

The stereotypical image of "affordable housing" as unattractive, extremely dense, uniform, and large public housing projects will not be broken through until substantial education and promotion regarding specific examples of the best affordable homeownership opportunities created in Massachusetts and elsewhere in the nation. Regional examples should be presented in slide shows and videotapes, and interested parties should be assisted in organizing on-site visits to existing examples of affordable homeownership that are appropriate for the visitors' communities. Examples need not be restricted to subsidized developments, but should include examples of strictly market developments that have development budgets appropriate for the MHP's Homeownership Opportunity Program. This new educational and promotional effort should receive top priority at EOCD.

EOCD should provide a temporary assist to businesses most adversely effected by high housing prices, to the end that the relevant data becomes public knowledge and these businesses speak with a common voice. One avenue of success would be to enlist one or more business associations to undertake such a study with some research and writing assistance from the state. In the process, unknowing businesses could be educated to the loss of

competitive position suffered by the high-tech industries of Silicon Valley in California due to the high costs of housing--a phenomena which the region within the Route 495 arc is bound to experience to some extent within the next decade.

The presentation of affordable homeownership and the MHP in the suburbs must be highly professional and of a quality that will cost money to produce. When suburbanites see the examples of affordable homeownership they can see homes that people who already live in their communities need badly and would be glad to have. Citizens' committees for affordable homeownership should be shown examples of housing that committee members in need of such housing would be delighted to live in.

**EOCD SHOULD DEVISE A STRATEGY TO SEE TO THE PROVISION OF THE NECESSARY ADDITIONAL SUBSIDIES REQUIRED TO PRODUCE MHP HOMEOWNERSHIP DEVELOPMENTS IN THE VARIOUS INCOME LEVEL SUBURBS DURING THE DURATION OF THE HOT HOUSING MARKET**

The MHP's Homeownership Opportunity Program fits right into the Boston affordable homeownership creation context. If the City can create hundreds of \$60,000 homeownership opportunities without HOP, it can certainly create more with HOP assistance. To some extent, the same is likely to be true of a handful of the larger urban centers in the state. If HOP's intended purpose of largely serving suburban communities is to be realized for the next few years at least, significant additional subsidies will have to be provided in higher-income and middle-income suburbs within the Route 495 arc. Less significant additional subsidies will have to be provided in most lower-middle/working class suburbs near 495 and a bit beyond. Regardless of where these subsidies come from, EOCD should develop a strategy to generate

them, or the HOP suburban objective will largely be postponed in Eastern Massachusetts until the early 1990's.

#### THE STATE SHOULD CONTINUE TO EVALUATE WAYS TO COMPELL AFFORDABLE HOUSING COOPERATION IN UNWILLING COMMUNITIES

For many years Ma. Chapter 774 successfully twisted the arm of communities that were reluctant to allow multifamily housing. Now many communities are bolder in their resistance, and take the 774 fight to court. By the time the community loses the fight, the developer in question has given up and moved on to other pastures.

For the past few years Ma. Executive Order 215 has enabled the state to withhold state program funds from municipalities that refuse to allow affordable housing. Three EOCD staff involved with 215 policy and use say that EOCD has adopted a positive strategy from the negative threat of Order 215 withholding. EOCD treats the Order as a part of the furniture that must be arranged in EOCD's relationship with the community. EOCD only requires a sincere effort on the part of a municipality to move forward. EOCD wisely prefers step by step cooperation with municipalities to confrontation over affordable housing. While EOCD may perceive its use of 215 in the above light, Philip Herr thinks that the state uses this punitive threat too much in comparison to the amount of state affordable housing resources and technical assistance provided.

On the other hand, the sentiment from all developers and consultants interviewed was that all but a few suburban communities within the Route 495 arc will not willingly and openly cooperate with the creation of affordable housing (as

defined by the MHP), with the exception of Mr. Herr. Herr maintains that while efforts to preserve the environment and town character usually make it more difficult to develop affordable housing, a number of communities would like to develop such housing if they could find a way to do so without unduly sacrificing these other objectives. All interviewees felt that municipalities needed to be nudged or pressured in some way by the state or federal government. All agreed that some such pressuring was acceptable, with the exception of Mr. Lasorda.

EOCD has been clear in the past few years that its orientation is encouragement and cooperation, not confrontation. EOCD is glad to have Chapter 774 and Executive Order 215 standing in the background and will use 215 on occasions where progress seems impossible otherwise. Brett Doney, the above interviewed housing consultant to small developers, agrees with this approach. His experience with clients is that if the localities get their backs up from the state telling them what to do, they can delay a project long enough to kill it. Philip Herr also agrees with EOCD's emphasis on cooperation and encouragement. In fact, he feels that EOCD does not go far enough in that direction, and that use of 215 should be less frequent. He feels this way not only for the same reasons as Mr. Doney, but also because localities do have a right to shape their own environments to a considerable extent, and it behooves the state to respect this right.

In short, the above viewpoints support the existence of some state means to pressure localities on affordable housing, but support only very limited reliance on such measures. If reliance

on such measures is clearly a necessary ingredient of moving forward, it behooves the state to continue to evaluate the issue of state coercive measures.

#### STATE EXECUTIVE AND LEGISLATIVE ENTITIES SHOULD PURSUE ADDITIONAL LEGISLATION MANDATING LOCAL ACTION TO FURTHER AFFORDABLE HOUSING OPPORTUNITY AND SUPPORTING LOCAL INCLUSIONARY HOUSING PROGRAMS

An inclusionary housing program creates affordable housing in a community through a variety of means, but relies largely on a local inclusionary zoning ordinance. Such an ordinance requires prospective developers to provide, or gives incentives for them to provide, affordable housing as a part of, or in conjunction with, their proposed developments. Alan Mallach has provided an excellent resource in his Inclusionary Housing Programs. Mallach says that through 1983 nearly all of the inclusionary programs which have achieved significant levels of housing production are in California. He attributes this to the severity of the affordability crisis there, the enactment of state laws mandating local action to further affordable housing opportunity and inclusionary programs, and the commitment of state government staff.

During the past decade legislation was enacted requiring municipalities and counties to adopt five-year plans to meet low- and moderate-income housing needs, plan to meet regional "fair share" goals of low- and moderate-income housing as set forth by regional councils of government, zone land for housing that could be built at the "least possible cost," provide density bonuses and other incentives to developers providing 25% or more of the units in a development as low- or moderate-income housing (Mallach, p. 199).

Newton, Massachusetts is a higher-income suburban community within the Route 495 arc that has adopted an inclusionary zoning ordinance. Newton has used a wide variety of techniques to

produce a small number of units, including developer choice of whether affordable units will be provided on or off a development site, developer payments to the town in lieu of housing units, and leasing units to the city for use as subsidized elderly housing.

The Massachusetts Housing Finance Agency (MHFA) operates one of the most extensive inclusionary housing programs in the nation. Unique among state housing finance agencies, it requires that 25% of the units in an MHFA tax-exempt bond financed rental development must be rented to low-income households. (MHFA does not finance homeownership development, but rather homebuyers).

Appropriate state executive and legislative entities should pursue the adoption of additional legislation mandating local action to further affordable housing opportunity and supporting the adoption of local inclusionary programs.

## APPENDIX I

### WHAT IS AFFORDABLE HOUSING?

The information in this section reflects the status of program guidelines/eligibility requirements, bank lending requirements, and prevailing mortgage interest rates as of October, 1985. By April of 1986, interest rates had fallen from around 12% to around 10%, making homeownership much more affordable. Federal National Mortgage Administration lending guidelines had eased very slightly. At any time program guidelines and eligibility requirements might change to adjust for inflation.

There is no clear answer to the question. By "affordable housing" I mean housing which low and moderate income people can afford to buy or rent. While the following analysis includes multifamily housing, it only does so in terms of ownership of multifamily housing. Hence, I am essentially restricting this analysis to affordable homeownership opportunities. By "moderate income" I do not restrict myself to the definitions usually used by governmental entities in the housing field. In Massachusetts the Massachusetts Housing Finance Agency (MHFA) operates a program which provides below-market rate financing to low and moderate income families for homeownership purchase. The upper limits of home price and gross income for program qualification in the Metro West area follow:

#### Household Income Limits

Family Size	Household Income Lower-Income Borrowers	Household Income Other High Priority Borrowers
1	\$22,300	\$31,000
2	\$26,500	\$37,000
3	\$29,500	\$40,000
4	\$32,500	\$43,000

\$3,000 can be added for each additional dependent.

Type of Home	Acquisition Cost Limits	Acquisition Cost Limit
One-family, new construction, including condos		\$124,000
One-family existing, including condos		\$ 94,000
Two-family existing		\$130,000
Three-family existing		\$148,000
Four-family existing		\$174,000

The following page states the federal government's gross income and household size limits for fuel assistance, home improvement Section 8, and weatherization programs.

The Section 8 income limits are for moderate income Section 8 programs. Low income Section 8 programs have income limits that are half the limits appearing in the table. The city of Cambridge has adopted the moderate income Section 8 figures appearing in the table for a program which gives grants to cut the cost of home purchase. The Section 8 formula is 80% of median family income for the given standard statistical metropolitan area (SMSA). Metro West has been thrown into the Boston SMSA. Median family incomes for the area are:

Household Size	1	2	3	4	5	6	7
Income	22,625	25,875	29,063	32,313	34,313	36,375	38,375

What is affordable housing? Is it affordable by a family of four with a (Section 8) gross income of \$25,850, or with an (MHFA) income of \$43,000, or with a (Boston SMSA median) income of \$32,313? There is clearly no single right answer for this question. We will test some answers in the following pages.

In October of 1985 the Federal National Mortgage Association (FNMA) guidelines changed, making it even more difficult to purchase affordable housing. Before the change homes could be purchased with 5% down. Now the minimum downpayment is 10%, and other more stringent qualifications require some buyers to put more than 10% down.

INCOME ELIGIBILITY GUIDELINES

FY-11 7/1/85 - 6/1/86

PROGRAM	CASH	HOME IMPROVEMENT	WEATHERIZATION
Income Guidelines:	Fuel Ass't	HIP and Section 8	DOE
household size:			
1	8,190	18,100	6,075
2	10,885	20,700	8,175
3	11,640	23,250	10,275
4	13,950	25,850	12,375
5	16,260	27,450	14,475
6	18,570	29,100	16,575
7	20,880	30,700	18,675
8	23,190	32,300	20,775
each additional person:	2,310		2,940

The key features of the new guidelines are:

For buyers required to put 10% down:

Mortgage payments, home insurance and property taxes cannot exceed 25% of gross income (before taxes) per year.

Total indebtedness (including the above housing expenses) cannot exceed 33% of gross income per year.

For buyers able to put 20% down:

Mortgage payments, insurance and property taxes cannot exceed 28% of gross income per year. Total debt payments cannot exceed 36% of gross income per year.

We are concerned with moderate incomes and will assume that buyers can purchase with no more than 10% down. Now, let us see what our benchmark families of four can afford in terms of conventional purchases:

#### HOUSING AFFORDABLE BY BENCHMARK FAMILIES OF FOUR

		10%	12.0%	30				
				Year				
Income	Home	Down	Mtg	Ann Mtg	Ins. &	Other	Ann Tot	
Sec. 8	Price	Payment		Payment	Prp.Tax	DebtPmt	DebtPmt	
Limit					*	*		
25,850	48,000	4,800	43,200	5,363	800	2,400	8,563	
SMSA Median								
32,313	60,000	6,000	54,000	6,704	970	3,000	10,674	
MHFA Limit								
43,000	85,000	8,500	76,500	9,497	1,200	3,500	14,197	

\*The Insurance & Property Tax figures and the Other Debt Payment figures are the author's estimates. Insurance and Taxes would vary from town to town by minor amounts. Other Debt allows for payments on one car and a tiny amount of other debt.

Within the six months from October 1985 and April 1986 the interpretation of FNMA guidelines has eased somewhat, market-rate mortgage interest has dropped to around 10%, and anticipated MHFA mortgage interest sometime in 1986 will be around 8%. Also sometime in 1986 MHFA maximum home price limits will be increased. The new construction limit for a family of four will go from \$94,000 to \$110,000, and the other limits may be adjusted as well.

APPENDIX II

WHERE WILL 3,400 UNITS OF BOSTON HOUSING COME FROM IN 1986?

The following is a quick and rough attempt to conceptualize what the City of Boston is thinking about when speaking of the goal of seeing 3,400 units of housing created in 1986.

