


City of Alexandria, Virginia

MEMORANDUM

16
5-25-05

DATE: MAY 18, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: CONSIDERATION OF CHANGES TO THE CITY'S MODERATE INCOME HOMEOWNERSHIP ASSISTANCE PROGRAM (MIHP) TO FACILITATE ASSISTANCE TO RESIDENTS AFFECTED BY CONDOMINIUM CONVERSION

ISSUE: Consideration of changes to the Moderate Income Homeownership Program (MIHP) to increase the program's effectiveness in light of changing housing market conditions and to increase home purchase opportunities for tenants of apartments being converted to condominium ownership.

RECOMMENDATION: That City Council:

- (1) Approve an increase in the maximum loan amount in the City's Moderate Income Homeownership Program (MIHP) from \$20,000 to \$30,000;
- (2) Approve an increase in the income limits for eligibility for the MIHP program increasing the limit for one person households from \$68,700 to \$71,440, for two person households from \$68,700 to \$80,370, and for households of three or more from \$79,500 to \$89,300; and
- (3) Approve the allocation of up to \$822,500 from the Housing Trust Fund (HTF) to the MIHP program, as needed, with the understanding that this allocation would not exceed 50% of revenue received by the HTF in FY 2006.

BACKGROUND: At its February 12 public hearing meeting, Council requested information on what programs are available to assist residents of condominium conversion properties to purchase their units, and what barriers Council might be able to address to ensure that assistance is available to more of the current residents. This memorandum addresses issues related to the purchase of units in properties known to be converting to condominiums and makes recommendations to enhance the ability of renters in those properties and others to purchase condominiums. The Affordable Housing Advisory Committee (AHAC) has reviewed and concurs with these recommendations.

DISCUSSION:

Resources to Assist Tenants to Purchase

Attachment I summarizes the variety of home purchase programs available through the City's Office of Housing, including City assistance through the Homeownership Assistance Program, Moderate Income Homeownership Program, and Employee Homeownership Incentive Program, as well as special mortgage financing through the Virginia Housing Development Authority's SPARC, Home Stride and First Choice interest-only loan programs. In addition to these financing programs, the City's Homeownership Counseling program provides a homeownership training course and individual counseling for potential program applicants.

Summary of Activity to Date

When Landlord-Tenant staff contacts a condominium conversion developer following the receipt of a copy of the developer's application for a new condominium conversion, the developer is asked to contact the Office of Housing's Program Implementation Division to discuss possibilities for assisting current tenants in purchasing their condominium units. There are ten condominium conversions in progress. The developers of four of these projects— Parkside (Jamestown Village), The Bearings North and South (Archstone Old Town, previously the Boulevard and Governor Spotswood), and EOS Twenty One (The Alexandria) – have contacted the Implementation Division to date, and staff has recently begun discussions with the developer of Park Center, which has just filed with the state. Staff efforts to have representatives of Palazzo (Archstone Park Center) and Exchange of Van Dorn (Metropolitan) return staff phone calls have been unsuccessful, although one resident of Palazzo is purchasing her unit with City assistance. A resident of Rosemont Station (Domar) is also pursuing City assistance, although there is no formal working relationship between the City and this property. It is staff's understanding that The Riverton (formerly Executive Club) and Graystone have no current tenants.

Developers of Parkside, The Bearings, and EOS Twenty One offered discounted purchase prices to tenants during the exclusive tenant marketing period, and have included information on the City's downpayment assistance programs in notices to tenants. The marketing staff and participating lenders have been made aware of the program requirements and availability of these assistance programs. In addition, Parkside's designated lender, First Guaranty Mortgage, obtained certification as a VHDA lender so that the City's allocation of SPARC and Home Stride funds can be used to assist eligible purchasers at this property. Staff has also requested that other converting properties' lenders become VHDA certified, but most have declined to do so. Countrywide Mortgage, the lender for both The Bearings and EOS Twenty One, is not seeking VHDA certification, but has agreed to work with the City's programs. It appears that the same will be true for Park Center, which will also make City program information available to tenants who need assistance.

