

HOUSING CONSERVATION PROGRAM

AN AFFORDABLE WORKFORCE HOUSING SOLUTION FOR MIDDLE INCOME FAMILIES

For Discussion with the Town of Southampton

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PECONIC HOUSING DEVELOPMENT FUND

Prepared by Peter A. Wadsworth

Tel. 631-537-5528

PECONIC HOUSING CONSERVATION PROGRAM

AN AFFORDABLE WORKFORCE HOUSING SOLUTION FOR THE FIVE EAST END TOWNS

CONTENTS

I. SUMMARY	1
II. PHDF’S HOUSING CONSERVATION PROGRAM (HCP).....	3
III. HOUSING CONSERVATION OPPORTUNITIES IN SOUTHAMPTON.....	10
IV. DEMONSTRATION PROJECT	14
V. PECONIC HOUSING DEVELOPMENT FUND (PHDF).....	17

PECONIC HOUSING CONSERVATION PROGRAM

AN AFFORDABLE WORKFORCE HOUSING SOLUTION FOR THE FIVE EAST END TOWNS

I. SUMMARY

THE HOUSING CONSERVATION PROGRAM COULD SIGNIFICANTLY INCREASE THE SUPPLY OF AFFORDABLE HOUSING IN SOUTHAMPTON

- **THE HOUSING CONSERVATION PROGRAM GREW OUT OF THE “AFFORDABILITY EASEMENT” CONCEPT.**
 - Down Payment Assistance for Families with 80% to 120% of Median Income
 - Leveraged with private sector resources & money
 - Density Neutral, no permits required & other advantages over CLTs & New Construction
- **50 TO 200 SUITABLE HOMES CURRENTLY LISTED IN TOWN OF SOUTHAMPTON**
 - Average cost of assistance estimated at \$135,000 +transaction costs
 - Over 200+ homes in Southampton could qualify for HCP funding
 - PHDF has pre-qualified 50 homes listed for \$500,000 or less.
- **PHDF IS SEEKING FUNDING FOR A DEMONSTRATION PROGRAM**
 - Originally conceived as 1 homes in each of 5 towns for \$1 million net cost
 - Southampton could participate for as little as \$55,000.
- **PECONIC HOUSING DEVELOPMENT FUND (PHDF) FOUNDED TO PROVIDE AFFORDABLE HOUSING TO THE FIVE EAST END TOWNS**
 - Not-for-profit Housing Development Fund under the New York State law
 - Federal 501(c)3 tax status (expected within 30 days of supplemental filing).
 - Board to be expanded
 - Will outsource most functions
 - Will be pro-active in Financing & Program Development

PHDF'S MISSION

- **PRESERVE EXISTING HOUSING STOCK & CULTURAL DIVERSITY**
- **PROVIDE AFFORDABLE HOUSING FOR ESSENTIAL WORKFORCE**
 - Focus efforts on essential workforce, e.g. schools, healthcare, local businesses
 - Reduce initial cost of home for first time buyers to affordable level
 - Facilitate lower cost financing on better terms (by lowering loan-to-value ratio).
- **ENSURE LONG-TERM AFFORDABILITY**
 - Restricts resale price & eligible purchasers
 - Maintains affordability relative to median income (see resale formula).
 - Enables owners to accumulate equity to buy next (unrestricted) home
- **LEVERAGE PUBLIC FUNDING WITH PRIVATE SECTOR FINANCIAL & HUMAN RESOURCES**
 - Charitable Giving
 - Private Sector Mortgage Financing
 - Local Employers, Real Estate & Building Services
 - Legal & related services
 - Retired & semi-retired professionals

