

Affordable Housing Solutions

Options:

1. Offer density bonuses for permanent affordable housing
2. Offer property tax incentives
3. Offer incentives for development in target areas
4. Rezone underutilized commercial zones within City areas close to services

Inclusionary Zoning

Inclusionary zoning increases LMI housing using private funding and promotes mixed income neighborhoods.

Examples:

Chicago Affordable Requirements Ordinance

- Originally applied only to developments of 10 or more units that received land or financial assistance from the City.
- Currently applies to all rental and for-sale projects with at least 10 residential units that require certain zoning changes, include land purchased from the city, receive financial assistance from the city, or are within a planned development in a downtown zoning district.
- Requires developments meeting certain criteria to have at least 10 residential units (R10) set aside with at least 10% of them for lower income households.
- requirement jumps to 20 percent if a development receives financial assistance from the city.
- The ARO does not offer cost offsets, but the requirements that trigger the ordinance, such as zoning changes that increase density and financial assistance from the city, are regarded as compensations built into the program.
- The base allowable floor area ratio (FAR) in an R10 district is 10 and can be increased to a maximum of 12 FAR. FAR is the ratio of total square footage of a building to the site area. Depending on a project's construction type and financing structure, the R10 program provides 1.25 to 3.5 square feet of bonus floor area for every square foot of affordable floor area provided.
- Certain % in new or rehab projects must be LMI
- Provides affordable housing for essential personnel such as police, firemen, teachers, elderly
- Lessens impact of gentrification on elderly

New York Inclusionary Zoning Program

R10 Program

- To lessen overcrowding and provide housing in work areas;
- Affordable housing for those making less than 80% of AMI
- 30% of all residents pay more than 50% of income for housing.
- Rezoning underutilized industrial areas within the city to facilitate residential or mixed-use development and identifies IZ as a key tool to harness the private market to produce affordable housing.

Designated Areas Program

- offers a density bonus of up to 33 percent above the base floor area ratio.
- In the areas designated for inclusionary housing, developers receive 1.25 square feet of bonus floor area, up to the maximum allowable FAR, for every square foot of affordable housing provided.

- developers must set aside 20 percent of a building's residential floor area to house low-income families earning no more than 80 percent of AMI.
- In certain designated areas, developers may target households earning up to 125 or 175 percent of AMI so long as a larger percentage of units are set aside as affordable housing. (Workforce Housing)

Housing under this program must be:

- affordable for the life of the development
- set-aside units must be distributed throughout a building
- IZ units have to be located on 65 percent of floors and in such a way that no more than a third of the units on each floor are IZ units.
- For all inclusionary units, applicants who meet income eligibility requirements are chosen by lottery.

New York City Tax Incentive Program for Low Income Housing

- **421 Tax incentive program**
 - provides partial real estate tax exemption for new multifamily rental housing
 - voluntary program that permits the use of tax incentives and public subsidies allows greater flexibility without straining city resources.
 - On-site development

CommunityDividend

RSS

First Homes broadens homeownership opportunities in Rochester

Through its community land trust program and comprehensive plan for downtown revitalization, a local nonprofit organization works to provide affordable homes for low- and moderate-income families in the Rochester, Minn., area.

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The southeastern Minnesota city of Rochester is the third-largest city in the state, with a population of just over 100,000. It is home to one of the world's foremost medical facilities, the Mayo Clinic, which currently employs more than 33,000 people at its Rochester location. During the late 1990s, the Mayo Clinic and other major Rochester employers, including IBM, Fastenal, and Benchmark Electronics, experienced immense growth. However, as jobs were added, affordable homes were not.

"Local businesses were hiring folks, starting them at \$40,000 and \$50,000 a year, and they were quitting two weeks later because they couldn't find affordable housing," says Steve Thornton, executive director of the Rochester Area Foundation (RAF), a local philanthropic organization founded in 1944. "Mayo ended up master leasing 90 apartments, just so new employees could have somewhere to live."