Marketing staff at Parkside report that 42 residents have signed contracts to purchase their units.

The 60-day exclusive option to purchase period at The Bearings has not yet ended, but as of May 3, the project had received 19 contracts from resident purchasers. Staff has found that most tenant purchasers who are seeking City purchase assistance will be eligible under the City's moderate income MIHP Program rather than the federally-funded lower income HAP Program.

In addition to outreach to current tenant residents, Parkside, The Bearings, and EOS Twenty One agreed to provide an exclusive purchase period for Alexandria City and Alexandria City Public Schools (ACPS) employees. The developers of Parkside and The Bearings offered purchase discounts to these employee groups and The Bearings will also be offering closing cost assistance. City staff has assisted with marketing these units to City and ACPS employees. The developers have not imposed income limits or first-time homebuyer requirements for City/ACPS purchasers, but the City's normal requirements will apply to those seeking City purchase assistance. The developer of EOS Twenty One has also agreed to provide an exclusive marketing period for public employees, though no price discounts will be offered. Details of the EOS Twenty One public employee purchase program are forthcoming.

Twenty-three City employees responded to the purchase opportunity at Parkside, including 10 Alexandria police officers and eight ACPS employees. It is currently projected that 16 low and moderate income households at Parkside, including 11 tenant residents and five City employees will be requesting City assistance toward their purchase. The marketing period for City/ACPS employees to purchase units at The Bearings, which ended on April 8, 2005, resulted in five ratified purchase agreements (this marketing effort involved only vacant units not subject to the exclusive tenant marketing period). Because the purchase prices are relatively affordable, it is expected that EOS may be popular not only with residents and City/ACPS employees, but also with other non-resident first-time homebuyers participating in the HAP and MIHP programs.

Barriers to Homeownership

Staff has identified a number of obstacles that serve to limit the opportunities for home purchase for tenants residing in units being converted to condominiums, as well as, in many instances, first-time homebuyers in general. The low inventory of for-sale homeownership units and the continuing competitive sales climate in the City add to the difficulties that first-time homebuyers face. Specific obstacles/barriers to ownership, along with approaches to address these barriers include the following:

1) Affordability.

ISSUE: The City's average assessments for residential condominiums, the largest source of affordable home purchase housing in the City, reflects a recent rate of increase much higher than that of other property types. The average assessment for these units increased by 23.4% in 2004 and by 28.8% in 2005, to a current average of \$287,765. The income required to afford this current average is estimated to be \$86,627.

As shown in Attachment II, sales prices for condominiums under conversion range from

\$146,250 for an efficiency at EOS Twenty-One up to \$499,900 for a two-bedroom unit at The Exchange of Van Dorn. The annual incomes required to afford this range of units without City assistance range from \$61,199 to \$146,508. While Parkside, The Bearings, and EOS Twenty One have offered current residents discounted purchase prices (reflected in Attachment II), these discounts have been relatively small (2.5% to 5%) and have not dramatically affected affordability levels.

With the exceptions of Jamestown Village and EOS Twenty One, most of the condominium conversion properties have sales prices (taken, in most instances, from the condominium applications) that are difficult for MIHP-eligible purchasers to afford. At the relatively affordable Jamestown Village, some two bedroom units were offered to current residents at prices as low as \$270,000, with condominium fees (for both one and two bedroom units) set at \$272. This price level can generally be made affordable to MIHP eligible buyers with incomes as low as \$63,000 provided that City MIHP assistance, as well as VHDA SPARC and Home Stride financing is also provided.

As shown in Attachment II, prices for a two-bedroom unit at other converting developments start in the mid to upper \$300,000s, making it more difficult for the combination of City assistance to result in affordability for eligible households.

While individual circumstances vary, for most current residents, the cost of purchasing will entail a substantial increase in monthly housing payments above the cost of renting. As an example, one HAP-eligible buyer with a \$955 in rent for a one-bedroom unit at Jamestown Village (all utilities included) is paying approximately 31% of her monthly income in rent for a one-bedroom unit. To purchase this unit at the resident discounted price of \$232,900, the monthly housing cost increases to over \$1,200, or 39% of the buyer's gross monthly income, a payment that excludes utilities. This estimate includes \$50,000 in HAP assistance, as well as SPARC and Home Stride assistance. Without SPARC and Home Stride, the monthly payment increases to \$1,434, or 47% of the buyer's gross income.