II. PHDF'S HOUSING CONSERVATION PROGRAM (HCP)

SUMMARY

- **TARGETED TO MIDDLE-INCOME WORKFORCE**
 - 80% to 120% of Median Income
 - Town residents or incoming workers
- **DOWN PAYMENT = ACQUISITION COST – AFFORDABLE MORTGAGE**
 - Affordable Mortgage: Debt Service Payments \leq 1/3 of Income
 - Acquisition Cost = Selling Price+ Rehab Costs (if any) + Transaction Costs
 - Transaction costs can be significant (3% to 5%)
 - Down Payment likely to be substantially less than Land Cost.
 - Deed covenants restrict use & Resale Price
- **RESALE PRICE TIED TO MEDIAN INCOME**
- **DEED RESTRICTIONS INCLUDE RESALE LIMITATIONS & FIRST RIGHT OF REFUSAL**
- **SIGNIFICANT ADVANTAGES OVER CLTS AND OTHER APPROACHES**
 - Faster & Less Costly
 - No density increase, permits or hearings
- **COMPETING MORTGAGE LENDERS & BROKERS CAN REDUCE PROGRAM COSTS**
 - Competition means lower borrowing costs & better terms
 - Lower costs mean higher debt capacity and less Down Payment Assistance
 - Will require Oversight & Coordination

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HCP CAN MAKE HOMES PRICED OVER \$500,000 AFFORDABLE FOR LARGER FAMILIES

Nassau/Suffolk Median Income by Household Size							
% of Median Income	1	2	3	4	5	6	8
80%	\$47,750	\$54,600	\$61,400	\$68,250	\$73,700	\$79,150	\$90,050
100%	\$59,688	\$68,250	\$76,750	\$85,313	\$92,125	\$98,938	\$112,563
120%	\$71,625	\$81,900	\$92,100	\$102,375	\$110,550	\$118,725	\$135,075
AFFORDABLE MORTGAGE (7% Interest for 30 yrs)							
80%	\$199,366	\$227,966	\$256,358	\$284,958	\$307,713	\$330,468	\$375,978
100%	\$249,208	\$284,958	\$320,447	\$356,198	\$384,641	\$413,085	\$469,972
120%	\$299,049	\$341,950	\$384,537	\$427,437	\$461,569	\$495,702	\$563,967
AFFORDABLE HOUSE SIZE (w/ Easement & 7% Mortgage)							
80%	\$336,767	\$385,079	\$433,037	\$481,348	\$519,785	\$558,223	\$635,097
100%	\$336,767	\$385,079	\$433,037	\$481,348	\$519,785	\$558,223	\$635,097
120%	\$336,767	\$385,079	\$433,037	\$481,348	\$519,785	\$558,223	\$635,097

Affordable Mortgage Payments = 1/3 of Median Income
Mortgage = 7% Fixed Rate 30 Year Mortgage

HCP INCORPORATES RESALE FORMULA TIED TO INCOME & DEED RESTRICTIONS

- **RESALE PRICE TIED TO MEDIAN INCOME**
 - Martha’s Vineyard Model
 - Fixed ratio of home price to median income, e.g. 4.0 x 100% of Median Income
 - Maintains relationship of resale price to income

- **RESALE LIMITED TO OTHER QUALIFIED BUYERS BY DEED RESTRICTIONS**
 - Documented income of 80% to 120% of published Nassau/Suffolk Median Income
 - Insufficient liquid assets to purchase home at full market price, i.e. down payment.
 - Property to be Sole Residence.
 - Buyer shall not have owned any real estate in the last three years.
 - PHDF has first right of refusal

- **ADDITIONAL DEED RESTRICTIONS LIMIT EXPANSION, USE & OCCUPANCY**
 - No improvements requiring Building Permit w/o PHDF permission.
 - No increase in footprint unless purpose consistent with affordability
 - Must meet prevailing zoning, building & health standards or be upgraded before occupancy
 - Property must at all times continue to be the primary & sole residence of the Owner
 - Cannot be rented without the express written permission of PHDF.
 - The Property must be maintained in good condition.
 - The Owner’s occupancy must conform to all applicable zoning and occupancy laws.