Ma. Housing Partnership Abandonment Program		
Boston's March, 1986 application to the Ma. Housing Partnership's Abandonment Initiative Program included the following developments. The intention is that an average of 45% of these units will be affordable homeownership units selling for between \$60,000 and \$90,000/unit, or an average of 40% below the state median home price.		
Bowditch School, Jamaica Plain	Rehab	27
Bradford Estates, Franklin Field	New	25
35-36 West Newton Street, South End	Rehab	30
Audubon-Baker-Lodge Schools, Mattapan	Rehab	45
Bullfinch School, Mission Hill	Rehab	15
Kilmarnock Street, Fenway	New	50
483-487 Blue Hill Avenue, Grove Hall	Rehab	8
Infill Buildings, Roxbury & No. Dorchester	Rehab	84
Douglas Plaza, South End	New	120
Winslow Court II, Dudley Square	New	60
Highland-Kittredge Square, Roxbury	Rehab	24
Fountain Hill Square, Roxbury	New	116
		----
Total Abandonment Initiative Request		604
Number Affordable	272	
Garrison-Trotter Phase II		
The 18 units going up now will be followed by Phase II's 72 units, which will start this summer and be completed next summer. I am attributing half of them to 1986. They will be added to the above MHP projects and/or receive a land-cost writedown and some infrastructure subsidy.		
Number Affordable	36	36
New Construction Initiative Round II		
Urban Edge		16
Nuestra Comunidad CDC		10
Back of the Hill CDC		18
		----
Total NCI II		44
Number Affordable	44	
Homesteading	(My estimate)	30
Number Affordable	30	

South End Vacant City-Owned Lots		
The BRA has owned this land since Urban Renewal in the early 1960's. Much had property on it when acquired about 23 years ago. This land consists of 80 scattered parcels the BR will sell primarily for housing development. 15 parcels of 10,000 sf or more will be sites for large developments, and 65 sites for 1-8 units each. 1,000 units may result, half of which would be for low and moderate-income people. Perhaps some of this will begin in 1986. I am arbitrarily listing a few of them.		
Number Affordable	25	50
Public Housing Vacancy Rehabs (My estimate)		
Number Affordable	150	150
Bricklayers & Laborers/Back of the Hill		
The City is negotiating for the Bricklayers & Laborers Nonprofit Housing Company to purchase Lahey Clinic's 11-acre Mission Hill Jamaica Plain site. The Unions' company would jointly develop 175 affordable homeowner-ship units in conjunction with the Back of the Hill CDC. Perhaps some of these units would be begun this year.		
Number Affordable	25	25
BRA Infill		
The BRA will turn 17 unfinished apartment buildings over to 4 CDC's in Roxbury and North Dorchester for redevelopment into 84 3,4, and 5 bedroom condos and coops that will sell for around \$70,000 apiece. The buildings have been abandoned shells for 16 years. Nuestra Comunidad DC, Roxbury Multi-Service Center, Roxbury-North Dorchester Neighborhood Revitalization Corp, and the Codman Square HDC will develop. Occupancy will occur in 1987. I am crediting about a third to 1986.		
Number Affordable	28	28
Tent City		
A large mixed-use, affordable housing focused Copley Square area development, getting under way in 1986. I am crediting a small share to 1986.		
Number Affordable	30	30
Columbia Point		
A large mixed-use, housing focused recycling of an old public housing project. It will include roughly 1,400 housing units, about 400 of which will be low and moderate income. I am throwing some in for 1986.		
Number Affordable	70	210
SUBTOTALS		
General Affordable	710	1,251

If Boston were to reach its 3,400 goal, and if 25% of those units were affordable, the affordable number would be 850. If something like the above list were to occur, and if 140 additional affordable units could come from somewhere, the 850 affordable goal would be met.

If the City could reach its 3,400 goal and make 25% of those units affordable, that would leave 2,550 market-rate units. The 497 listed above would be produced in mixed developments with affordable units. With 850 affordable units and these 497 market-rate units, we are left with a shortfall of 2,053 units of market rate rental or homeownership housing. If strictly market development can fill this volume requirement, the overall goal could be met.

The 710 affordable units listed above include 320 homeownership units and 390 rental opportunities.

APPENDIX III

BOSTON CITY HOUSING PROGRAMS  
 GARRISON-TROTTER PROJECT  
 CONKLING DEVELOPMENT CORP.

Most recent data: Feb. 1986  
 DEVELOPER

Conkling Development Corp (Atty Thomas Simmons)/Boston City  
 Simmons enticed by community to do this. His first Development.  
 Believed to be intentionally taking extremely little profit.

ITEM

Part of Washington Park Urban Renewal Area, bulldozed in late  
 1950's and early 1960's, vacant and forgotten for 25 years.

MANUFACTURED MODULES, Multifamily, Condo, 1 family.

Penn Lyon Homes, Inc., Selinsgrove, Pa. According to Larry  
 Brophy, BRA, manuf is 15% cheaper delivered than NH manufs.  
 Shpng=\$1,000/u. P Lyon wrkrs get \$6.50/hr acc to pres, Lyons.

FINANCED by MHFA 9.5%

RESALE RESTRICTIONS

BRA's Larry Brophy explained that in shallow subsidy projects  
 like this one, the City feels it cannot require resale  
 provisions to maintain future affordability. However, Phase II  
 will be added to the March, 1986 Ma. Housing Partnership appli-  
 cation, and/or there will be some infrastructure subsidy. This  
 will enable 1/4 + of Phase II units to have resale provisions.

INEXPERIENCED DEVELOPER is managing construction himself.

FEATURES

Each structure is the same, 3 units, each 2 beds.

4 modules brought on 4 trucks becomes 1 3-unit structure.

Mid-units \$72,000, end-units \$74,000, average 73,333

PHASE II will include all 72 of the remaining units. It should  
 begin in June, 1986 and be completed in June, 1987.

Estimated average Phase II sales price is \$80,000.

LAND 144,000 sf UNITS PHASE I&II 90

DENSITY 26.5 units/acre

SOURCES AND USES OF FUNDS (Phase I, const complete June 86.)

DATE 6-28-85

UNITS 18

SQ FT 940 finished 400 unfnshed 1,340 total

PRICE/SF \$78 \$55

SOURCES PROJECT PER UNIT

SALES 1319400 \$73,300

CDBG SUBSIDY 23,400 1,300

OTHER SUBSIDY 0 0

CITY IN KIND 7,200 400

LAND SUBSIDY 12,600 700

TOTAL 1362600 \$75,700

USES, EXCEPT NON-DEVELOPER EXPENSES, DEVELOPER SURPLUS/DEFICIT

ACQUISITION \$5,000 \$278

SITE COSTS 339,988 \$18,888

MANUF STRUCTURES 540,000 \$30,000

HD & SOFT CONST 390,600 \$21,700

SPONSOR 36,000 \$2,000

TOTAL 1311588 \$72,866

SURPLUS/DEFICIT \$7,812 \$434

GARRISON-TROTTER DEVELOPMENT BUDGET		
DATE	PROJECT	PER UNIT
6-28-85		
LAND	5,000	278
SITE COST	362,988	20,166
STRUCTURE	540,000	30,000
RELATED	243,000	13,500
ARCHITECT	18,000	1,000
MKTNG	36,000	2,000
INTEREST	34,200	1,900
INSURANCE	14,400	800
LEGAL	45,000	2,500
SPONSOR	36,000	2,000
TOTAL	1298592	72,144
SALEPRICE	1319400	73,300

From Pro Forma

DATE	PROJECT	PER UNIT
6-28-85		
TDC	72,866	
AVG PRICE	73,300	
AVG SF FINISHED	940	
AVG SF TOTAL	1,340	
AVG P/SF FINISHED	78	
AVG P/SF TOTAL	55	
AVG COST/SF FNSHED	78	
AVG COST/SF TOTAL	54	
AVG \$ SUBSIDY/UNIT	2,400	
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE		
TDC	72,588	
AVG PRICE	73,022	
AVG P/SF FINISHED	78	
AVG P/SF TOTAL	54	
AVG COST/SF FNSHED	77	
AVG COST/SF TOTAL	54	
LAND SUBSIDY	YES	
LOT AREA/UNIT	278	
OWNERSHIP FORM	CONDO	
FUTURE AFFORD	?	
DENSITY	27	

BOSTON CITY SUBSIDIZED DEVELOPMENT  
 BRICKLAYERS & LABORERS HOUSING, INC.  
 ANDREW SQ., SO. BOSTON  
 Most recent data: March, 1986

DEVELOPER

Bricklayers & Laborers Housing, Inc. Formed in 1985 to provide construction jobs, especially bricklaying, and to produce affordable housing. Led by the Eastern Ma. Bricklayers' Pres. Thomas McIntyre. McIntyre had been looking for a project in several parts of Boston for three years, backed by the resource of the union pension fund. The first deal to come together was the So. Boston one. There are plans to proceed on one or two more next year.

Proposed in response to Dept. of Public Facilities offering in May, 1985, closing at the end of August, Construction began in September. Units will be occupied by May, 1986.

STICKBUILT 16 2-bed, 2 1-bed, fee simple brick 1,100+ sf rowhouses.

ITEM

The predecessor organization is a foundation established by the Ma. building trades which invests in real estate development projects that might otherwise not be built, and that guarantee all union jobs. An example is the Lowell Hilton. Unions made equity investments as they were able from their pension funds and came up with \$5 million which saved the project. They also got the deed that the developer not only use all-union labor, but that it not oppose union organizing by hotel workers. The two unions put up \$120,000 and may have to leave \$90,000 behind to write the sale prices down to \$69,900. The only city subsidy is free land, written down from an appraised value of \$47,550.

SOURCES AND USES OF FUNDS

DATE

UNITS

	16 2 Bed	1,100	Finished	300	Unfnished	1,400
	2 1 Bed	940	Finished	250	Unfnished	1,190
SOURCES	PROJECT	PER UNIT	1,082	Avg sf	finished	
SALES	1258200	69,900				
CDBG SUBSIDY	0	0	1,377	Avg sf		
UNION SUBSIDY	120,000	6,667		total		
CITY IN KIND	4,500	250		18	Units	
LAND SUBSIDY	47,550	2,642	23,775	sf	Parcel	
TOTAL	1430250	79,458				

USES, EXCLUDING NON-DEVELOPER EXPENSES, AND DEVELOPER SURPLUS

ACQUISITION	0	0
SITE COSTS	198,500	11,028
MANUF STRUCTURES	0	0
HD & SOFT CONST	1179700	65,539
DEVEL FEE	0	0
TOTAL	1378200	76,567
SURPLUS/DEFICIT (120,000)		(6,667)

BRICKLAYERS & LABORERS ANDREW SQ PROJECT

DATE	PROJECT	PER UNIT	18
LAND	0	0	
SITE COST	117,000	6,500	Units
FOUNDATION	81,500	4,528	
MASONRY	106,505	5,917	
GENERAL CONST	545,425	30,301	
EQUIPMENT	22,270	1,237	
MECHANICAL	46,750	2,597	
ELECTRICAL	98,600	5,478	
GENERAL CONDITIONS	175,083	9,727	
CONT OVHD & PROFIT	45,917	2,551	
INTEREST	57,000	3,167	
ARCH/ENGINEERING	56,400	3,133	
LEGAL	10,000	556	
INSURANCE	8,750	486	Including \$1,250
BUILDING PERMITS	7,000	389	Title Ins.
TOTAL	1378200	76,567	
TOTAL DEVEL COST INCL SUBS		79,458	
AVG PRICE		69,900	
AVG SF FINISHED		1,082	
AVG SF TOTAL		1,377	
AVG P/SF FINISHED		65	
AVG P/SF TOTAL		51	
AVG COST/SF FNSHED		73	
AVG COST/SF TOTAL		58	
AVG \$ SUBSIDY/UNIT		9,558	
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE			
TDC		74,817	
AVG PRICE		69,900	
AVG P/SF FINISHED		65	
AVG P/SF TOTAL		51	
AVG COST/SF FNSHED		69	
AVG COST/SF TOTAL		54	
LAND SUBSIDY		YES	
LOT AREA/UNIT		1,321	
OWNERSHIP FORM		CONDO	
FUTURE AFFRDABLT		?	
DENSITY		32.1	

BOSTON NEW CONSTRUCTION INITIATIVE  
 URBAN EDGE ROUND I  
 Most recent data: Dec. 1985

DEVELOPER

Urban Edge/City of Boston--New Construction Initiative, Round I  
 Construct began

MANUFACTURED MODULES, multifamily, Condo. Manufactured by  
 Epoch Corp, 1370 Hooksett Rd, PO Box 454, Hooksett, NH 03106

FINANCE MHFA 15%

RESALE Limited resale profit for 5 years.

ITEM

Urban Edge had to deal with some community opposition, which  
 is opposed to any additional development in the area. Urban  
 Edge also had a competitor for one of the scattered sites.  
 The combination slowed up the development.

The only New Const Init developer which managed const in-house.  
 Urban Edge had rehab construction capability but had never done  
 construction in-house. This led to delays and extra costs.  
 Construction began late fall 1984 simultaneously with Codman  
 Square HDC 21 units. Urban Edge development is not complete as  
 of Spring, 1986. Codman devel is done and occupied, partly  
 because it had experienced new construction management.

FEATURES

Each structure is the same, 4 units, 1 each of 1,2,3 & 4 beds.

Electric heat & hot water.

3 1/2" wall & 12" attick insulation, triple-glazed windows.

Electric range.

1 1/2 baths in 3&4 bed units.

SOURCES AND USES OF FUNDS

Redefined Round I including 4 Forest Hills, 4 Glen Road,  
 4 Granada Park, 4 Boylston, for 16 unit total.

UNITS 16

The 1, 2, 3, and 4-bedroom units are respectively:

543 682 1192 1379 sf = avg 949

There is one of each size in each 4-unit structure

SOURCES	PROJECT	PER UNIT	16 Units
SALES	782,000	48,875	
CDBG SUBSIDY	232,031	14,502	
OTHER SUBSIDY	33,006	2,063	
CITY IN KIND	6,000	375	
LAND SUBSIDY	8,000	500	
TOTAL	1061037	66,315	

USES, EXCEPT NON-DEVELOPER EXPENSES, DEVELOPER SURPLUS/DEFICIT

ACQUISITION	8,000	500
SITE COSTS	308,059	19,254
MANUF STRUCTURES	514,476	32,155
HD & SOFT CONST	124,515	7,782
SPONSOR	102,762	6,423
TOTAL	1057812	66,113
SURPLUS/DEFICIT	3,225	202

URBAN EDGE DEVELOPMENT BUDGET

	12-21-85 PROJECT	PER UNIT	16 Units
LAND	8,000	500	
SITE COST	308,059	19,254	
STRUCTURE	514,476	32,155	
RELATED	124,515	7,782	
SPONSOR	102,762	6,423	
TOTAL	1057812	66,113	
SALEPRICE	782,000	48,875	

From Pro Formas

DATE 12-21-85	
TOTAL DEVEL COST	66,315
AVG PRICE	48,875
AVG SF FINISHED	949
AVG SF TOTAL	1,000
AVG P/SF FINISHED	52
AVG P/SF TOTAL	49
AVG COST/SF FNSHED	70
AVG COST/SF TOTAL	66
AVG \$ SUBSIDY/UNIT	17,440
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE	
TDC	65,613
AVG PRICE	48,375
AVG P/SF FINISHED	51
AVG P/SF TOTAL	48
AVG COST/SF FNSHED	69
AVG COST/SF TOTAL	66
LAND SUBSIDY	333
LOT AREA/UNIT	?
OWNERSHIP FORM	CONDO
FUTURE AFFRDABLITYWEAK 5 YR	
DENSITY	?