The purchase prices of condominiums being converted from rental are generally higher than the average purchase prices for buyers participating in the City's MIHP program. During the first three quarters of FY 2005, the average purchase price under MIHP was \$215,044, which excludes the sales of seven discounted set-aside units. MIHP purchase prices during the most recent nine month period have ranged from \$142,000 to \$314,000 and purchaser incomes have ranged from \$41,905 to \$68,184. Based on these averages, residents of converting properties may find more affordable home purchase opportunities within the City's existing condominium housing stock rather than purchasing their unit that is being converted. While the number of sales units appears to be very limited and prices continue to increase, residents have been counseled that MIHP assistance may be used to purchase any unit meeting the requirements of the MIHP program that is located in the City of Alexandria.

RESPONSE: In determining affordability, the City has, until recently, approved HAP and MIHP loans based on a participant's housing cost-to-income ratios of no more than 32% and total debt-to-income ratios not greater than 41%, with occasional exceptions for compensating factors identified by the first trust lender. With the recent rapid increases in housing costs, these ratios are now viewed as conservative by most private market lenders who have advised staff that total debt-to-income ratios of 45% are not uncommon. Staff have approved HAP and MIHP loan cases, most coupled with VHDA first trust financing, in which high ratios were balanced with compensating factors such as a large participant downpayment, limited use of credit, the borrower's potential for increased earnings, and residual cash.

The City will continue to exercise administrative flexibility to allow for higher loan ratios based on the approvals of the first trust lender. The City's Homebuyer Training curriculum includes individual counseling in budgeting and personal finance, and staff strive to ensure that HAP and MIHP program participants will be able to sustain their home purchase through affordable housing payments. Participants are also advised that housing counseling services are available through the City should the buyer face difficulty in the future in meeting monthly housing costs. However, while greater flexibility with regard to debt ratios will enable more tenants to purchase, it also makes them more vulnerable to trouble in the event of large increases in condominium fees, or special assessments. Staff will also advise participants of this risk.

Another approach to addressing the affordability of condominiums is an increase in the assistance amounts available through the City's downpayment assistance programs. As shown in Attachment I, the City currently offers up to \$50,000 in downpayment and closing cost assistance through the Homeownership Assistance Program (HAP) and up to \$20,000 is provided through the Moderate Income Homeownership Program (MIHP). Both programs are designed to provide only as much assistance to the buyer as is needed, though the majority of participants qualify for the full loan amount. While the HAP assistance amount was increased from \$35,000 to \$50,000 in July 2004, staff did not consider it necessary to increase the MIHP program loan limit at that time.

As interest rates are now increasing, resulting in an erosion of buying power, it is recommended that the City increase the MIHP assistance amount by \$10,000 to provide a maximum loan amount of \$30,000. An increase of \$10,000 in MIHP would decrease the income needed to purchase one of the converting condominium units by approximately \$2,400. It would also serve to mitigate the problem faced by applicants who are just over the income limits for the HAP program who find their potential downpayment assistance reduced from \$50,000 to \$20,000 because they exceed the income limit by even a few dollars. While a \$20,000 increase to \$40,000 would further reduce the required qualifying income by an additional \$2,400, staff is not comfortable recommending such an increase because of its cost.

Based on the 34 MIHP loans made during the first three quarters, it is projected that 47 households will be served through the program in FY 2005, approximately 88% higher than projected, with an average loan amount of \$19,737. The approved FY 2006 MIHP budget is \$550,000 and is designed to serve 28 households. Staff estimates income from repayments of prior year loans totaling \$117,500 during FY 2006, based on FY 2005 MIHP program income. It is projected that four City law enforcement officers will be eligible for up to \$50,000 in MIHP assistance through the Law Enforcement Moderate Income Program, an increase of three such loans over the current budget. If current activity levels are sustained, the increase in MIHP assistance to a maximum loan amount of \$30,000 could result in increased MIHP expenditures of \$160,000 for the final quarter or FY05 and total FY06 expenditures of \$1,490,000 (43 loans at \$30,000 and 4 loans at \$50,000). After taking into account the projected program income, this would require an additional allocation of \$822,500 during FY 2006.