- **FAILURE TO MEET REQUIREMENTS CAN RESULT IN REPOSSESSION OR FORCED SALE.**

HCP HAS MANY ADVANTAGES OVER OTHER APPROACHES

- **MAINTAINS AFFORDABILITY RELATIVE TO MEDIAN INCOME.**
 - Fixed ratio of price to median income
 - Minimizes recapture costs
- **CONSERVES EXISTING HOMES/ELIMINATES DENSITY AS AN ISSUE**
 - No increase in Density; No TDRs; No Zoning Changes
 - No Planning Dept. or Town Board approvals required
- **MUCH SHORTER TRANSACTION TIMES**
 - No Rezoning, planning department approvals or permits
 - No public hearings
 - No TDRs
- **CAN BE FINANCED PREDOMINANTLY WITH PRIVATE MORTGAGE MONEY**
 - Access to many more lenders than for Community Land Trust (CLT).
 - Possible donations
 - Employers who need workforce housing may participate
- **TRUE COSTS ARE LESS THAN FOR ALTERNATIVES**
 - Requires lower subsidy than CLT – 30% compared to 40% to 50%.
 - Down Payment Assistance program typically less than 30%.
 - All-in Cost (\$135k/home) lower than Bridgehampton Mews (land included).
- **OWNERS CAN ACCUMULATE EQUITY TO BUY NEW (UNRESTRICTED) HOME LATER.**

HCP COMPARES FAVORABLY WITH THE COMMUNITY LAND TRUST (CLT) MODEL

PHDF’s concept of an “Affordability Easement” has several advantages over the Community Land Trust (CLT) model used in a number of communities in Massachusetts, and being adopted by East Hampton and Southold:

➤ **EASIER TO FINANCE...**

land leases limit availability of private mortgage lenders
HCP designed to work with all conventional lending programs.

➤ **FLEXIBLE PERCENTAGE OF PURCHASE PRICE**

Percentage of subsidy not determined by land value
Easement ratio can vary from e.g. 0% to 50% to fit the situation...
Purchase Price
Income Level
Funds for Down payment

➤ **LOWER AVERAGE COST PER FAMILY**

Land costs can run to 50% (or higher) of total cost of acquisition + construction/rehab.
Typical funding of PHDF approach may cost 20% to 40% (see sample).
Bargain Sale to a 501c 3 may qualify seller for tax deduction.

WITH OVERSIGHT & COORDINATION PRIVATE SECTOR LENDERS CAN REDUCE COSTS

- **GREATER COMPETITION = LOWER COST & BETTER TERMS (GENERALLY)**
 - Lower Rates
 - Interest Only Loans
 - Higher Loan-to-Value Ratios
 - Higher permissible income ratios
 - Many lenders will not do land leases
- **RESTRICTIONS ON HOME EQUITY LOANS NEEDED TO PROTECT OWNERS**
 - Not to exceed owner's equity
 - Home equity lenders often sloppy about
 - Title & Lien Searches
 - Recording Mortgages
- **FORECLOSURE PROVISIONS SHOULD REFLECT FNMA GUIDELINES.**
 - Lender must have access to Full Market value if right of refusal not exercised
 - 45 Days to exercise Right of Refusal
 - + 60 more days to close
- **MORTGAGE BROKERS/LENDERS MAY REQUIRE OVERSIGHT & COORDINATION**
 - Mortgage Application & documentation should be shared to prevent fraud
 - Commissions & Disclosure should be monitored
 - First time borrowers will need assistance and counseling

REHABILITATION MAY BE AN IMPORTANT COMPONENT OF HCP

PHDF will evaluate the need for Rehab to ensure code compliance & long term habitability and reliability of the homes in its Housing Conservation Program.

CODE COMPLIANCE	LONGEVITY & EFFICIENCY	UPGRADES & ENHANCEMENTS
Safety/structure compliance	Energy efficiency	Additions
Structural integrity	Insulation	Kitchen cabinets
Termites/ants	Ventilation	Additional bath
Roof condition	Windows	Landscape
Heating	Interior finishes	Decks
Plumbing	Exterior finishes	Skylights
Electrical	Masonry	Ceramic tiles
Asbestos removal	Paint	
Lead paint	Appliances	
	Kitchen	
	Bathrooms	

SOURCE: NACA Purchase & Rehabilitation Program

In addition, PHDF will consider whether upgrades & enhancements would improve the utility and cost-effectiveness of its homes.

III. HOUSING CONSERVATION OPPORTUNITIES IN SOUTHAMPTON

OVER 200 SOUTHAMPTON RESIDENCES CURRENTLY AVAILABLE

According to a search of the local listing service (HREO), there are over 200 properties (before eliminating duplicates) offered for sale within the affordable price range.