BOSTON CITY SUBSIDIZED DEVELOPMENT  
 CODMAN SQUARE HOUSING DEVELOPMENT CORP  
 NEW CONST INITIATIVE I  
 Most recent data: Feb. 1986

DEVELOPER

Codman Sq. Housing Development Corp. Small 3 or 4 person staff just a few years old. This is their first new construction. Other than Urban Edge, they were the only NCI I participants. Both Codman and Urb Edge began const late fall 84. Codman up and occupied Spring 86, Urb Edge still not complete.

MANUFACTURED MODULES

Single family fee simple ownership townhouses with small yards that will probably remain treated as common open space, 2-bed. New England Homes, Portsmouth, NH. Initial delivery 3 months late, after on schedule. Manuf stacked modules. Quality ok.

IN-KIND SUBSIDIES

In kind subsidies from Green Co.(\$75,000) & Pub Facil(\$16,000).

FINANCE MHFA, \_\_\_%

RESALE RESTRICTIONS

Weak 5 year restrictions. Codman & Public Facil. had no experience with this, and didn't want to risk sales on first NCI projects. PF intends firmer restrictions Round II.

PROCESS: Fed. Community Development Block Grant (CDBG) subsidy requires 1) that developers be non-profit, and none had new construction experience; 2) that work must be completed before reimbursement, requiring raising of front end resources; 3) a 3-month contract approval process including the legislature's financialg the tsion and 6 city departments; and 4) a 3-month environmental notification process. Since Boston hasn't seen fairly dense single family development for a generation, extra time was required reorienting the building department.

ITEM

A costly 160 ft. class A public road with accompanying water and sewer lines had to be built, adding around \$5,000/unit.

SOURCES AND USES OF FUNDS

DATE 11-18-85

UNITS	21 2 Bed			
SQ FT	864	Finished	400 Unfnished	1,264 Total
SOURCES	PROJECT		PER UNIT	
SALES	922,700		43,938	
CDBG SUBSIDY	329,000		15,667	Mostly road & util
MAP GRANT	25,000		1,190	
FEES + IN KIND	18,000		857	Incl waived fees
LAND SUBSIDY	5,000		238	of \$16,000
TOTAL	1299700		61,890	

USES, EXCEPT NON-DEVELOPER EXPENSES, DEVELOPER SURPLUS

ACQUISITION	10,000	476	
SITE COSTS	397,847	18,945	Including Foundtn
MANUF STRUCTURES	561,000	26,714	\$2,782
HD & SOFT CONST	284,352	13,541	Incl Button Up
DEVEL FEE	23,500	1,119	\$7,123
TOTAL	1276700	60,795	
SURPLUS/DEFICIT	0	0	

CODMAN SQUARE NEW CONSTRUCTION INITIATIVE I BUDGET				
DATE	12-3-85	PROJECT	PER UNIT	21 Units
LAND		10,000	476	
SITE COST		314,723	14,987	
FOUNDATION		58,424	2,782	
STRUCTURE		561,000	26,714	
BUTTON UP&EXT PNT		149,587	7,123	
LANDSCAPING		25,500	1,214	
INTEREST		50,466	2,403	
BANK FEE		10,000	476	
LEGAL		34,300	1,633	
INSURANCE		5,500	262	
SECURITY		15,600	743	
CODMAN SQ HDC FEE		23,500	1,119	
MKTNG		2,100	100	
TOTAL		1260700	60,033	
SALEPRICE		922,700	43,938	

TOTAL DEVEL COST	61,890
AVG PRICE	43,938
AVG SF FINISHED	864
AVG SF TOTAL	1,264
AVG P/SF FINISHED	51
AVG P/SF TOTAL	35
AVG COST/SF FNSHED	72
AVG COST/SF TOTAL	49
AVG \$ SUBSIDY/UNIT	17,952
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE	
TDC	50,700
AVG PRICE	43,462
AVG P/SF FINISHED	50
AVG P/SF TOTAL	34
AVG COST/SF FNSHED	59
AVG COST/SF TOTAL	40
LAND SUBSIDY	YES
LOT AREA/UNIT	?
OWNERSHIP FORM	FEE SIMPL
FUTURE AFFRDABLT	WEAK 5 YR
DENSITY	?

#### COMMUNITY SUPPORT

The Codman Square New Construction Initiative Project had unanimous community support and no competing developer for the single site.

#### LAND SUBSIDY

The Department of Public Facilities estimates the market value of the land at \$15,000 and conveyed it for \$10,000 thus providing a land subsidy of \$5,000, or \$238/unit.

#### IN-KIND CITY SUBSIDY

The PFD retained title for the property until after the subdivision application and building permits were approved. That is to say, PFD applied for these items. This saved Codman Sq. HDC the \$10,000 fee required for the subdivision under the Traeger Bill, and \$5,000 for the building permit. In addition, a \$1,000 water & sewer inspection fee was waived. This totalled \$16,000 worth of in-kind subsidies.

In addition, an unmeasured in-kind subsidy in City staff time was provided by the PFD bringing the development team around beforehand to meet with all of the city regulatory bodies and the Zoning Board's staff at the Boston Redevelopment Authority. This saved considerable front-end design & development costs.

#### CONSTRUCTION MANAGEMENT SUBSIDY

Alan Green, president of the luxury condominium developer Green Co., is a Codman Sq HDC Board member, and his firm did construction management, which included the full general contracting role. Normally the firm would have charged \$150,000 for this work, but only charged \$75,000. The PFD also had a PFD Project Manager on the job. There was some minor difficulty of role confusion between this Project Manager and Green Company's Construction Manager. There was some in-kind design work, and some in-kind legal work provided by Hale & Dorr's Katherine Bachman.

#### MARKETING PROBLEM

In CDBG aided projects, 1/2 of the units must be sold to buyers whose incomes are below 80% of the SMSA medium income for the respective family size. Public Facilities chose to sell more than half of the units to families who met this income guideline. While half of the units could have been sold at market rates, PFD chose to sell the remaining units to families with incomes below 115% of the median. While the Ma. Housing Finance Agency only requires 5% down, it is difficult for families making 80% of median income to come up with these down payments. Since PFD chose to limit the vast majority of buyers to this situation, there was some difficulty in finding enough buyers. PFD is planning to design Round II New Construction Initiative projects with a wider marketing window, requiring, among other things, a variety of house product, such as the 1-4 bedroom range being provided in the Urban Edge NCI I.

#### PROCESS

All approvals prior to zoning required 6 months. With PFD assistance the normal time for zoning variance approval was considerably reduced to 7 weeks. Both this and the Urban Edge

project required setback, side-yard and FAR variances. The Urban Edge variances took longer because of limited community opposition to any development of vacant land and to the existence of one competing developer for one of the sites.

BOSTON CITY SUBSIDIZED DEVELOPMENT  
 OPPORTUNITIES INDUSTRIALIZATION  
 CENTER; PROJECT: WINSLOW COURT  
 Most recent data: Dec. 1985

DEVELOPER

Opportunities Industrialization Center (OIC), with free consulting from Cabot, Cabot & Forbes (CC&F), and assistance and subsidies from the Boston Redevelopment Authority (BRA). With the City's new emphasis on housing development via comm-based non-profs, this dvlpmnt brings OIC into RE dvlpmnt.

STICK BUILT

Each 4-unit module will have duplexes over duplexes. On 1 site there will be 16 2-bed tn hs. Across the street a crescent bldg w 8 units.

FINANCE MHFA 9.9%

RESALE RESTRICTIONS

UDAG of \$15,000/unit used as second mtg, due upon resale for first 10 years with contingent interest of 100% of net sale proceeds (price less 1 st mtg) in year 1, 90% yr 2, 80% yr 3, 70% yr 4, 50% yr 5, 35% yrs 6-10. If sold after year 10, 2nd mtg principal forgiven. If sold prior to yr 10, 2nd mtg principal due declines year by yr from 100-25%.

FEATURES Decks, off-street parking.

SOURCES AND USES OF FUNDS

DATE	20 2 Bed	4 3 Bed	24 Total (Avg)
UNITS			
SQ FT	1,155	1,404	1,197
PARCEL	29,153 sf	28,000 buildable	36 / acre

SOURCES	PROJECT	PER UNIT	
SALES	1734000	72,250	
CDBG SUBSIDY	0	0	
UDAG SUBSIDY	360,000	15,000	
CITY IN-KIND SUB	18,000	750	
LAND SUBSIDY	15,000	625	(omitting OIC equity)
TOTAL	2127000	88,625	

USES, EXCEPT NON-DEVELOPER EXPENSES

ACQUISITION	0	0	
SITE COSTS	225,000	9,375	
MANUF STRUCTURES	0	0	
HD & SOFT CONST	1748929	72,872	Incl fee, gen, cntng
SPONSOR	120,071	5,003	omit return OIC eqty
TOTAL	2094000	87,250	
SURPLUS/DEFICIT	0	0	

WINSLOW COURT DEVELOPMENT BUDGET

DATE	11-30-85 PROJECT	PER UNIT	24 Units
LAND	0	0	
SITE COST	225,000	9,375	
STRUCTURE	0	0	
CONST FEES	112,361	4,682	
GEN DEV COSTS	44,000	1,833	(tax, ins, legal,
MKTNG	50,000	2,083	acct)
INTEREST	117,321	4,888	
CNTGNCY 5%	93,997	3,917	
OIC DEVEL FEE	120,000	5,000	not incl developer
TOTAL	762679	31,778	equity
LESS UDAG	360,000	15,000	
SALEPRICE	402679	16,778	

From Pro Formas

DATE	11-30-85	
TOTAL DEVEL COST	88,625	
AVG PRICE	72,250	
AVG SF FINISHED	1,197	
AVG SF TOTAL	1,197	
AVG P/SF FINISHED	60	
AVG P/SF TOTAL	60	
AVG COST/SF FNSHED	74	
AVG COST/SF TOTAL	74	
AVG \$ SUBSIDY/UNIT	16,375	
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE		
TDC	88,000	
AVG PRICE	72,250	
AVG P/SF FINISHED	60	
AVG P/SF TOTAL	60	
AVG COST/SF FNSHED	74	
AVG COST/SF TOTAL	74	
LAND SUBSIDY	YES	
LOT AREA/UNIT	1,215	
OWNERSHIP FORM	CONDO	
FUTURE AFFRDABLTY	WEAK 10YR	
DENSITY	36	

BOSTON CITY SUBSIDIZED DEVELOPMENT  
 HOMESTEADING PROGRAM  
 13 ESOMOND STREET ECONDOMINIUMS  
 Most recent data: March, 1986

DEVELOPER

Boston City Public Facilities Department. The 11-year old homesteading program takes city owned residences, brings them up to code, and sells them at prices affordable to families of four which have incomes \$3,000 or \$4,000 less than 80% of SMSA median income. Adjustments are made for larger or smaller families, but target prices are for families of 4. This places end prices in Spring of 1986 as follows: Condominium \$46,000, Single Family \$53,500, Two Family \$80,000, and Three Family \$107,000. All buyers qualify for Mass. Housing Finance Agency financing with 5% down and below-market interest.

DATE 3-18-86 City looking for buyer.

EXISTING STICKBUILT

1 three decker divided into 3 condos, 2-bed, roughly 900 sf.

MINIMAL SWEAT EQUITY

After purchase, a minimum amount of sweat equity remains to be put into the property. This is no more than 5% of total cost to the family and is basically painting or wallpapering.

RESALE RESTRICTIONS

The buyer must live in the property for 10 years to maintain ownership. If the property is sold prior to the end of the 10 years, the City recaptures 100% of the difference between the after-rehg the taised fair market value and the sale price. This is a relatively stringent provision for maintaining affordability.

CDBG SUBSIDY

The difference between cost to the City and the prededetermined affordable sale price is made up by a GDBG award.

SOURCES AND USES OF FUNDS

DATE 3-18-86

UNITS 3 2 Bed 3 2-Bed I am guessing at sf. 900 Finished 0 Unfnished 900

SOURCES	PROJECT	PER UNIT
SALES	138,000	46,000
CDBG SUBSIDY	21,719	7,240
OTHER	0	0
CITY IN KIND	3,000	1,000 time & waived fees
LAND SUBSIDY	3,000	1,000 My estimate
TOTAL	165,719	55,240

USES

ACQUISITION	3,000	1,000
SITE COSTS	4,500	1,500 My estimate
REHAB STRUCTURE	4,500	1,500 My estimate
REHAB SECONDARY	153,719	51,240
DEVEL FEE	0	0
TOTAL	165719	55,240
SURPLUS/DEFICIT	0	0

TOTAL DEVEL COST	55,240
AVG PRICE	46,000
AVG SF FINISHED	900
AVG SF TOTAL	900
AVG P/SF FINISHED	51
AVG P/SF TOTAL	51
AVG COST/SF FNSHED	61
AVG COST/SF TOTAL	61
AVG \$ SUBSIDY/UNIT	9,240
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE	
TDC	54,240
AVG PRICE	ERR
AVG P/SF FINISHED	ERR
AVG P/SF TOTAL	ERR
AVG COST/SF FNSHED	60
AVG COST/SF TOTAL	60
LAND SUBSIDY	YES
LOT AREA/UNIT	?
OWNERSHIP FORM	CONDO
FUTURE AFFRDABLT	10 YR100%
DENSITY	?