Local leaders recognized the affordable housing shortage as a hindrance to the growth they envisioned for the community. They decided to design a way to address the issue. In 1999, RAF representatives met with area leaders to explore opportunities for affordable housing in Olmsted County. After attempting collaborative efforts with existing community development corporations, RAF decided to form First Homes, a subsidiary organization with a mission of creating affordable housing in the Rochester area. To fund the start-up organization, RAF made a leadership gift of \$1 million. Mayo followed with a gift of \$4 million and agreed to donate an additional \$3 million if RAF could raise matching funds.¹ First Homes set an initial goal of building 875 affordable homes, including 375 rental units and 500 single-family homes.

Gap loans, TIF provide help

One of First Homes' first actions was to work with the City of Rochester to subsidize developers who designate some of their units for affordable housing. Later, with the financial support and guidance of the city, Greater Minnesota Housing Fund, and Minnesota Housing (formerly known as the Minnesota Housing Finance Agency), First Homes began offering gap loans to potential homeowners and tax increment financing to developers.

Gap loans are low- or no-interest second mortgages that allow low- and moderate-income buyers to achieve homeownership by reducing the amount of the first mortgage. Payments are deferred, and loans are repaid when the home is sold.

"We originally didn't plan to do gap loans, but the need for affordable housing was so immediate at the time," says Sean Allen, executive director of First Homes.

First Homes makes gap loans of up to \$30,000 to help working families become first-time homeowners. One client found that the gap loan perfectly fit his needs.

"I put the gap loan toward making the home I purchased accessible for my disability," says Jeff Vert, a Rochester homeowner who was injured at age 20 in a diving accident. "I wouldn't have been able to make the home accessible without [First Homes'] help." Vert now serves as secretary of the First Homes board of directors and encourages other board members to focus on accessibility.

First Homes' use of tax increment financing, or TIF, was designed to encourage local builders and developers to help meet the housing needs of the community. With TIF, a developer applies for a tax subsidy with the city and indicates which lots in a particular development it will designate for affordable housing. Manufacturing and other commercial developments most often utilize TIF, which pays developers as the project progresses. In Rochester, however, the city decided to pay a subsidy of \$10,000 to developers up front because of the severity of the need and the trusted recommendation of the foundation. The credit allows the builder to offer the home at a lower purchase price.

Keeping homes affordable

Combined, gap loans and TIF offered by First Homes helped each homebuyer save up to \$40,000. Although the savings helped ease the immediate affordable housing shortage in Rochester, the staff of First Homes felt that a long-term solution was necessary.

"RAF had been around since 1944 and planned to be around forever, and we wanted to think about affordable housing the same way," says Allen. "Gap loans and TIF just weren't going to do that."

In order to make housing affordable in perpetuity, First Homes decided to establish a community land trust, or CLT. The CLT model reduces the cost of homeownership by removing the cost of the land from the purchase price of the property. The trust owns the land on which the home sits and leases it to the buyer, who pays the trust a monthly lease fee. When the home is sold, the CLT recovers a portion of the increased market value in order to maintain the affordability of the property for future buyers. Communities across the country experiencing both growth and disinvestment use CLTs to provide homeownership opportunities for low- and moderate-income individuals.^{2/}

To develop its CLT program, First Homes obtained technical assistance funding from the U.S. Department of Housing and Urban Development. After months of planning and working with consultants, First Homes began selling CLT homes in 2002.

The First Homes CLT program provides a 99-year renewable land lease that reduces the home's price by \$40,000. Monthly land lease fees are a mere \$10 for the first three years of occupancy and plateau at \$50 beginning in year six. CLT homeowners realize an additional savings of approximately \$100 per month, because they do not pay private mortgage insurance. Also, they can combine their CLT benefits with up to \$15,000 in deferred, zero percent interest gap loans from First Homes and \$3,000 in first-time homeowner assistance from Minnesota Housing. While some CLTs offer minimal financial benefit to the homeowner upon resale, homeowners working with First Homes receive 50 percent of the home value appreciation as well as all equity invested.

Prospective homeowners must meet several requirements before they can participate in the First Homes CLT. For example, they must earn less than 80 percent of the state median income, depending upon family size and county of residence.