HREO Listings in Southampton (May 11, 2005)

Asking Price		Number of Bedrooms				Totals	Averages
Min	Max	1-2	3	4	5+		
\$200,000	\$300,000	15				15	\$256,000
\$300,000	\$400,000	20	18			38	\$357,000
\$400,000	\$500,000	22	30	5	4	61	\$460,000
\$500,000	\$600,000		35	27	5	67	\$563,000
\$600,000	\$650,000			15	9	24	\$645,000
TOTAL		57	83	47	18	205	\$481,302
Avg. Occupants		2.0	4.5	6.0	7.0	896	4.4
Total Occupants		114	374	282	126	896	4.4

(REDUCED BY 11% TO ELIMINATE DUPLICATES; DEMOGRAPHICS MAY NOT MATCH AVAILABILITY)

The listing service contains duplicates (i.e. the same property offered by more than one broker) and properties that are in contract or have been sold. The counts above have been reduced by 10% and rounded down to approximate the results of samplings

PHDF HAS SCREENED 50 SOUTHAMPTON HOMES SELLING FOR UNDER \$500,000.

- **1 TO 5 BEDROOMS WITH 3 BR HOMES REPRESENTING 58% OF THE LISTINGS.**
- **70% OF THE PROPERTIES WERE LOCATED IN HAMPTON BAYS (56%) AND EAST QUOGUE (14%).**
- **AVERAGE ACQUISITION COST WAS \$457,000**
 - Average asking price was \$434,490
 - Average estimated rehab costs was \$21,600
 - Does not include transaction costs
- **OVER HALF THE PROPERTIES WERE NEW OR RENOVATED**
 - new homes (22%),
 - "newly renovated" (16%) or
 - significant renovations (16%).
- **AVERAGE DOWN PAYMENT ASSISTANCE ESTIMATED AT \$134,000 OR 29% OF ACQUISITION COSTS**

For more specifics see PHDF report dated June 22, 2005 & entitled
SURVEY OF SOUTHAMPTON HOMES LISTED FOR SALE AT OR BELOW \$500,000

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DOWN PAYMENT ASSISTANCE WOULD VARY WITH HOME SIZE & INCOME

While all families with 80% of median income would require assistance, only 37 families with 120% of median income would require it.

Location	# of BRs	Family Size	Average Acquisition Cost	Average Assistance Required based on Family Income as a % of Nassau/Suffolk Medians		
				80%	100%	120%
Average 1 BR	1	2.0	\$377,500	\$149,500	\$92,500	\$28,000
Average 2 BR	2	3.0	\$430,000	\$174,000	\$110,000	\$67,333
Average 3 BR	3	4.5	\$465,807	\$169,007	\$98,764	\$37,426
Average 4 BR	4	6.0	\$497,300	\$166,900	\$84,300	\$23,900
Average 5 BR	5	7.5	\$482,450	\$117,650	\$26,450	
Overall Average	2.86	4.3	\$457,496	\$167,160	\$96,833	\$43,500
# of Properties	50	50	50	50	49	37

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A TRIAL ALLOCATION YIELDED AVERAGE ASSISTANCE OF \$133,700¹ EXCLUDING TRANSACTION COSTS

In a trial allocation 58% of the 50 homes would be families with incomes at 80% of the median, 38% at 100% of median and 4% at 120% of median

Location	BRs	People	Est. Acquisition Costs		Allocation of Down Payment Assistance				
			Rehab \$	TOTAL	80% of Median	100% of Median	120% of Median	TOTAL	% of cost
1 BR	1	2.0	\$20.000	\$377.500	\$142.000	\$100.000		\$121.000	32%
2 BR	2	3.0	\$20.833	\$430.000	\$134.500	\$142.600	\$120.000	\$136.667	32%
3 BR	3	4.5	\$22.241	\$465.807	\$141.106	\$129.900	\$72.500	\$134.490	29%
4 BR	4	6.0	\$21.000	\$497.300	\$146.933	\$114.250		\$133.860	27%
5 BR	5	7.5	\$20.000	\$482.450	\$117.650			\$117.650	24%
Average	2.86	4.3	\$21.600	\$457.496	\$138.755	\$130.021	\$96.250	\$133.736	29%
# of Homes	50	50	50	50	29	19	2	50	
Minimum	2	3	\$5.000	\$340.000	\$55.200	\$100.000	\$72.500	\$55.200	16%
Maximum	5	7	\$35.000	\$534.500	\$185.200	\$174.000	\$120.000	\$185.200	35%