Using the same assumptions, an increase in MIHP to \$40,000 per loan could result in total FY 2006 expenditures of \$1,920,000 (43 loans at \$40,000 and 4 loans at \$50,000), or an additional allocation of \$1,252,500. Staff does not believe the Housing Trust Fund can sustain a supplemental allocation of this magnitude, nor does staff consider it advisable to reduce the number of loans in order to accommodate a doubling of the current assistance limit.

At its May 5 meeting, the Affordable Housing Advisory Committee (AHAC) approved the recommendation that Housing Trust Fund monies be allocated to fund the increase in MIHP assistance, but added to the original staff recommendation the stipulation that, order to retain a balance in the Housing Trust Fund to support other activities, FY 2006 revenues be allocated to the MIHP program on a basis of \$1 for every \$2 received. The current staff recommendation reflects AHAC's recommendation in this regard.

2) Limited assistance to middle-income buyers.

ISSUE: A number of condominium residents who have inquired about the City's assistance programs have incomes in excess of the City's eligibility limits and therefore do not qualify for City assistance, but may also have difficulty in qualifying for the required mortgage. This is especially true for those with incomes between the City's limits (\$68,700 for one to two person households or \$79,500 for three or more) and the income needed to afford the average condominium assessed value of \$287,765 of \$86,627. The current MIHP limit for three or more persons is 89% of the current HUD area median family income for the Washington D.C. metropolitan area.

RESPONSE. The income limits for the MIHP program were originally based on the VHDA's income limits for their first time home buyer programs. The current MIHP limits of \$68,700 for one or two persons and \$79,500 for three or more persons have been in place since 1998. In 2002, the City chose not to increase the MIHP income limits when VHDA's three-or-more person limit increased to \$100,600 (later reduced to \$100,000, which is 112% of the current area median family income), preferring to concentrate its

resources on those with greater need. While staff still does not recommend using scarce City resources to assist households with \$100,000 incomes, staff now recommends that the City's MIHP income limits be tied to the metropolitan area median income.

Specifically, staff recommends that the City's MIHP income limit be increased for households of 3 or more from \$79,500 to \$89,300, the current area median income for the Washington DC area, that the two-person limit be set at 90% of this figure, or \$80,370, and that the one-person limit be set at 80% of the median figure, or \$71,440.

This recommendation represents an additional change from the current limits in that the same limit has applied to both the one- and two-person households since the MIHP program was initiated, in keeping with the structure of the VHDA first-time home buyer limits. With this recommended change, two separate limits will apply to single person and two-person households, while the highest income limit would apply to households of three or more persons. It is expected that this change will provide greater home purchase opportunities for households such as couples with double incomes but generally low wages as well as single parent/one child households who have been over-income but require home purchase assistance to achieve homeownership in the current competitive market.

3) High deposit requirements.

ISSUE: The City's home purchase assistance programs require a minimum purchaser contribution of \$2,000 under HAP and \$3,000 under MIHP. In contrast, purchasers of converted condominiums are being required to pay up to 5% of the purchase price at contract signing. For example, a deposit of \$18,500 would be required at contract signing for a \$370,000 unit. Meeting these very high deposit requirements may present a significant barrier to purchasing for many of the current residents.