"We started with the CLT discount at \$30,000 and raised it to \$40,000 as land prices in Rochester continued to rise. We wanted to be able to keep serving that \$23,000 to \$28,000 income range. The lowest-income resident we've served had a salary of \$14,000. We worked creatively with that person by acquiring and rehabbing a HUD foreclosure," says First Homes Program Officer Cheryl Key.

First Homes CLT buyers must also attend Homestretch homebuyer education classes; meet individually with Key to discuss financing options; and work with First Homes-approved lenders, builders, and title companies. First Homes or the lending institution provides a paid home inspection. First Homes also sponsors a post-purchase home maintenance education program in which a home inspector conducts on-site preventive maintenance training at no cost to the owner.

First Homes no longer repurchases its CLT homes from sellers, but it does assist with the selling process so that sellers avoid expensive Realtor commissions. Potential buyers must meet First Homes' qualifications and agree to the land trust arrangement.

"This has been a great tool for working families. There's a waiting list for resale and to date we've had 35 resales and 40 repaid gap loans. As more resales arise, we are able to serve even more working families," says Key.

Imagining a revitalized downtown

In September 2007, First Homes reached its initial goal of providing 875 affordable housing units in Rochester and the surrounding area. Included in those 875 units were several neglected properties in Rochester's core neighborhoods. First Homes began Heritage Homes, an initiative designed to rehab the properties and stabilize the surrounding neighborhoods, in 2004.

Early in the Heritage Homes program, one of the focus areas was Kutzky Park, a large downtown neighborhood that faced decreased property values resulting from crime and neglect. Previous attempts to revitalize the area had been left unfinished. For example, in 1997, a housing agency purchased three homes with funding from Mayo and Minnesota Housing and never completed the promised renovations. Neighborhood residents urged the Kutzky Park Neighborhood Association to start its own community development corporation as a response.

"The community had been promised \$1 million by another housing agency and five years later all they saw were unfinished projects. We stepped in, went to Mayo and said, 'We can do this with the money you've already designated.' We talked the neighborhood residents into a long-term process and the Imagine Kutzky concept was born," says Allen.

Imagine Kutzky began with community meetings in which representatives from the Kutzky Park Neighborhood Association and First Homes asked area residents to describe their vision for the neighborhood. They then formed the Imagine Kutzky Citizens Council, which helped establish architectural guidelines and now reviews incoming development proposals.

Chris Flood, cochair of the Imagine Kutzky Citizens Council and a First Homes program officer, developed a unique mapping program called Property Inventory and Evaluation, or PIE, to identify the homes that had historic value and were in dire need of repair. He recruited volunteers to walk the neighborhood and take notes on each property's architectural or historical significance and level of upkeep. From the notes, he developed color-coded maps of the area. (View the Kutzky Park PIE maps.)

The maps' colors show which properties are run down or in great shape and which ones are culturally significant. First Homes used the PIE maps to identify properties where rehab work might create a ripple effect that would stimulate reinvestment on the surrounding blocks.

Although Imagine Kutzky is an ongoing effort, First Homes considers it a success. The program has resulted in 23 rehabs in Kutzky Park to date. One of them was a dilapidated apartment home that was the site of 46 police calls in the 12 months preceding First Homes' purchase of the property. A new, two-story condominium building constructed in the craftsman style of the 1920s now stands on the site, with units for purchase beginning at \$89,900. The new condominiums were the first residential construction in Kutzky Park in 20 years.

"It wasn't very long ago that people didn't want to live in Kutzky Park, and now neighbors are buying houses and fixing them up as investments," says Allen. "The Imagine concept gets people thinking big about issues like walkability and connected green space. We're working on those issues, despite the tremendous challenges in an infill environment. But the community is driving the revitalization; we're just coming in with targeted resources."

Creating neighborhoods of choice

After reaching its initial goal of 875 homes, First Homes continued its work with CLT resales, developer assistance, and Heritage Homes. However, RAF, First Homes, and other community leaders began to shift their focus to a larger venture.