BOSTON CITY SUBSIDIZED DEVELOPMENT  
 TAYLOR PROPERTIES  
 FOUNTAIN HILL SQUARE  
 Most recent data: Feb. 1986

DEVELOPER

Taylor Properties. Taylor is a young attorney with a Harvard MBA, head of Boston's new Minority Developers' Association, has moderate development experience, and is likely to be a prominent figure in future Roxbury/No. Dorchester development. Tentative Designation Dec., 1985; final designation by May, 86.

TYPE One possibility is 40% affordable homeownership units and 60% market-rate units, some or all of which may be 2-family STICKBUILT, supposedly with brick facades, 3 1/2 stories.

FINANCE MHFA, \_\_\_%. STRUCTURE 3, 4, 5, 6 units/structure.

RESALE RESTRICTIONS ?

ONE LIKELY SCENARIO: 120 units with .7 parking spaces per unit, 48 low and moderate-income units, some of which may be in 2-fams, 72 market units, many of which may be in 2-fam. ITEM

The Boston Redevelopment Authority (BRA) bulldozed more units on this site in the late 1950's and early 1960's (125-150) than will be built here this coming year on this Washington Park Urban Renewal Area site. This site was picked in the Fall of 1985 as the pilot for the residential portion of the Dudley Initiative. It is important because it will be a key element in setting the tone for the area. Over 20 community meetings with the umbrella coalition GRONA were involved in the tentative designation. 8 proposals were reviewed, and the community groups really dominated developer selection.

SOURCES AND USES OF FUNDS

THE FOLLOWING IS ONLY A POSSIBLE SCHEME FOR MODERATED UNITS

DATE	11-18-85	Total units	48	Avg sf	1,117
UNITS	12 1 Bed	18 2 Bed		18 3 Bed	
SQ FT	677	780		1,375	
PARCEL	208,177	4.9 acres @ \$75,000 =		\$368,585	
		* developable 0.8 =		\$294,868	

SOURCES	PROJECT	PER UNIT	
SALES	2880000	60,000	
CDBG SUBSIDY	0	0	
INFRASTRC & FEE	860,000	17,917	Incl \$59500 Treag wv
CITY IN KIND	100,000	2,083	Infrastrct subsidy
LAND SUBSIDY	294,868	6,143	fr Urb Renew Acct
TOTAL	4134868	86,143	All subsidies at-

USES, EXCLUDING NON-DEVELOPER EXPENSES

ACQUISITION	0	0	trib to moderate
SITE COSTS	0	0	units. For alter-
MANUF STRUCTURES	0	0	native approach
HD & SOFT CONST	2694937	56,145	see following page
DEVEL FEE	185,063	3,855	\$50 /sf
TOTAL	2880000	60,000	(My estimate)
SURPLUS/DEFICIT	0	0	

All subsidies apply to these units to calculate subs/unit, but subsidies really go to market-rate units too. Hence, developer uses of funds should be no greater than above on market-rate units, and mkt-rate sales receipts above \$60,000/unit is profit.

FOUNTAIN HILL DEVELOPMENT BUDGET		48 Units, 40% of total	
DATE	11-18-85 PROJECT	PER UNIT	
LAND	294,868	6,143	100% Subsidy
INFRASTRUCTURE	860,000	17,917	100% Subsidy
CONSTRUCTION	2350080	48,960	40% Pro Forma
ARCH/ENGINEERING	125,017	2,605	
LEGAL	9,520	198	
ACCOUNTING	4,080	85	
INSURANCE	6,800	142	
MKTNG	0	0	
FINANCE FEES	12,000	250	
RE TAXES	5,440	113	
INTEREST	150,000	3,125	
FEES & PERMITS	92,000	1,917	
CITY IN-KIND	100,000	2,083	
DEVELOPER'S FEE	185,063	3,855	100% Subsidy
TOTAL	4194868	87,393	
SALEPRICE	2880000	60,000	
TDC		86,143	
AVG PRICE		60,000	
AVG SF FINISHED		1,117	
AVG SF TOTAL		1,117	
AVG P/SF FINISHED		54	
AVG P/SF TOTAL		54	
AVG COST/SF FNSHED		77	
AVG COST/SF TOTAL		77	
AVG \$ SUBSIDY/UNIT		26,143	
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE			
TDC		65,000	
AVG PRICE		40,419	
AVG P/SF FINISHED		36	
AVG P/SF TOTAL		36	
AVG COST/SF FNSHED		58	
AVG COST/SF TOTAL		58	
LAND SUBSIDY		YES	
LOT AREA/UNIT		1,162	
OWNERSHIP FORM		CONDO	
FUTURE AFFRDABLT	?		
DENSITY		36	

## SUBSIDY ALLOCATION METHOD

In my financial analysis I have assumed that all of the subsidies are going to the units that will be moderated in price, that is, to the 42 affordable units in this scenario. The idea is that the City is not in the business of subsidizing market rate units. Since 60% of the units in this scenario are market rate, the intention would be that the full effect of all subsidies would be reflected in lower prices for the moderated units. The \$800,000 infrastructure subsidy will build a road, sidewalks, curbs, storm and sanitary sewer lines, and water lines. This infrastructure will serve the entire project. The same applies to the \$123,000 land subsidy, \$91,000 in waived fees, and \$21,000 in in-kind city services.

Hence, the City could rightfully require a small moderation of the price of what have been considered above as the 60% purely market-rate units. The developer fee I included in uses of funds is intended to provide a minimal return to developer time and overhead expenses, and should not be considered as profit. Hence, the developer should be allowed to sell 60% of the units for more than \$60,000 to make a real profit on those units. Since the City is subsidizing the 60% as well as the 40%, it could limit the profit on the 60% quite justifiably, but to what degree such a price write-down on those units would be appropriate is difficult to determine. A meaningful profit should be allowed.

Let us say that the project ends up similar to the scenario that I have depicted, but that some of subsidies are shifted from the deeply subsidized units to the market rate units, or to some of the market rate units. Then the computed deep subsidy per unit on the 40% would be less, and instead of the 60% being strictly market-rate, they would become shallow subsidy units.

It is possible that early cost estimates by Mr. Taylor are low, in which case there would be a developer loss on the deep-subsidy units, and a small portion of the real profit from the market-rate, or close-to-market-rate units would have to go as a cross-subsidy to cover the deficit on the deep-subsidy units. If this were the case, the City would have less, or no reason to limit the prices of the market-rate units.



This enormous subsidy of \$68,950/unit is provided by profits from 3/4 of project represented by tted by th-rate units. Under the various assumptions stated on the following page, the developer will still enjoy a handsome overall profit.

LINCOLN SCHOOL DEVELOPMENT BUDGET 1983 upped to current prices

DATE	PROJECT	PER UNIT	5 Units
LAND	121,250	24,250	1,153 Avg sf
SITE COST	10,000	2,000	32,750 Site sf
CONSTRUCTION	365,000	73,000	
ARCHITECTURAL	28,125	5,625	
GEN DEV COSTS	25,625	5,125	
MKTNG & SALES	26,875	5,375	
INTEREST & CARRYING	55,000	11,000	
TAXES	1,875	375	
INSURANCE	1,250	250	
LEGAL	8,750	1,750	
AUDIT	1,000	200	
CDBG SUBSIDY	21,000	4,200	
CITY IN-KIND SUBS	6,000	1,200	
TOTAL DEVELMT COST	671,750	134,350	
BASE PROFIT	59,000	11,800	
DATE	May, 1984; City housing officer expects same as of Nov 1985		
TOTAL DEVEL COST	128,950		
AVG PRICE	54,600	60,000	-subs of 5,400
AVG SF FINISHED	1,153		
AVG SF TOTAL	1,153		
AVG P/SF FINISHED	47		
AVG P/SF TOTAL	47		
AVG COST/SF FNSHED	112		
AVG COST/SF TOTAL	112		
AVG \$ SUBSIDY/UNIT	5,400		
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE			
TDC	104,700		
AVG PRICE	26,350		
AVG P/SF FINISHED	23		
AVG P/SF TOTAL	23		
AVG COST/SF FNSHED	91		
AVG COST/SF TOTAL	91		
LAND SUBSIDY	NO		
LOT AREA/UNIT	5,295		
OWNERSHIP FORM	CONDO		
FUTURE AFFRDABLT	?		
DENSITY		26	

#### ACQUISITION PRICE

Lincoln Housing Assoc. will pay \$150,000 plus 50% of all profit above a developer profit of 10.5% of total development cost. I am assuming that the 15 market-rate units will sell for an average of \$210,000 apiece, for a total of \$3,150,000. The 5 moderated units will net the developer \$60,000 apiece, or a total of \$300,000. The grand sales total would then be \$3,450,000. Total development costs before developer profit are expected to be \$2,244,000. First the developer will take a 10.5% profit, or \$236,000. Added on to the \$2,244,000 this gives us a total development cost of \$2,480,000. The difference between this and the above grand sales total is \$670,000. This must be split with the City, and the City share is added on to the \$150,000 already paid for the site. This would bring the acquisition price to \$485,000. I am attributing 1/4 of that to the subsidized units.

#### CDBG SUBSIDY

I am assuming that the City's \$6,000 extra subsidy for the handicapped unit is CDBG. The extra CDBG subsidies for the other 3 units have not yet been determined. I am assuming that they will average \$5,000 per unit, for a total CDBG subsidy of \$21,000.

BOSTON PRIVATE HOUSING DEVELOPMENTS  
 BERNARD PLACE, SOUTH BOSTON  
 SOUTH BAY DEVELOPMENT CORPORATION  
 Most recent data: Feb. 1986

DEVELOPER

South Bay Development Corp. (Stephen W. Lasorda, Quincy, Ma.)  
 A small family development co., primarily builders. Currently  
 developing a \$125,000-\$212,000 condo project in the Wollaston  
 Beach area of Quincy (800-1,600 sq ft). This was his first  
 manuf hs experience, a bad one, due to low quality manuf units.

MANUFACTURED MODUL DATE 12-85

Multifam, Fee simple, 1 fam, 2 bed, stove, dw, frig.  
 Westville Homes, Plastow, NH. Units cost \$25,000 assembled on  
 site with plumbing and electrical hookups. Cracks, leaks, dead  
 outlets, crossed electrical systems are a call-back nightmare.  
 FINANCE Whatever the buyers get.

NO RESALE RESTRICTIONS, strictly conventional market sales.

ENTIRELY MARKET DEVELOPMENT, no subsidies of any kind.

FEATURES

Attached town houses in 2, 3, and 5 unit structures. Each unit  
 same except choice of extra 1/2 b or larger kitchn, price same.  
 Unfinished basement with exterior walls studded and insulated.

LAND DENSITY 34.4 units/acre

16,000 (Bought in 4 contiguous parcels at City auction.)  
 City auctioned these 4 contiguous lots separately--poor policy.

SOURCES AND USES OF FUNDS

DATE 2-86

UNITS 13 total

SQ FT 800 finished 300 unfnshed 1,100

The uses below have been factored up 7% from the figures Mr.  
 Lasorda gave me from memory. This 7% is intended to reflect  
 increased costs from the actual development period 1 1/2  
 years ago to a hypothetical period around the fall of 1984.

SOURCES	PROJECT	PER UNIT	
SALES	\$806,000	\$62,000	Units sold for
CDBG SUBSIDY	0	0	\$55,231 @ average
OTHER SUBSIDY	0	0	date of late 1984.
CITY IN KIND	0	0	I assume area has
LAND SUBSIDY	0	0	appreciated 1/2 as
TOTAL	\$806,000	\$62,000	fast as 1985 31% in
			metro Boston. Thus
			sale price I use
USES (Actual * 1.07)			is for late 84.
ACQUISITION	\$16,585	\$1,276	RD,CURB,UTIL,DRAIN
SITE COSTS	128,400	9,231	(Manuf erected,
MANUF STRUCTURES	347,750	26,750	except crane)
HD & SOFT CONST	144,664	11,128	
CALL BACKS	45,903	3,531	
TOTAL	674,902	51,916	
SURPLUS/DEFICIT	131,098	\$10,084	

From Pro Forma

DATE 2-86

TDC \$51,916

AVG PRICE 62,000

AVG SF FINISHED 800

AVG SF TOTAL 1,100

AVG P/SF FINISHED 78

AVG P/SF TOTAL 56

AVG COST/SF FNSHED 65

AVG COST/SF TOTAL 47

AVG \$ SUBSIDY/UNIT 0

EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE

TDC 50,640

AVG PRICE 60,724

AVG P/SF FINISHED 76

AVG P/SF TOTAL 55

AVG COST/SF FNSHED 63

AVG COST/SF TOTAL 46

LAND SUBSIDY NO

LOT AREA/UNIT 1,231

OWNERSHIP FORM FEE SIMPL

FUTURE AFFORD NOTHING

DENSITY 34

BOSTON PRIVATE HOUSING DEVELOPMENTS  
 COSTELLO PLACE, DORCHESTER  
 SOUTH BAY DEVELOPMENT CORPORATION  
 Most recent data: Feb. 1986

DEVELOPER

South Bay Development Corp. (Stephen W. Lasorda, Quincy, Ma.)  
 A small family development co., primarily builders. Currently  
 developing a \$125,000-\$212,000 condo project in the Wollaston  
 Beach area of Quincy (800-1,600 sq ft). This was his second  
 manuf hs experience, a bad one, due to poor product quality.