RESPONSE: Staff has raised concerns with these deposit requirements to developers and in some cases, these developers have agreed to accept a deposit of \$5,000 when the purchaser cannot meet the 5% deposit requirement. One additional possible solution, developed for use in the affordable set-aside units at the Preston, but not used because the developer reduced the deposit requirement, would be for the City to provide HAP/MIHP loan funds for the deposit in advance of final loan approval. However, this option requires the developer to agree that, should the recipient not purchase the unit, the City's deposit would not be forfeited. The developer would either retain the funds for use by a subsequent City-assisted buyer, or refund them to the City within a specified time frame. One current condominium developer has already rejected this option. ***Staff will pursue the option of using HAP/MIHP loan funds for deposits with other condominium developers.***

FISCAL IMPACT: Allocation of up to \$822,500 in Housing Trust Fund monies received during FY 2006 to the MIHP program. The Affordable Housing Advisory Committee recommended (and staff concurs) that this allocation be up to \$822,500, but no more than 50% of

revenues received by the Housing Trust Fund in FY 2006. Based on projections, income to the Housing Trust Fund in FY 2006 should be sufficient that this total \$822,500 allocation should be able to be made in FY 2006. This figure does not include MIHP program income, which is deposited directly into the MIHP program account.

ATTACHMENTS:

Attachment I. City of Alexandria Homebuyer Assistance Programs

Attachment II. Condominium Affordability for Conversions in Progress as of 4/27/05

STAFF:

Mildrilyn Stephens Davis, Director, Office of Housing

Shane Cochran, Program Implementation Division Chief

CITY OF ALEXANDRIA HOMEBUYER ASSISTANCE PROGRAMS

Program Name	Uses of Funds	Maximum Qualifying Income	Maximum Assistance Amount	Maximum Sales Price
Homeownership Assistance Program (HAP)	Second or third trust mortgage financing that may be used for downpayment, closing cost, or principal reduction. Loan provides no-interest, 99-year deferred payment financing.	1 person - \$40,600 2 person - \$46,400 3 person - \$52,200 4 person - \$58,000 5 person - \$62,650 6 person - \$67,300	\$50,000 May be used with SPARC, Home Stride and EHIP.	\$312,895
Moderate Income Homeownership Program (MIHP)	Second or third trust mortgage financing that may be used for downpayment, closing cost, or principal reduction. Loan provides no-interest, 99-year deferred payment financing.	1-2 persons - \$68,700 2 or more - \$79,500	\$20,000 (\$50,000 for law enforcement officers) May be used with SPARC, Home Stride and EHIP.	\$399,000
Employee Homeownership Incentive Program (EHIP)	Home purchase financing available to City/ACPS workers that may be used for any settlement-related expenses. Following three years of employment, loan becomes a no-interest, 99-year deferred payment financing.	No income limits. Available only to City/ACPS employees.	\$5,000 May be used with SPARC, Home Stride and HAP or MIHP.	\$587,600
Sponsoring Partnerships and Revitalizing Communities (SPARC) Program	First trust mortgage financing allocated to the City annually. Participants receive discounts of 1% or 1/2% off VHDA conventional first-time homebuyer loan rates.	1% Discount - HAP income limits apply. 1/2% Discount - MIHP income limits apply.	Assistance amount depends on purchase price. Current VHDA purchase price limit is \$352,000. May be used with Home Stride, EHIP and HAP or MIHP.	\$352,000
Home Stride Program	Second trust financing provided by VHDA. Provides a deferred payment, deferred interest loan for first three years of loan. Payments begin in year four at a fixed rate of 5%.	MIHP income limits apply. Eligible public employees may qualify under VHDA limits of \$86,900 for 1-2 person households or \$100,000 for 3 or more.	\$20,000 May be used with SPARC, EHIP and HAP or MIHP.	\$352,000 for conventional first time homebuyer programs. \$359,650 maximum loan amount for Flex Alt products.
1 st Choice Program	New interest-only loan product offered by VHDA. Provides seven year interest-only loan payments with no downpayment or mortgage insurance requirements. Converts to amortizing loan for remaining 23 years with no change in interest rate.	1-2 persons - \$86,900 2 or more - \$100,000	Loans up to VHDA maximum of \$352,000	\$352,000