For more specifics see PHDF report dated June 22, 2005 & entitled
SURVEY OF SOUTHAMPTON HOMES LISTED FOR SALE AT OR BELOW \$500,000

¹ Plus Transaction Costs, includes legal fees, title insurance, mortgage tax and CPF tax.

IV. DEMONSTRATION PROJECT

PHDF SEEKING \$1 MM FOR A DEMONSTRATION PROJECT

- **PURPOSE IS TO TEST & REFINE HOUSING CONSERVATION PROGRAM CONCEPT.**
 - Legal Documents.
 - Cost Estimates
 - Community support
 - All other Assumptions (implicit & explicit).
- **PHDF PREPARED TO GO TO 150% OF MEDIAN INCOME WITH PRIVATE FUNDS**
 - Targeted to workforce needs, including young professionals, e.g. doctors, teachers, etc.
 - 80% to 120% of median income
 - PHDF prepared to go to 150% of median income.
 - FNMA goes to 165% because Suffolk County is a High Cost Area
- **PHDF SEEKING FUNDING FOR DEMONSTRATION PROJECT**
 - Estimated cost at less than \$1 million
 - Southampton could participate for as little as \$55,000
- **TO SERVE AS BASIS FOR PLANNING LARGER SCALE INITIATIVES**
 - Refine cost estimates
 - Obtain Legislation
 - Develop administrative procedures.

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A SOUTHAMPTON DEMONSTRATION PROJECT COULD COST \$55,000 TO \$400,000

SIZE OF UNIT ADDED	2 BR	3 BR	4 BR	5+ BR	TOTAL
Purchase Price (Aggregate)	\$409,167	\$443,565	\$476,300	\$462,450	\$1,791,482
<i>Rehab Costs & Contingencies</i>	\$20,833	\$22,241	\$21,000	\$20,000	\$84,075
Title Fees	\$2,500	\$3,000	\$3,000	\$3,000	\$11,500
Mortgage Tax	\$2,375	\$2,758	\$3,073	\$3,395	\$11,600
CPF Tax	\$3,183	\$3,871	\$4,526	\$4,249	\$15,830
Buyers' Legal Costs	\$1,500	\$1,500	\$1,500	\$1,500	\$6,000
Bank Fees, etc.	\$1,500	\$1,500	\$1,500	\$1,500	\$6,000
SUBTOTAL - DIRECT COSTS	\$441,058	\$478,436	\$510,899	\$496,094	\$1,926,487
<i>PHDF Transaction Costs</i>	\$0	\$0	\$0	\$0	\$0
PHDF Legal Fees (Estimated)	\$15,000	\$15,000	\$15,000	\$15,000	\$33,430
TOTAL USES OF FUNDS	\$456,058	\$493,436	\$525,899	\$511,094	\$1,959,916
SOURCES OF FUNDS					
Private Mortgage Financing (100%)	\$320,000	\$371,000	\$413,000	\$456,000	\$1,560,000
Down Payment Assistance	\$110,000	\$98,764	\$84,300	\$26,450	\$319,514
Additional Transaction Costs	\$26,058	\$23,671	\$28,599	\$28,644	\$80,402
TOTAL SOURCES OF FUNDS	\$456,058	\$493,436	\$525,899	\$511,094	\$1,959,916
NET FUNDING REQUIRED	\$136,058	\$122,436	\$112,899	\$55,094	\$399,916

DEMONSTRATION PROJECT WOULD PREPARE FOR A LARGER-SCALE PROGRAM

- **RESPONDS TO COMMUNITY CONCERNS ABOUT DENSITY.**
 - Little Community Opposition Likely
 - Obvious Scalability
 - Much Faster Results
 - No Density or Build-out issues
- **BUYS TIME TO PLAN LARGER SCALE PROGRAM**
 - Public & Private Financing
 - Staffing
 - Administrative Procedures
 - Legal Documents
- **BUYS TIME TO LINE UP FUNDING SOURCES**
 - Public (requiring legislation)
 - Business Community/Employers