MANUFACTURED MODULES DATE 12-85

Multifam, Fee simple, 1 fam, 2 bed, stove, dwove, dw, fr  
 New England Homes, , NH. Units cost \$30,000 assembled on  
 site with plumbing and electrical hookups. Cracks, leaks, dead  
 outlets, crossed electrical systems caused call-back problems.  
 FINANCE Whatever the buyers get.

NO RESALE RESTRICTIONS, strictly conventional market sales.

ENTIRELY MARKET DEVELOPMENT, no subsidies of any kind.

FEATURES

Attached town houses in 2, 3, and 5 unit structures. Each unit  
 same except choice of extra 1/2 b or larger kitchn, price same.  
 Unfinished basement with exterior walls studed and insulated.

LAND 27,000 sf  
 UNITS 15  
 DENSITY 23.5 units/acre

SOURCES AND USES OF FUNDS

DATE 2-86  
 UNITS 15  
 SQ FT 800 finished 300 unfnshed 1,100 total  
 PRICE/SF \$75 \$55

SOURCES	PROJECT	PER UNIT
SALES	\$900,000	\$60,000
CDBG SUBSIDY	0	0
UDAG SUBSIDY	0	0
CITY IN KIND	0	0
LAND SUBSIDY	0	0
TOTAL	\$900,000	\$60,000

USES

ACQUISITION	\$27,000	\$1,800
SITE COSTS	\$114,000	\$7,600 RD,CURB,UTIL,DRAIN
MANUF STRUCTURES	\$450,000	30,000 (Manuf erected,
HD & SOFT CONST	\$82,050	5,470 except crane)
DEVEL OVHD	\$96,450	6,430 (incl \$4,930/unit
TOTAL	\$769,500	51,300 comm relations)
SURPLUS/DEFICIT	\$130,500	\$8,700

From Pro Forma

DATE 2-86

TDC	\$51,300	
AVG PRICE	60,000	
AVG SF FINISHED	800	
AVG SF TOTAL	1,100	
AVG P/SF FINISHED	75	
AVG P/SF TOTAL	55	
AVG COST/SF FNSHED	64	
AVG COST/SF TOTAL	47	
AVG \$ SUBSIDY/UNIT	0	
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE		
TDC	49,500	
AVG PRICE	58,200	
AVG P/SF FINISHED	73	
AVG P/SF TOTAL	53	
AVG COST/SF FNSHED	62	
AVG COST/SF TOTAL	45	
LAND SUBSIDY	NO	
LOT AREA/UNIT	1,800	
OWNERSHIP FORM	FEE SIMPL	
FUTURE AFFORD	NOTHING	
DENSITY	24	

SUBURBAN STRICTLY MARKET DEVELOPMENT  
 ROBERT FOX COMPANY  
 WHITMAN POND VILLAGE, WAYMOUTH  
 Most recent data: Jan. 1986

DEVELOPER

Robert Fox Co. is a medium-sized family firm that is strictly involved in residential development. The architect for this development, Paul J. Carroll & Assoc., won Builder Magazine's Grand Award. The key was acquisition of a gently sloping, 6 acre site across the street from the relatively nice looking, white clapboard Lake View Mannor Public Housing Project.

DATE At least most of it was completed in 1983.

Town House Condos, Cape Style, 7-unit clusters in pinwheel around landscaped courtyard, varied design in each cluster, 20 miles from downtown Boston, 77 units sold in 7 months.

STICKBUILT, with considerable modular prefabrication on site.

FINANCE MHFA ? % for some units.

NO RESALE PROVISIONS, strictly conventional.

ALL REGULATORY APPROVALS OBTAINED FROM WEYMOUTH IN ONE DAY!!!!  
 (The family firm has been around a while, is based in Weymouth, and is still doing most of its work in Weymouth.)

INFRASTRUCTURE SAVINGS

Customary townhouse development: 7 houses total 120-160 ft long. Here: 90 ft, saving road and utility costs.

FEATURES

2 on-grade parking/unit, cathedral ceilings in bedroom, very small fenced back yard, fireplace, complete K with dw.

SOURCES AND USES OF FUNDS

DATE	44 1 Bed	33 2 Bed	77 Total/Avg
UNITS			
SQ FT	600	800	686

SOURCES	PROJECT	PER UNIT
SALES	7040000	91,429
NDEA SUBSIDY	0	0
UDAG SUBSIDY	0	0
OTHER	0	0
LAND SUBSIDY	0	0
TOTAL	7040000	91,429

USES

ACQUISITION	490,000	6,364	\$4,545 original
SITE COSTS	431,200	5,600	5,000 " *1.12
MANUF STRUCTURES	0	0	
HD & SOFT CONST	2365440	30,720	\$40 " *1.12
DEVEL OVHD	?	?	inflation
TOTAL	?	?	Above is missing
SURPLUS/DEFICIT	?	?	some soft costs

WHITMAN POND DEVELOPMENT BUDGET (1983 upped to current prices)

DATE	PROJECT	PER UNIT	77 Units
LAND	0	0	
SITE COST	431,200	5,600	
STRUCTURE	2365440	30,720	
CONST FEES		0	
GEN DEV COSTS		0	
MKTNG		0	
INTEREST		0	
CNTGNCY 5%		0	
OIC DEVEL FEE		0	
TOTAL	2796640	36,320	0

From Pro Formas

DATE 1983 Factored up to known current selling prices.

TOTAL DEVEL COST	?
AVG PRICE	91,429 (Orig \$55-65,000)
AVG SF FINISHED	686
AVG SF TOTAL	686
AVG P/SF FINISHED	133
AVG P/SF TOTAL	133
AVG COST/SF FNSHED	0
AVG COST/SF TOTAL	0
AVG \$ SUBSIDY/UNIT	0

EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE

TDC	?
AVG PRICE	85,065
AVG P/SF FINISHED	124
AVG P/SF TOTAL	124
AVG COST/SF FNSHED	0
AVG COST/SF TOTAL	0
LAND SUBSIDY	NO
LOT AREA/UNIT	3,301
OWNERSHIP FORM	CONDO
FUTURE AFFRDABLT	NO LIMIT
DENSITY	12.8

SUBURBAN STRICTLY MARKET DEVELOPMENT  
 FAFARD COMPANIES  
 LEDGEMERE COUNTRY, ASHLAND  
 Most recent data: Jan. 1986

DEVELOPER

FAFARD COMPANIES was founded in 1970 and was based upon Mr. Fafard's small land-development and single-family development work. Based in Ashland, Fafard gained control of considerable and developed Ledgemere Country, a substantial mixed use development of commercial and retain space on one side of a local feeder road, ke Vie00 units of condominiums on the other side. This first substantial development may still be the largest the company has done. The firm still does about half of its work in the Western Middlesex County (Metro West) area, but is active elsewhere and is a rapidly growing full-service real estate company.

DATE 1980-1984

STICKBUILT NO RESALE PROVISIONS

NOW DEVELOPS MORE EXPENSIVE HOMES

Fafard Companies prospered largely by doing market development on the bottom of the homeownership market. The firm's work, however, has been drifting upscale, along with the bottom of the housing market in the Metro West area. While Fafard Companies' work is still as affordable as any new construction being built in the area, it has hit the upper limit of what can be called "affordable," even with the most generous definition, namely new \$100,000-\$140,000 condos. The only things cheaper are \$70,000-80,000 condo conversions. The first of these units, in 1980, went for \$49,000. In 1983, when rates were 18%, some were unfinished, sold at \$55,000, and required \$8,000 from buyers to finish them later. An early 1983 buyer of one batch got 110 finished units @ \$65,000 each.

SOURCES AND USES OF FUNDS DATE November, 1985

UNITS 400 2-bed, 4 attached units per structure  
 SQ FT 1,350 Plus 1-car garage

SOURCES	PROJECT	PER UNIT
SALES		123,000
NDEA SUBSIDY		0
UDAG SUBSIDY		0
OTHER		0
LAND SUBSIDY		0
TOTAL		123,000

USES

ACQUISITION	30,000	These fund uses
SITE COSTS	7,000	are all my guesses
MANUF STRUCTURES	0	
HD & SFT CONST	63,000	
DEVEL OVHD	7,000	
TOTAL	107,000	
SURPLUS/DEFICIT	16,000	

Remember, all of these numbers are gestimated upwards to approximate a 1985 development period as in most of the other developments this one is being compared to. This is difficult in a period when values are rising 20-35% per year.

DATE 1983 factored up to known current selling prices.

TOTAL DEVEL COST	107,000	
AVG PRICE	123,000	
AVG SF FINISHED	1,350	
AVG SF TOTAL	1,475	I am adding a garage cost
AVG P/SF FINISHED	91	equivalent of 125 sf to
AVG P/SF TOTAL	83	P/SF FINISHED
AVG COST/SF FNSHED	79	
AVG COST/SF TOTAL	73	
AVG \$ SUBSIDY/UNIT	ERR	
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE		
TDC	81,000	
AVG PRICE	89,000	
AVG P/SF FINISHED	66	
AVG P/SF TOTAL	60	
AVG COST/SF FNSHED	60	
AVG COST/SF TOTAL	55	
LAND SUBSIDY	NO	
LOT AREA/UNIT	5,295	
OWNERSHIP FORM	CONDO	
FUTURE AFFRDABLT	NO LIMIT	
DENSITY	8.0	

SUBURBAN STRICTLY MARKET DEVELOPMENT  
 FAFARD COMPANIES  
 SPYGLASS HILL, ASHLAND  
 Most recent data: Nov. 1985

DEVELOPER

FAFARD COMPANIES essential background is in the accompanying Ledgemere Country appendix, and is complemented here. By the end of 1985 Fafard Companies had developed roughly 800 condos, the vast majority of which were on or near the bottom end of the new construction homeownership market in their respective areas. Under as many as they were also in the Metro West Area, and over half right in Ashland. This trend is still continuing, as of the end of 85, some details remained to be ironed out regarding sewer credits. Sewers must be upgraded in another community in the Greater Boston network to earn the required credits. Ashland doesn't need the required work.

DATE 1983-84 STICKBUILT NO RESALE PROVISIONS

MARKS MOVEMENT TO MORE EXPENSIVE HOMES

Units originally sold at the end of 1983 for between \$79,000 and \$85,000. At the end of 1985, for an average of \$145,000. Spyglass Hill is close to, and followed Ledgemere Country. So many Ledgemere buyers requested optional amenities, that these amenities were made standard in the Spyglass units. 8 units are in each long, 2-story, L-shaped building, with the short side of the L extending into an elongated garage. Each one in the area, it has hit the upper limit of what identical structure facing it. The effect is attractive, and not monotonous, because there is a good deal of variety and change within each structure. The 8 units/acre density and relatively thick trees, which were left from the original status of the site, combine to provide just enough space and just enough of an attractive environment. Each unit has a garage, 2 1/2 baths, central air and vacuum, microwave, cathedral ceiling, fine carpet, and 1 unfinished basement room.

SOURCES AND USES OF FUNDS

UNITS	300 2-bed	SQ FT	DATE	November, 1985
SOURCES	PROJECT		1,450	+ 1-car garage
SALES			145,000	
NDEA SUBSIDY			0	
UDAG SUBSIDY			0	
OTHER			0	
LAND SUBSIDY			0	
TOTAL			145,000	

USES

ACQUISITION	36,000	Fund use figures
SITE COSTS	8,500	are all my guesses
MANUF STRUCTURES	0	Assume "last of
HD & SFT CONST	72,000	the good deals"
DEVEL OVHD	7,000	early 1984 land
TOTAL	123,500	price
SURPLUS/DEFICIT	21,500	

Remember, all of these numbers are guesstimated upwards to approximate a 1985 development period as in most of the other developments this one is being compared to. This is difficult in a period when values are rising 20-35% per year.

DATE	Factored up to known current selling prices.	
TOTAL DEVEL COST	123,500	
AVG PRICE	145,000	
AVG SF FINISHED	1,450	
AVG SF TOTAL	1,575	I add a garage cost
AVG P/SF FINISHED	100	equivalent of 125 sf to
AVG P/SF TOTAL	92	P/SF FINISHED.
AVG COST/SF FNSHED	85	
AVG COST/SF TOTAL	78	
AVG \$ SUBSIDY/UNIT	ERR	
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE		
TDC	91,500	
AVG PRICE	105,000	
AVG P/SF FINISHED	72	
AVG P/SF TOTAL	67	
AVG COST/SF FNSHED	63	
AVG COST/SF TOTAL	58	
LAND SUBSIDY	NO	
LOT AREA/UNIT	5,295	
OWNERSHIP FORM	CONDO	
FUTURE AFFRDABLT	NO LIMIT	
DENSITY	8.0	

#### MILFORD COUNTRY CLUB

This new Fafard Companies' development will have 36 condos in phase I and 114 in phase two. These two-bedroom units of 1,400 sf, 2 1/2 baths, 1 car garage, slab cape, lofts, skylight, and central air were selling for \$132,000 at the end of 1985. The upscale two-bedroom version with a 2 car garage and a basement was going for \$142,000. The \$132,000 basic model initially went for \$100,000 in January, 1985. These models also have superior soundproofing, since they are attached units, step-down interiors, and stucco exteriors.