CONDOMINIUM AFFORDABILITY FOR CONVERSIONS IN PROGRESS AS OF 4/27/05

Name	Total Units	Current Rent Range	Proposed Sales Prices/Resident Purchase Price Ranges ¹	Income Required to Afford Purchase ²	Income Required to Afford Purchase with \$20,000 MIHP Assistance ²	Income Required to Afford Purchase with \$30,000 MIHP Assistance ²
The Bearings South (Archstone of Old Town (Governor Spotswood))	47	Eff. \$815-\$1090 1 BR \$1150-\$1350	Eff. \$193,030 - \$265,780 1 BR \$251,230 - \$357,930	\$61,199 - \$80,719 \$76,841 - \$105,467	\$57,946-\$78,384 \$74,297 - \$104,258	\$55,528 - \$75,923 \$71,878 - \$101,798
The Bearings North (Archstone of Old Town (Boulevard Apts))	112	1 BR \$1150 - \$1600 2 BR \$1325 - \$1475	1 BR \$251,230 - \$357,930 2 BR \$344,253 - \$484,030	\$76,841 - \$105,467 \$101,830 - \$139,322	\$74,297 - \$104,258 \$100,413 - \$139,864	\$71,878 - \$101,798 \$97,952 - \$137,195
Palazzo (Archstone Park Center)	392	1 BR \$1190 - \$1390 2 BR 1510 - 1815	1 BR \$289,000 - \$415,000 2 BR \$384,000-\$464,900	\$86,965 - \$120,817 \$114,708 - \$136,956	\$84,880 - \$120,233 \$111,528 - \$134,569	\$82,420 - \$117,815 \$109,110 - \$132,109
Parkside Alexandria (Jamestown Village)	378	1BR \$925-\$1010 2 BR \$1075-\$1345 3BR \$1400-\$1745	1 BR \$227,050 + 2 BR \$275,500 + 3 BR \$322,050 +	\$70,394 + \$83,334 + \$95,829 +	\$55,966 + \$68,030 + \$79,149 +	\$53,881 + \$65,945 + \$77,064 +
Exchange of Van Dorn (Metropolitan)	404	Eff \$1100 1 BR \$1300-\$1695 2 BR 1525 - 1850	1 BR \$259,900 - 369,900 2 BR \$354,900 - 499,900	\$80,700 - \$110,856 \$106,680 - \$146,508	\$76,706 - \$107,709 \$103,395 - \$144,084	\$74,287 - \$105,164 \$100,997 - \$141,749
Rosemont Station (Domar)	24	1 BR \$1100 2 BR \$1525 - \$1850	\$200,000 - \$400,000	\$64,200 - \$116,796	\$59,873 - \$116,046	\$57,455 - \$113,627
The Riverton (The Executive Club)	78	N/A No tenants	\$200,000 +	\$64,200 +	\$59,873	\$57,455 +
Graystone	12	No Rent Information	To be determined	To be determined	To be determined	To be determined
EOS 21 (The Alexandria)	344 of 1,524	Eff. \$855-\$930 1 BR \$1014 - \$1175 2 BR \$1335 - \$1525	Eff. \$146,250 + 1 BR \$175,500 + 2 BR \$224,250 +	\$48,653 + \$56,500 + \$69,578 +	\$44,816 + \$53,039 + \$66,701 +	\$42,398 + \$50,620 + \$64,282 +
Park Center	574	1 BR \$1058-\$1352 2 BR \$1226 - \$1814	To be determined	To be determined	To be determined	To be determined

¹Where known (The Bearings, Parkside, and EOS Twenty-One), purchase price ranges reflect discounts provided to current residents. Other purchase prices reflect projected sales prices included in the condominium registration documents.

²Affordability estimates are based on a 5% downpayment, a 30-year fixed rate mortgage at 5.75%, monthly condominium fee of \$250, and mortgage insurance. Affordability calculations for Parkside reflect a SPARC rate of 4.325% and \$20,000 in Home Stride assistance. Purchase prices exceeding \$399,600 are not eligible for MIHP program assistance. Households with incomes exceeding \$68,700 for one to two person households and \$79,500 for households of three or more are also ineligible for MIHP assistance. The new recommended income limits for the MIHP program are \$71,440 for one-person households, \$80,370 for two-person households, and to \$89,300 for households of three or more persons.

Hachment II