V. PECONIC HOUSING DEVELOPMENT FUND (PHDF)

- **PHDF IS A HOUSING DEVELOPMENT FUND UNDER NY STATE LAW**
 - Can issue tax-exempt bonds
 - Qualifies for NY State Housing Finance Authority funding.
- **501C3 STATUS PENDING AMENDED FILING**
 - Require more detailed business plan, which is being developed
 - Twomey Latham has advised that ruling could take less than 30 days from re-filing
- **BOARD OF DIRECTORS WILL BE EXPANDED FROM CURRENT 5 TO 10 OR MORE**
 - Randall T Parsons, AICP, Founder & Chairperson - (Nature Conservancy)
 - Fred Stelle, Vice Chairperson (Architect & North Haven Village Board Member)
 - Kevin Santacroce (Sr. VP, Bridgehampton National Bank)
 - Michael DeSario (Corcoran Group & past Affordable Projects, e.g. Whalebone Woods)
 - Peter A Wadsworth (Former Mortgage Broker, Investment Banker & Financial Consultant)
- **“AFFORDABILITY EASEMENT” CONCEPT MORPHED INTO HOUSING CONSERVATION PROGRAM (HCP)**
 - Adapted from Peconic Land Trust model by Randy Parsons
 - PHDF directors worked with Twomey, Latham, Shea & Kelly to develop legal documents
- **CURRENTLY SEEKING FUNDING FOR DEMONSTRATION PROGRAM**

PHDF WILL BE PROACTIVE IN FINANCING & PROGRAM DEVELOPMENT

- **PHDF WILL CONTINUALLY EVALUATE & UPGRADE MORTGAGE FINANCING RESOURCES**
 - Mortgage lenders & brokers with the best prices, terms, Integrity & service
 - Community Reinvestment Act lending at advantageous rates
 - FNMA & other special programs for low- to middle-income borrowers

- **PHDF WILL CONTINUALLY SEEK NEW & ADDITIONAL SOURCES OF FUNDING**
 - Foundation & other Grants
 - Private contributions from individuals & businesses
 - Gifts & below-market conveyances of property
 - Tax-exempt bonds & other low-cost borrowing

- **PHDF MAY SERVE ALSO AS A BANK OR “VENTURE” FUND FOR MULTI-FAMILY REHAB PROJECTS**
 - Evaluating specific projects, such as Shepherd’s Neck Inn in Montauk.
 - Bidding out the rehab work and evaluating competing bids
 - Overseeing job progress & disbursements
 - Quality control
 - Possible long term tax-exempt financing for rental projects.

- **PHDF WILL CONTINUE TO REFINE & IMPROVE THE HOUSING CONSERVATION PROGRAM**
 - Evaluation of past results
 - Program review & improvement
 - Financial analysis & forecasting

PHDF WILL OUTSOURCE MOST WORK BUT RETAIN OVERSIGHT RESPONSIBILITY

- **PROPERTY SELECTION & EVALUATION**
 - Real Estate Brokers
 - Professional engineers, Architects to estimate rehab costs.
- **APPLICANTS WILL BE SCREENED & REFERRED BY PRIVATE SECTOR & TOWN(S)**
 - Real Estate Brokers, Mortgage Brokers & Bankers
 - Referrals from Department of Housing
 - PHDF will review mortgage application (1003) & supporting documentation.
- **YEARLY INSPECTIONS & APPRAISALS REQUIRED**
 - Code enforcement by Town(s) as required
 - Private Inspectors for repairs & compliance
 - Lien searches & filings to enforce mortgageability limits
- **PHDF WILL HAVE OVERSIGHT RESPONSIBILITY**
 - Disbursements & overall Project Supervision
 - Mortgage Commissions & Disclosure
 - Program Reporting & Evaluation
- **PHDF WILL REPORT TO TOWN(S) ON RESULTS, FUNDING & LEGISLATIVE REQUIREMENTS**