#### SINGLE-POUR CONCRETE HOUSE

The important feature of these houses is the construction method. One giant concrete form is used to pour the foundation and walls for a multiple-unit cluster structure. Developed from the work of other builders in Florida, this is Fafard Companies' first experiment with this method of construction. Two forms have been made for structures with slightly different sized units. The objective is construction cost saving and control over the construction process. Fafard began with land development as his focus, and has always maintained this thrust. Each large development often includes sale of some building lots to help finance the principal condo development. Fafard saves on costs by doing its own infrastructure and other site work, and by pouring its own foundations. All other construction is subcontracted out. Hence, the secondary objective of the new poured house: to gain control of the post-foundation construction process by bringing it in house.

#### MARKETING

According to Aurie DeCollibus, Fafard Real Estate's Residential Sales Manager, the company essentially sells all of its Metro West housing itself. When the real estate sales operation began in 1978 it sold only Fafard housing. Today about 65% of residential sales are Fafard homes and 35% are from regular real estate market operations.

#### LAND COSTS

At the Woodbridge development in Ashland some lots with ledge problems sold for \$60,000 apiece in the fall of 1985. A house lot on Pleasant Street in Framingham went from \$30,000 to \$60,000 in 6 months in 1985. Fafard usually develops about 28 single-family units along with about 320 condos. Cedarwoods was the single-family development that went along with the first large condo development, Ledgemere Country. Some improved 30,000 sf lots were sold for \$30,000 in 1983. In November of 1985 those same lots would go for \$60,000-\$70,000.

NEHEMIAH PROGRAM  
 BROWNSVILLE SECTION OF  
 BROOKLYN, NEW YORK  
 Most recent data: Nov. 1985

DEVELOPER

I.D. Robbins for the Nehemiah Program, and three regional christian churches. Development began in 1983, ongoing 1986.

MAXIMIZES MANUFACTURED COMPONENTS

On site assembly of primarily manufactured components. Several manufacturers involved. Manuf. floor joists, roof trusses, end walls, pre-cut and numbered steel wall studs.

FINANCE

The New York equivalent of the Ma. Housing Finance Agency. 9.4% interest for most of the first 384 row houses.

NO RESALE PROVISIONS except that the \$10,000 interest-free 2nd mortgage principle be repaid to NYC.

FEATURES

Lot size 18' \* 100', three 576 sf floors give 1,150 sf finished and 500 more unfinished in the concrete basement, for a total of 1,650 sf. Parking on driveway in front of unit.

Brick exterior, 2 & 3-bedrooms, set back 25 ft from street, 17 \* 22 living room, staggered to avoid the Baltimore row house effect. Individually nice, but hundreds of identical units in dense arrangement retain something of the "projects" image.

CHURCH RESOURCES

The Catholic Diocese of Brooklyn, the Lutheran Church-Missouri Synod, the Episcopal Diocese of Long Island, and other E. Brooklyn churches invested \$10-\$12 million, primarily used as revolving acquisition and construction financing loan fund Land essentially donated by NYC, but some was purchased with church resources averaging \$500/unit. NYC did streets, Nehemiah Program did sewers.

CDBG

NYC uses federal Community Development Block Grant funds to provide each buyer with a \$10,000 interest-free second mtg payable upon resale.

SOURCES AND USES OF FUNDS

DATE Nov 1985

UNITS 384 complete out of Phase I 1,500.

SQ FT Finished 1,150 Unfnished 500 Total 1,650

UNION LABOR Labor costs low because little labor needed in on-site assembly of manufactured components, and all units the same.

SOURCES	PROJECT	PER UNIT
SALES	16512000	43,000
CDBG SUBSIDY	3840000	10,000
CNST FINANCE SUBS	614,400	1,600
CITY IN KIND	960,000	2,500 incl \$1300 infrsct
LAND SUBSIDY	460,800	1,200
TOTAL	22387200	58,300

USES, EXCEPT NON-DEVELOPER EXPENSES, DEVELOPER SURPLUS/DEFICIT		
ACQUISITION	0	0
SITE COSTS	1536000	4,000
MANUF STRUCTURES	0	
HD & SOFT CONST	13593600	35,400
SPONSOR	998,400	2,600
TOTAL	16128000	42,000
SURPLUS/DEFICIT	384,000	1,000

NEHEMIAH PROGRAM DEVELOPMENT BUDGET: NOT AVAILABLE

Regarding the project financial data presented here, Mr. Robbins, the developer, told me in November 1985 that the price of the row houses would go up at the end of 1985 from \$52,000 to \$53,000. NYC provides a \$10,000 2nd mtg bringing the price the buyer down to \$43,000. Mr. Robbins told me that the cost of his small development team was 5% of the total. I am assuming that the total he was referring to does not include work done via all subsidies but the second mortgage subsidy. That is to say 5% of \$54,000. Mr. Robbins also said that his profit is \$1,000/unit. I am guessing at estimates for City In-Kind and infrastructure. Mr. Robbins told me that the Church resources paid an average of \$500/unit for land. The vast majority of land was free from NYC. I am guessing that the average writedown from market rate on the city's land was \$700/unit, for a total land subsidy of \$1,200. After subtracting all of these figures out, I am left with a \$35,400 residual for hard & soft construction costs. Unfortunately, I was given no indication of how much was spent on the manufactured components.

This method relies on batches of 300 units or more.

DATE	Nov 1985
TOTAL DEVEL COST	58,300
AVG PRICE	43,000
AVG SF FINISHED	1,150
AVG SF TOTAL	1,650
AVG P/SF FINISHED	37
AVG P/SF TOTAL	26
AVG COST/SF FNSHED	51
AVG COST/SF TOTAL	35
AVG \$ SUBSIDY/UNIT	15,300
EXCLUSIVE OF LAND AND MAJOR INFRASTRUCTURE	
TDC	54,100
AVG PRICE	38,800
AVG P/SF FINISHED	34
AVG P/SF TOTAL	24
AVG COST/SF FNSHED	47
AVG COST/SF TOTAL	33
LAND SUBSIDY	YES
LOT AREA/UNIT	1,800
OWNERSHIP FORM	FEE SIMPL
FUTURE AFFRDABLITY	NONE
DENSITY	15

The total development cost per unit of Nehemiah was \$13,300 less than the average for the five Boston deep-subsidy projects studied. Only the small Homesteading project had a TDC that was lower, and only by a few hundred dollars. Nehemiah's average subsidy per unit was \$2,000 less than the mean of the five Boston projects, and again the only one with less subsidy was the Homesteading project.

The price per unit to the buyer is \$11,000 less than the mean for the five Boston deep-subsidy projects, and lower than any of them. The Codman Square New Construction Initiative Phase I price of \$44,000 is only \$1,000 higher, and the \$46,000 price for the Homesteading Econominiums is only \$3,000 higher.

On a per square foot basis, the Nehemiah Program really shines in comparison. The 1,650 finished and unfinished square feet in the Nehemiah units is 50% higher than the 1,096 sf mean of the five Boston projects. The \$35/sf total development cost per square foot of total space is 47% less than the \$66/sf mean of the five Boston Projects.

The 1,150 finished square feet in Nehemiah units is 14% more than the mean for the five Boston projects. The \$51/sf total development cost per finished square foot is 30% less than the mean for the Boston projects.

## APPENDIX IV

### OTHER OBSERVATIONS FROM DEVELOPERS AND CONSULTANTS

DEVELOPERS SAY THAT THE MAIN CONSTRAINT ON THE SUPPLY OF AFFORDABLE HOUSING IS RESTRICTIVE CITY AND TOWN ZONING. THE NEXT MOST SIGNIFICANT CONSTRAINT IS LAND PRICES, WITH LAND PRICES SIGNIFICANTLY DETERMINED BY ZONING.

#### RESTRICTIVE ZONING

When asked what is the single most important constraint on the production of affordable homeownership in Eastern Massachusetts, all interviewees except municipal consultant Philip Herr and developer Robert Branchaud responded that the key constraint is zoning practices which make production of affordable homeownership a losing proposition. Developers in particular perceived suburban communities as opposed to affordable homeownership and deliberately using restrictive zoning ordinances and zoning administration partly to keep it out.

Philip Herr thinks that the growth of the regional economy and the level of interest rates are each more important constraints on the production of affordable homeownership than local zoning practices. Herr feels that most restrictive zoning is not a smoke screen for opposition to affordable housing, but an expression of legitimate concerns regarding environmental protection, community character, open space, traffic, and ground water quality. Herr doesn't deny that many suburban communities are opposed to affordable homeownership development, but thinks that many communities would like to provide affordable homeownership if they could find a way that would not unduly sacrifice their other legitimate priorities.

Robert Branchaud builds and develops in the Woonsocket,

Rhode Island area and knows Metrosouthwest communities on or beyond Route 495. He finds that a number of Ma. communities in this area want affordable homeownership development. He thinks that the leading constraint is rising land prices.

Robert Fox, President of Robert Fox Company, a Weymouth-based residential developer who focuses on homeownership development, thinks that any of a number of other factors that also tend to restrict the production of affordable housing, pale in importance to the determination of local residents in the majority of cities and towns to maintain zoning standards that keep low and moderate income housing out of their communities.

Mr. Fox finds that the most frequently encountered impediment to affordable housing is the predominance of the septic field method of waste disposal in many suburban areas. Since a septic system returns wastes to the land adjacent to each residence, there must be fairly large yards and other density restrictions to prevent environmental contamination from the septic systems. Hence, land costs per unit of housing are considerably higher than in an area on a sewer system.

There are cost and environmental reasons why many citizens prefer to remain on septic leaching fields rather than go the sewer system and sewage treatment route to waste disposal. According to Fox, localities that wish to restrict the development of affordable housing in their communities find the retaining of the septic field method of waste disposal a convenient way to do so. Mr. Herr thinks that Fox is blowing the septic system issue way out of proportion. Herr maintains that the provision of sewer infrastructure usually raises the value of

buildable residential land, and that in cases where continuance on septic does have a restrictive effect on affordable homeownership development, this effect is not nearly as strong as Fox implies.

All interviewed also agree that restrictive zoning is applied most fiercely by direct abutters. When affordable housing developments are proposed, the owners of directly adjacent property are usually the most determined to defeat the proposals. This opposition is almost always due in part to the belief that the proposed development will lower the value of the abutter's property. Being of a lower level of unit quality and amenities, affordable developments will drag down the value of the neighborhood, and particularly of the direct abutters.

Abutters often have additional social or cultural objections. They and their families will have some face-to-face contact with the residents of the proposed housing, and they often fear that some of the new residents will not be the kind of people they or their families would want to have contact with. The problems of local zoning practices and immediate abutters are one and the same, and the way to approach the problem is through regulatory reform and enforcement at the municipal level.

Frequently environmental concerns alone lead many citizens to support large lot requirements. While many supporters of the preservation of open space are not opposed to affordable homeownership in their communities, adoption of their environmental policies has meant that no new affordable homeownership opportunities would be created in their communities

for the foreseeable future.

Garen Bresnick, Executive Director of the Massachusetts Homebuilders Association agrees with Robert Fox's view that restrictive zoning policy at the local level is the most important constraint on affordable homeownership production. Both men feel that the situation for affordable housing will get worse in the state before it gets better, so long as the state's economy--and hence its housing market--remains strong.

#### DEVELOPERS WORKING AT THE LOWER END OF THE HOMEOWNERSHIP MARKET HAVE MOVED UPSCALE

While the homebuilding community would like the opportunity to produce and sell more affordable homeownership units, the market is strong enough that they can be kept busy building more expensive units and rehabilitating and expanding existing units. Thus, the development community feels no urgent need to change the environment to allow for more affordable housing production.

As mentioned earlier, the Fafard Companies found out in Ashland how strong the market was by building fairly basic condominium units in the early 1980's, only to discover that the majority of buyers wanted optional extra amenities and were ready to pay for them. The Robert Fox Company had the same experience in its Weymouth developments. The mid-1980's finds the company building more upscale condominium units, and some luxury units.

That is not to say that both companies have abandoned the lower end of the housing market. To a certain extent, they represent to this day the lower end of the homeownership markets in their geographic areas. There is no significant amount of new construction which will offer condominiums below the \$135,000-

\$145,000 level that some of their products are available for. In the Massachusetts Housing Partnership part of this study we saw how another developer, Steven Lasorda's South Bay Development Corporation, moved upscale as well in the last few years.

As discussed in the MHP part, developers could be producing housing for a bit less, but they need not do so at this time. As long as there is considerable resistance to affordable housing, it is not worth these developers' time and money to fight too hard for approvals for subdivisions for affordable housing. Even housing priced above the top of the affordable range we are dealing with here (\$130,000), is felt to be below the minimal standards that many towns desire for new construction. Remember that while the MHP Homeownership Opportunity Program limit is \$110,000, this study is including homes priced at up to \$130,000, based partly on MHFA's limit for existing housing, which is near \$130,000.

#### EXPENSIVE LAND

Mr. Branchaud finds land values the most important constraint on the production of affordable housing. With the exception of Mr. Herr, the other interviewees found it to be the second most important constraint. When the 1980's began, house lots were available for \$15,000-\$25,000 in the vast majority of Metrowest and Metrosouthwest communities. New building lots go for \$40,000-\$70,000 in these communities. Locations well-connected to time-saving highways for travel to and from work have the more expensive house lots.

The \$40,000-\$50,000 building lots are farthest away from the Mass Pike, Routes 495, 128, and other major connecting highways.