In 2006, RAF decided to expand the Imagine Kutzky project to the six other core neighborhoods in downtown Rochester. A diverse group of 26,000 people lives within the seven neighborhoods, but disinvestment over the past 40 years has decreased residents' safety and property values. In 2007, these neighborhoods accounted for 22 percent of Olmsted County sheriff's foreclosure sales and 33 percent of those in Rochester.

The new initiative, First Neighborhoods, will work with the Rochester Downtown Alliance and Workforce 2020 to lead a comprehensive revitalization of the seven neighborhoods. The focus will be not just on creating and maintaining affordable housing through a CLT, but also on cultivating leadership and stimulating business growth.

The program hopes to nurture these neighborhoods to a tipping point beyond which private investment will flourish. First Neighborhoods plans to create mixed-income neighborhoods through its CLT and promote high-density redevelopment to support the anticipated increase in the workforce. Total redevelopment spending is expected to exceed \$360 million over ten years. The leaders of First Neighborhoods plan to seek partnerships with GMHF, Minnesota Housing, NeighborWorks@America, Mayo Clinic, and city and county government agencies.

"We're trying to avoid another housing crisis and support continued growth by rehabbing or creating 2,300 to 2,400 homes through First Neighborhoods," says Thornton of RAF.

Before First Neighborhoods will bring in development resources, each neighborhood will be required to have an incorporated neighborhood association, perform PIE mapping, and work through the Imagine concept of neighborhood visioning. The neighborhood association and its leaders will work with First Neighborhoods to implement community decisions.

First Neighborhoods' initial goals are to improve measurably the existing affordable housing stock while developing new affordable and market-rate housing opportunities, increase the number of homeowners through higher-density housing and the land trust program, and convert substandard rental units into single-family homes or higher-density units.

The long-term goal focuses on transforming the seven core neighborhoods into "neighborhoods of choice" by 2014. First Neighborhoods plans to market the downtown area to potential residents and sponsor stimulation programs to fund business recruitment and expansion. The program will provide incentives to encourage the development of affordable rental and homeownership options.

"Our ultimate goal is to make the private market interested, but keep the CLT to prevent gentrification. We want affordability in these neighborhoods and so do the residents," says Allen.

With local, state, and philanthropic funding and private market interest, First Neighborhoods hopes to create a vibrant downtown that will attract residents of all ages, ethnicities, and socioeconomic backgrounds. First Neighborhoods hopes for a mixed-income community with increased population, reduced crime rates, and pedestrian-friendly streets that connect residents to work, shopping, and entertainment.

Poised for growth

To date, First Homes has helped provide 538 single-family homes and 379 rental units in Rochester and the surrounding area. In the process, it has become the state's largest-ever community-based assisted-housing program. More than 100 local donors worked with builders, banks, Realtors, and local and state government officials to make this accomplishment a reality.

"One hundred percent of our projects have been funded by state and federal financing when we've applied for it. I'm very proud of that. We've chosen good projects and our track record is good," says Allen. Tim Marx, former commissioner of Minnesota Housing, notes that Rochester, through First Homes, is the recipient of the most housing dollars ever given to one agency or area in the state.

According to First Homes' leaders, the organization's success has helped create more interest in housing in the Rochester area. The initial \$5 million raised locally was leveraged into an additional \$135 million in construction activity. Rental vacancies have moved to a healthy market level and community leaders no longer hear stories of employers losing new and prospective employees due to housing costs. Private developers have built market-rate apartments and town homes, adding more than 2,000 units from 2001 to 2004.

"I am not sure we can take credit for this record level of construction, but we think the awareness that we created of the housing shortage contributed to private developer activity," says Thornton.

The CLT model will continue to be a cornerstone of First Homes. With a homebuying program designed to keep housing permanently affordable and a comprehensive plan for downtown revitalization, First Homes has remained true to its commitment to provide affordable homes for low- and moderate-income families in the Rochester area. Thanks in part to the work of First Homes, Rochester seems poised for continued growth.

For more information about the Rochester Area Foundation, First Homes, and First Neighborhoods, visit www.rochesterarea.org.

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1/ The final \$1 million was received from Mayo in 2004, bringing total donations from the organization to \$7 million.

2/ For more on CLTs, see *Community Dividend* Issue 3, 2007.

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