The marginal homebuyers who must go far from work to find a home they can afford to buy often end up in a dubious trade-off between a lower home price tag and considerably increased travel time and expense. In some cases there is no choice: In order to qualify for home purchase, they must live far enough out and far enough away from the highways to get the home price down to a level for which they can qualify.

Interestingly enough, it is impossible to separate the constraint of local regulation from the constraint of high land prices. Restrictive zoning is used in part to raise building lot prices and other regulatory costs to a level which makes it impossible to build affordable housing on the land. If one-half to one acre of land is required per residence instead of one-eighth of an acre, the cost of land per unit is two to three times higher per unit of housing, according to several developers discussing their areas of operation.

In many communities the combination of restrictive zoning and the high prices prevailing on the local land market, makes it uneconomical to develop houses that sell for less than \$150,000. The economic impact of these factors makes the economics of a project, as seen from the developer's perspective, go bad when homes are sold for less than \$150,000.

High land prices are caused as much by the strong housing market as they are by the restrictive local zoning practices. Massachusetts has experienced a civilian and military high-tech and services boom which, particularly in Eastern Massachusetts, has sent employment racing ahead of housing production. Hence

demand for housing has raced ahead of supply. This is to some extent inevitable in a region which experiences a prolonged period of strong employment growth. Because more buyers are competing for the same house, prices go up. Furthermore, the high proportion of technical and professional workers in the state's growth sectors means that the incoming workers will have higher-than-average incomes and will be looking for higher than average quality housing.

#### PEOPLE ARE CONDITIONED TO PAY MORE FOR A HOUSING

The leading causes for rising home prices in Eastern Massachusetts were the high national interest rates, a local economy growing in jobs much faster than in housing, and speculative residential buying from all over the nation. These and other unique local events have kept prices high for so long that potential home buyers now expect and have accepted such prices as inevitable. Robert Fox therefore believes that they have become conditioned over the last eight years to pay a higher percentage of their incomes for housing than they had paid in the past. So powerful is this housing consumer conditioning that it will keep housing prices a bit high, at least for a few years, even if production costs decline.

Interest rates have already dropped. Other local housing cost factors may also change in the next few years. As long as buyers expect to pay in the future prices higher than today's, they will pay more than they perhaps should with some housing production cost factors in decline.

An important part of this consumer conditioning, Mr. Fox feels, is the expectation that residential property values will

continue to increase. Buyers are willing in part to sacrifice more now to carry a house, because they believe that the how will increase in value and be a worthwhile financial investment in its own right. Belief that the appreciating market will provide more than a roof over their heads makes the extra sacrifice demanded by current home prices worthwhile.

Mr. Fox believes that this faith in regional residential appreciation is not founded in solid information; but rather that the rapidly appreciating property in many parts of Eastern Massachusetts over the past 6 or 7 years has conditioned the buyer to expect the property being acquired to increase in value in the future.

**FOR A FEW YEARS VERY LITTLE WILL BE BUILT AND SOLD FOR UNDER \$120,000, AND \$100,000 WILL BE THE BOTTOM OF THE NEW CONSTRUCTION MARKET WITHIN THE ROUTE 495 REGION**

Robert Fox, and Fafard Companies' Aurie DeCollibus, agree that virtually no new MHP-level residential units will be produced without subsidies within the Route 495 region in the next few years, and that very few will be built for under \$130,000. Ms. DeCollibus wasn't speculating on whether the bottom of the market would be going even higher than that. Mr. Fox believes that it is quite likely that housing prices in general and the bottom of the market in particular will continue abnormal levels of appreciation for as long as five years.

This author detects a common vision of the housing market in Eastern Massachusetts that sees dimly three or four years into the future. Beyond that time frame, no one interviewed had anything to say about future residential values. Most

interviewees think that residential prices in Greater Metropolitan Boston (out to Route 495) will continue to climb for at least another year or two, but not as rapidly as in the past two years. After that, there still might be more appreciation, or even a period of level prices, but no decline in price levels for at least a few years. Arguments for this point of view are the momentum in the current housing market, a strong state economy, a backlog of housing demand from employment growth in the past six years, and the expectation of further growth in the state's high-tech and services economy over the next few years.

Steven Lasorda, of South Bay Development Corporation, does not pretend to know where the market is going. He does think that very few residential developers have much of an idea. "Almost all condominium developers operating in the South Shore and Metrosouthwest areas presell as many condominiums as they can," he says. "That means they really don't have much of an idea about the future market, otherwise they would be holding on to units and selling them for more after they were finished."

#### THE MARKET IS REALLY THERE FOR RESIDENCES IN THE \$100,000-\$130,000 RANGE

Aurie DeCollibus, head of Fafard's real estate sales arm, and Robert Branchaud, principal of builder/developer Designed Ventures, believes that the greatest residential demand in their respective Metrowest and Metrosouthwest areas is for \$100,000 single family homes, with further strong demand in the \$120,000-\$130,000 range. Much of that demand is going unmet, and new construction is ignoring the \$100,000 range of greatest demand almost completely.

## GOVERNMENT INTERVENTION

Given these speculations, how can the supply of affordable housing be increased? Both Aurie DeCollibus and Robert Fox believe that low and moderate-income housing will be built in Eastern Massachusetts in the foreseeable future only with public subsidy or public insistence that affordable housing be built as a requirement for other development rights.

Garen Bresnick, Executive Director of the Massachusetts Homebuilders Association, thinks that the only likely way to measurably increase the production of affordable housing anytime in the 1980's is with increased action from Ma. state government. Fox, Bresnick, and DeCollibus are all open to stronger state pressure on communities to provide their share of needed affordable housing, although none of them communicated in interviews that they would clearly welcome such a state response.

Steven Lasorda does not want increased state intervention or expanded state subsidies for affordable homeownership development. He would love it if state and local government would coordinate housing programs effectively and efficiently, and if public land was packaged in appropriate assembled parcels. As far as Boston is concerned, the greatest need is for uniformity and efficiency in the permitting and inspecting process.

Brett Doney, consultant to small developers, is glad to see the state intervening in the marketplace to develop more affordable housing. He supports MHFA and the MHP and the various affordable housing production programs at the state and local levels, but the state needs to make its housing production

programs more effective.

Compared to the suburbs, a much higher portion of Boston's population is low or moderate-income. Hence, Boston had to take affordable housing initiatives sooner than the suburbs. As we have seen, Boston subsidizes affordable homeownership creation in many ways with direct public subsidies. Boston's two-year old linkage program was requiring private, for-profit developers of large commercial developments to contribute to the development of low and moderate-income housing. The program's existence is tied up in legal battles in the spring of 1986. San Francisco's program, which predated Boston's, has not yet been successfully challenged in court. As another form of subsidy, Boston sells city-owned land at a discounted price. These are the approaches that suburban communities will have to take if affordable homeownership opportunities are to be created in any meaningful numbers, according to Ms. DeCollibus and Mr. Fox.

## APPENDIX V

### THE EASTERN MASSACHUSETTS MARKET FOR AFFORDABLE HOUSING

#### THE IMBALANCE BETWEEN SUPPLY AND DEMAND FOR AFFORDABLE HOMEOWNERSHIP OPPORTUNITIES IS LIKELY TO WORSEN IN THE NEXT FEW YEARS

In the next few years the need for affordable homeownership opportunities will continue to expand. Social need does not always translate itself into effective economic demand. In this case effective economic demand is there for ownership opportunities from \$60,000 to \$130,000. As long as enough real estate development people and institutions can profit more handsomely by developing higher-priced homes or commercial developments, significant numbers of affordable homes will not get built and sold. There are several reasons why this may continue to be the case in Eastern Massachusetts for the next few years:

- 1) Employment growth continues to stay ahead of labor force growth producing a tight housing market and driving up housing prices. At the same time growing employment increases the effective demand for affordable homes.
- 2) A dual labor market is emerging which increases demand for both affordable and higher-priced homes. Development entities such as developers and banks will profit more building the expensive homes first.
- 3) A demographic bulge of families buying up into larger homes is providing extra demand for expensive homes.
- 4) The regional economy is likely to remain strong for at another few years, in spite of the slowdown in high-tech. This will add more higher-priced homebuyers, keep the overall housing market tight and prices up, and increase demand for affordable as well as more expensive homes.
- 5) Speculation will help keep residential prices artificially high for a bit longer.

#### DEMAND FOR \$100,000-\$130,000 HOMES

Aurie DeCollibus believes that the greatest market demand in

the Framingham/Ashland areas is for \$100,000 homes, and that demand for \$120,000-\$130,000 homes is very strong. Aurie also says that several years of high interest rates in the early 1980's put many people out of the market altogether for those years. Since rates started back down again, and particularly during the period mid-1984 to end-1985, a lot of pent-up demand has been satisfied. Much of the rapid escalation in property values in Eastern Massachusetts recently has been a result of the return of these people to the housing market. Now that their particular demand has been satisfied, upward pressure on prices is easing a bit and the pace of sales has slackened a bit. This is the way Ms. Decollibus saw the market at the end of 1985.

#### DEMOGRAPHIC GROWTH MARKETS

Thomas Marcen and John Kokus, Jr. made some observations in 1975 about the United States' housing market for the next twenty years. They pointed out obvious areas of likely market growth due solely to the changing age composition of the population. In "Economic and Demographic Factors Affecting Housing Demand into the 1980's and 1990's", they explained that following World War II a population bulge came into being with births occurring from 1945-1960.

In 1986 these people are roughly 20-35 years of age. The passage of this population bulge through time will determine much of the housing market for the next 20 years. According to the authors' demographic interpretation, the U.S. housing market should be experiencing the peak of demand for smaller single family homes sometime around now. Also about now a new trend is

just starting to pick up steam, a rapidly increasing demand for high quality single family housing and for second homes. This latter demand bulge should continue for another decade, and demand for smaller single family homes should remain strong for a few more years.

#### **SPECULATION WILL HELP KEEP HOUSING PRICES HIGH FOR A WHILE LONGER**

Residential speculation has become a significant factor in the condominium market in general, in the residential markets in gentrifying areas or low-income areas that are thought to be turning around, or suburban areas thought to be on the frontier of urban development. Speculation is buying and selling for a profit. It develops no housing, but drives prices higher. Although speculative residential development in the region will drop off sharply if residential prices go down, this is unlikely to happen in the next two years. This author believes that there will be a residential price adjustment at some point in the next six years, at which time some speculative money will pull out and no more will come in. This will in itself cause a measurable drop in residential prices that will be of some assistance to affordable homeownership.

#### **AFFORDABLE ELDERLY HOUSING**

Another continuing demographic trend will be the increasing portion of the population that is elderly. A full spectrum of housing types for elderly families and individuals should experience steady growth well into the 1990's. This is particularly important regarding affordable homeownership opportunities, since a larger than average share of the elderly

are low and moderate-income persons who can only afford modest housing expenditures.

The public response to increased need for affordable housing throughout Eastern Massachusetts has been strongest in elderly rental and homeownership opportunities for elderly. Public involvement in provision of affordable elderly housing is the one type of affordable housing that many suburban communities have experience with in one or a few projects. In this one area of affordable housing suburban communities will continue to be responsive. Many suburban residents support this kind of publicly-assisted affordable housing, and community sponsorship of it provides a response to increasing pressure from state government for all communities to participate in providing affordable housing.

#### **INCREASING COMPETITION AMONG DEVELOPERS AND BUILDERS SHOULD RESTRAIN RISING HOUSING PRICES**

The real estate community is in near unanimity in their belief that there will be some meaningful shift in development resources from commercial to residential development which will last for at least two or three years. Overbuilding in most large urban office, hotel and retail markets will require a temporary reduction in such development, so that the already built properties can be rented, or sold. Supply has been exceeding demand for several years, and some sort of adjustment is imminent.

Gerald Blakely, for example, one of the nations leading light-industrial and office developers, told students at MIT's Center For Real Estate Development that he believed there would

be a substantial shift in development resources from commercial to residential within the next few years. Many residential real estate brokers think that the high interest rates of the 1980's and the stagnant incomes of many in the U.S. middle sectors, have left a reservoir of pent up housing demand. If mortgage interest rates could stabilize for a while at 9% or 10% a strong housing market in moderate price ranges could last for years.

Auri DeCollibus thinks that in Metrowest much of that pent up demand has already been met, at least among people who can afford homes that cost \$150,000 and up. Unlike other parts of the nation, incomes have been growing in Massachusetts. The growth is very unequally distributed, with more highly paid professional serviced and engineering workers, and more lowly paid service workers than is average for the nation. Incomes are growing in Eastern Ma., and this has enabled pentup demand to be satisfied more quickly here than in other areas of the country.

If such a shift in development resources does occur, increased competition in residential development should result in reduced housing prices to housing consumers. The shift in resources will come in part from big national developers and real estate investors capable of participating in residential markets anywhere in the country.

More development resources will be available at the same time that members of the demographic bulge group are increasing housing demand. The pent-up demand Aurie DeCollibus refered too was largely made up of members of the bulge group having to temporarily defer their homebuying. This means that younger members of the bulge were piling up behind them and waiting as

well for a decline in rates. Much of the buying in the past two years, (mid-1984 to mid-1986) was comprised of the reentry of these bulge members into the market. This interest rate dimension was also national in scope.

#### WHERE THE ACTION IS

Professional Builder reported in November, 1985 in "The North and Midwest Is Where the Action Is," that Northeast and Midwest housing starts were up 20% over a year ago. Builders reported strong demands for new homes in Boston. Ronald Frazier, executive officer of the Builders Association of Greater Boston, said the Boston area has had a 20,000 to 24,000-unit shortage each year. The Association reported 11,500 permits in Greater Boston for the first seven months of 1985, compared to 10,866 permits for all of 1984 and 6,429 in 1980.

#### EMPLOYMENT GROWTH AHEAD OF HOUSING GROWTH INDICATES STRONG HOMEOWNERSHIP MARKET IN METROWEST

This leaves us with regional and local factors. Regionally, the economy was prospering, employment growth has been racing ahead of housing construction for five years. Now that interest rates have come down, developers are increasing housing production, filling pent up demand from the high rate period, but not filling the demand caused by the continuing increase in employment and the continuing decrease in the number of persons in each housing unit.

Philip Herr, in Growth Clinic Manual notes that Metrowest job growth is leading population growth:

Metrowest . . . job growth is leading population growth . . . Reported jobs and their attendant demands on roads, water, and sewer capacity grew by 65% between

1973 and 1984, and by 12% just between 1980-1984. Growth at that rate would mean a one-third increase in jobs in a decade, seriously out of balance with local labor force growth. While expected population increase seems relatively manageable (2.5% over 20 years), when translated into housing needed to accommodate both population growth and declining household size, an increase of at least 20% in Metrowest housing units is likely between 1980-1990, with as much as 60% growth in some towns.

Philip Herr observed that in 1980 about 1/3 of Metrowest land was undeveloped and buildable. The Metrowest subregion is evolving from a bedroom area to a central core. In 1980 jobs and housing were roughly balanced and out-commuting equalled in-commuting. The above trend is for a major surplus-of-jobs imbalance to develop fairly rapidly.

Metrowest's subregional situation, when superimposed on the national factors mentioned above, indicate a very strong housing market in Metrowest for the foreseeable future. The single most important variable in determining to what extent that demand is met is the local zoning response to this rising demand. In many of the Greater Metrowest cities and towns residential growth will certainly continue to be highly restrained. In many it is not easy to predict what their response will be. For them the next few years will see development pressures that they have not previously had to confront.

Much of the housing demanded in coming years in the Metrowest area will be above the affordable range. Many families and individuals will buy the quality of housing that cannot be produced at affordable levels. Hence, Metrowest can make significant contributions to meeting rising housing demand without making a meaningful contribution to affordable family housing. It is likely that they will continue to respond to the demand for

affordable elderly housing. What we know about the Metrowest market in fact supports our interviewees belief that affordable homeownership opportunities will not be provided in meaningful numbers without local zoning policy change and/or state subsidies and pressure. There will be higher-end housing in the subregion to build for a number of years. This will reduce residential developer efforts at promoting affordable housing.

#### THE MASSACHUSETTS ECONOMY SHOULD BE STRONG AT LEAST THROUGH 1990

Massachusetts and New Hampshire shared the nation's lowest unemployment rate in 1985, 3.9%. Jobs increased 2.6% in Massachusetts in 1985, according to the Ma. Department of Economic Security (DES). In a March 7, 1986 report, DES said that every sector increased during the year except manufacturing, which lost 18% (11,800). Finance, Insurance and Real Estate combined increased 5.9% (10,600). There was a net increase in 85 of 74,000 jobs. Construction grew 13% (12,400), Trade 3.6% (23,800), Transportation/Communication/Utilities 2.8% (3,200), and Government 2% (7,500). The largest sector, Services-- including health care, education, software companies, consulting firms, etc.--grew 3.7%, by 28,000 jobs.

This impressive job growth rate is very healthy, but less than the extremely unusual rates of 5% a year which Ma. experienced in 83 and 84. Robert Gough, senior economist at Data Resources Incorporated said that their national input-output model predicted a 7.5% growth in personal income in Massachusetts in 1986 and 7.9% in 1987. Similar evaluations of the New England Region show strong growth for the next two years as well, but not

as strong as in Massachusetts. The prognosis for the New England and Ma. is steady growth in employment, at better rates than the nation as a whole, though not so fast as in the past.

Due to the time lag between the awarding of government military research and production contracts, and the actual performance of the work, Ma. military employment would remain stable for a year and a half even if no additional contracts were awarded. Even if no new federal taxes are enacted and a full-scale Gramm-Rudman cut took \$83 billion out of the military in the next two years, military economic activity would continue to grow in the state.

Massachusetts specializes in military electronics in general, and in advanced electronics in particular. Both military procurement categories are unanimously expected to expand even if the overall military procurement budget decreases. This author believes there will be steady military employment growth in services and manufacturing at least through 1989, and anticipates a modest military employment downturn in the state in the early 1990's.

Metrowest job growth is racing ahead of labor force growth. The same phenomenon is happening in the state as a whole, although not as intensely as in Metrowest. Ma. total employment has been growing at about 3% a year since 1975, while the labor force has been growing 1% a year. The Federal Reserve Bank of Boston produced a study in 1985 which predicts even slower growth in the Ma. labor force in coming years.

Norman Boucher reported in the November 10, Boston Globe Magazine that Massachusetts lost over 5,000 high-tech jobs in the

first 11 months of 1985. National 1985 employment in U.S. computers and semiconductors fell 27%, but only fell 10% in Ma. The Ma. Department of Employment Security established a high-tech employment grouping which totalled 270,000 jobs in 1985. The lost high-tech jobs are less than 2% of total high-tech jobs. All high-tech jobs add up to 9% of Ma. non-agricultural jobs.

This author feels that the layoffs represent the beginning of a period of slower high-tech growth, made a bit more poignant at first from this sudden employment drop. The sudden drop is an initial shakeout for the relatively new high-tech players. Some relatively new high-tech markets, like office and personal computers, have become temporarily saturated, and will experience slower growth in the next few years. As noted above, military work will also buoy the high-tech sector for the next few years. In spite of the high-tech job decline in 1985, the DES reported at the end of that year that they expected high-tech employment to continue to grow 3% a year for the rest of the 1980's.

Even assuming slightly slower growth than this for Ma. high-tech in the next few years, and smaller increases in military spending than has recently been the case, the state's economy still looks strong.

All of the above sketches a picture of a continuing strong housing market, where employment continues to grow faster than the labor force, and the economy remains strong. Since the growing labor force has an abnormally high portion of professional workers, they will be demanding amenities in a home that will price the homes they buy out of the affordable range

(above \$130,000 in the spring of 1986). Many of the demographic bulge buyers are mature baby-boomers who are moving up into larger homes that will also be priced above our affordable price range. Hence the residential development interests will be able to continue to build at a healthy pace without building meaningful numbers of affordable housing. That is to say, the above analysis of factors affecting the housing market gives us no reason to think that the affordable housing situation will improve in the least in the next few years. Under the above economic scenario it is likely that residential property values will continue to appreciate above the rate of inflation. Hence, it is likely that the affordable housing crisis will get worse in Massachusetts before it gets better.

#### THE DUAL LABOR FORCE AND THE HOUSING MARKET

Eastern Massachusetts has been moving toward a dual labor market for well over a decade. Manufacturing had always been much more important than it is today, and manufacturing wages are higher than many of the retail clerk, secretarial, hospitality and health service jobs that are so important in the rapidly growing service industries. Hence, as services have displaced manufacturing in the regional economy, a lower-wage tier has grown and a middle-wage tier has shrunk. The growth of high-tech and some of the consulting and finance services has brought in a large portion of the labor force that is professional and relatively highly paid. Thus, the number of middle-level income earners is stagnant or declining, while both lower and higher-income earners are growing in number--hence, the term "dual labor market."

The emergence of such a labor market helps explain the shape that the housing market has assumed in recent years. Home prices would not have climbed upward so fast for so long if people were not out there buying houses at ever more dizzying prices. It is not only regional economic growth that is maintaining a regional housing market at \$150,000 a unit and up; it is also the changing composition of the labor force which is expanding the percentage of the population that can afford such housing. The effect on the housing market is a multiplier effect of growth times the increased higher-income portion of the population.

The changing composition of the workforce also contributes to the severity of the affordable housing crisis. Some of the middle-level manufacturing earners are being displaced and end up at lower family-income levels. Many more find their manufacturing jobs disappearing following their retirement--attrition is used to eliminate more manufacturing jobs than permanent layoffs or closings. People that do not get to replace retiring manufacturing workers are most likely to end up in the rapidly growing services workforce that gets paid less than the manufacturing workforce. Both the stagnant or shrinking middle and the expanding lower-paid services fields are expanding the need for--and the effective economic demand for--affordable housing.

Thus the emergence of the dual labor market is contributing to the affordable housing crisis by increasing the portion of the population that can only pay for affordable housing. The stagnant middle and increasing lower-income sectors can pay for

affordable housing. There is a substantial pent-up, effective economic demand, but the product is not there.

## APPENDIX VI

### WHAT IF MORTGAGE INTEREST RATES DROPPED 1% FROM SPRING 1986 LEVELS?

In the spring of 1986, market rate mortgage interest was about 10%. MHFA rates, if not raised by possible federal legislation, are expected to follow in 86 at around 8%. This situation is represented in the first of the following tables. William Moore, President of the National Association of Realtors, said in a press conference April 18, 1986, that he expected residential mortgage interest rates to come down to about 8.8% by the end of the year. Mr. Moor added that rates would go no lower and would tend to stabilize at 8.8%. The second set among the following tables simple uses Mr. Moore's prediction, and lowers interest rates 1% from the 10% and 8% rates used in the first set of tables. Let us see what difference such a 1% rate drop would do to homeownership affordability:

#### SET 1

##### FNMA REQUIREMENTS

Figures are based on estimated 1986 interest rates of 10% market (FNMA) and 8% tax-exempt bond subsidized (MHFA):

	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
PRICE	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
MTGAGE	54,000	63,000	72,000	81,000	90,000	99,000	108,000	117,000
MTG PMT	5,728	6,683	7,638	8,592	9,547	10,502	11,457	12,411
INS&TX*	1,420	1,480	1,550	1,610	1,690	1,780	1,870	1,960
TOTAL QUALIFYING HOUSING								
EXPENSE	7,148	8,163	9,188	10,202	11,237	12,282	13,327	14,371
INCOME	28,593	32,652	36,751	40,810	44,949	49,127	53,306	57,485

##### MHFA REQUIREMENTS

	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
PRICE	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
MTGAGE	57,000	66,500	76,000	85,500	95,000	104,500	114,000	123,500
MTG PMT	5,063	5,907	6,751	7,595	8,439	9,282	10,126	10,970
INS&TAX	1,420	1,480	1,550	1,610	1,690	1,780	1,870	1,960
TOTAL QUALIFYING HOUSING								
EXPENSE	6,483	7,387	8,301	9,205	10,129	11,062	11,996	12,930
INCOME	20,913	23,829	26,777	29,693	32,673	35,685	38,698	41,710

\*Insurance and Tax estimates are again the author's very conservative ones. Although state law now requires residential property to be assessed at 100% of market value, mean assessments are considerably lower for existing structures. These tables assume mean assessments at about 75% of market value.

SET 2

FNMA REQUIREMENTS

Figures are based on estimated 1987 interest rates of 9% market (FNMA) and 7% tax-exempt bond subsidized (MHFA):

PRICE	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
MTGAGE	54,000	63,000	72,000	81,000	90,000	99,000	108,000	117,000
MTG PMT	5,256	6,132	7,008	7,884	8,760	9,636	10,512	11,388
INS&TX*	1,420	1,480	1,550	1,610	1,690	1,780	1,870	1,960
TOTAL QUALIFYING HOUSING								
EXPENSE	6,676	7,612	8,558	9,494	10,450	11,416	12,382	13,348
INCOME	26,705	30,449	34,233	37,977	41,801	45,665	49,529	53,393

MHFA REQUIREMENTS

PRICE	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
MTGAGE	57,000	66,500	76,000	85,500	95,000	104,500	114,000	123,500
MTG PMT	4,593	5,359	6,125	6,890	7,656	8,421	9,187	9,952
INS&TAX	1,420	1,480	1,550	1,610	1,690	1,780	1,870	1,960
TOTAL QUALIFYING HOUSING								
EXPENSE	6,013	6,839	7,675	8,500	9,346	10,201	11,057	11,912
INCOME	19,398	22,061	24,757	27,420	30,147	32,907	35,667	38,427

Mark Zigler, a coordinator of Massachusetts Housing Partnership programs, prepared a similar table. He assumed maximum allowable property taxes at a full 100% of market value assessment, and assumed higher mortgage insurance rates than those incorporated in the tables above. Compared to the last line from the last table above, his corresponding figures are:

INCOME	21,163	24,691	28,218	31,745	35,272	38,800	42,080	45,986
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Mr. Zigler's required income estimates may be more accurate if restricted exclusively to new construction, since new construction is assessed much closer to real market value than are existing residences.

Going back to the two sets of tables above. How much difference does a 1% drop in interest rates make? If we subtract the required conventional FNMA incomes required in the second set from those in the first, we get:

HOME PRICE	60,000	70,000	80,000	90,000	100,000	110,000	120,000	130,000
INCOME SHIFT	1,888	2,203	2,518	2,833	3,147	3,462	3,777	4,092

A 1% drop in interest rates enables a family that could have purchased a \$60,000 home to purchase a \$64,000 home, and a family that could have purchased a \$120,000 home can now purchase a \$128,000 home.

Speaking at the same conference as Mr. Moore, Arthur Zweill, president of the Massachusetts Association of Realtors, predicted 15% to 20% appreciation in the greater Boston area residential market for 1986. He feels that residential prices will continue to rise until the regional economy suffers a setback. Taking this prediction along side of the above prediction by Mr. Moore that interest rates will drop 1%, leaves the affordable homebuyer in worse shape than before. The gain made from 1% lower interest is counteracted by the doubly powerful effect of 15%-20% appreciation.

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