

# Affordable Housing Rehabilitation

## *Keeping housing units available and affordable*

Massachusetts—like many other states in our nation—is currently experiencing a housing crisis. Reports indicate that the Commonwealth currently has a shortage of over 100,000 units, with the gap projected to double by 2030. The problem affects our communities on multiple levels: not only are lower-income residents priced out from rising rents, but local economic development, small-businesses, and municipal revenue all suffer as well.

Solutions to the housing crisis must be broad, in both geography and strategy. As the crisis is fundamentally caused by a severe undersupply of housing across the state, all municipalities in Massachusetts must focus on local housing production and affordability to meet rising demand. Additionally, affordability needs to be addressed both through new market-rate development and through strategies designed to increase affordable housing. State and local programs focus on a variety of solutions to increase new development, including subsidizing both market-rate and affordable housing, incentivizing transit-oriented zoning, and requiring local zoning for as-of-right multi-family housing.



Many municipalities across Massachusetts have also begun offering programs to use public funds to rehabilitate existing housing. These programs use subsidies or low-rate loans to keep units habitable in return for mandated affordability; this helps preserve both the overall local housing stock and provide affordable options for low and middle-income residents.

The programs across the state vary in structure and funding source. Examples and summaries are listed below. We encourage local leadership to think about local affordable housing needs and how to develop a similar program tailored to keep units habitable and affordable.

## Programs using Federal Funds

The Federal government provides states and eligible municipalities with funding for various activities to support local development and affordable housing. The two most relevant programs include the Community Development Block Grant (CDBG) and HOME Investment Partnerships Program. These funds can be allocated by municipal governments to rehabilitate market-rate multifamily housing, under the stipulation that a certain percentage become affordable rental units.

One example of such a program is the **Worcester** Housing Now Initiative. Funded through CDBG, the program offers funds for both owner-occupied and investor-owned properties. For investors with at least two multifamily properties with 2-4 units, rehabilitation is reimbursed, up to the lesser of 50% of the project cost or \$50,000 per restricted affordable housing unit. In exchange, at least 51% of the building must be affordable below 80% AMI and HUD Fair Market Rent standards for at least the next 10 years.

Similar programs for CDBG and HOME exist around the state in various forms:

- **Northbridge** offers a 15-year, 0% loan for 1-4 unit owner-occupied or investor-owned rental properties with code violations in exchange for 15 years of affordability.
- **Rockland** offers the same as Northbridge, with unit requirements ranging from 1-7 units.
- **Brockton** has previously used HOME funds to complete renovations of multifamily housing to create affordable and ADA-accessible units.

Of course, CDBG and HOME funds may be used for a variety of development and housing-related community needs, so this option may require redistribution of funds. However, these Federal grants provide a well-defined pathway to channel public funds into rehabilitation to increase affordable unit counts.

Other programs exist using Federal funds outside of CDBG and HOME. **Salem** recently announced that they will be using American Rescue Plan Act (ARPA) funding to offer one-time \$1,000 payments to owners for allowing the city a “right of first refusal” before selling their property. After purchase, Salem plans to work with local non-profits to permanently offer these properties at affordable rents.

## Municipally Funded Policies

Some cities occasionally provide programs that help investor-owners buy rental properties to maintain and increase affordable housing. In 2016 **Boston** created the Acquisition Opportunity Program (AOP); with an initial funding of \$7.5 million, the program provides subsidies (up to \$75,000 per restricted unit) to developers that agree to set aside 40% of units for families making 60% AMI or less for at least 50 years.

Programs like Boston's AOP exist in peer cities around the nation:

- **San Francisco** funds the Small Sites Program. This policy preserves occupied, unsubsidized housing, usually between 4-25 units. It now has over \$100 million in funding, collected from sources such as condo conversion fees, set-asides from the housing trust fund, and neighborhood-specific programs. This policy differs from AOP in that the city acquires the buildings rather than private owners.
- **Chicago**'s Preservation of Existing Affordable Rental (PEAR) Program provides aid for purchase or refinancing of multi-family residential buildings, in exchange for 30-year mandatory affordability requirements. At least 20% of units must be affordable for tenants with incomes of 80% AMI or less.



## Community Preservation Act

The Massachusetts Community Preservation Act (CPA) was passed in 2000 to provide a tool for municipalities to raise funds targeted for open space preservation, historic preservation, affordable housing development, and development of outdoor recreational spaces. Each municipality must enact the CPA through local legislation or by a ballot question; afterwards, communities may add a property tax surcharge of up to 3% that funds these preservation and development activities. At least 10% of these funds must go to each of three goals (open space, historic preservation, and affordable housing).

CPA offers a flexible way for local governments to raise funds for development and preservation projects. Overall, more than 10,000 affordable housing units have been created using CPA funds, along with an additional 16,000 receiving supportive funding. We recommend that all municipalities enact the Community Preservation Act and dedicate 60% to affordable housing. If the municipality desires to incentivize rehabilitation and affordable unit conversion, these funds may be used.

### *Affordable Housing Trust Funds*

Using these funds, many municipalities have started Affordable Housing Trust Funds that can be used for a variety of housing-related activities. The exact structure of these trust funds can vary in characteristics including revenue source, eligible activities, and how awards are provided (e.g. grants, low-interest loans, etc.). Some Housing Trust Funds can be used for rehabilitation of market-rate units to increase the affordable housing stock.

For example, the **Somerville** Affordable Housing Trust Fund (SAHTF) sources its funds through linkage fees, inclusionary zoning payments, and housing-oriented funds from CPA. For SAHTF specifically, funding for rehabilitation is allowed if CPA funds were originally used for the structure's construction.

CPA is not the only funding option for these trust funds; the **Worcester** Affordable Housing Trust Fund (AHTF) was founded in 2021 using \$15 million of American Rescue Plan Act funds. It allows for grants of up to \$150,000 per affordable unit for substantial rehabilitation in return for 30 years of affordability.

## Summary

Solving the Massachusetts housing crisis requires all hands on deck to increase the housing supply and provide affordable rents for low- and moderate-income households. These goals require a range of policy solutions with different methods, but the same goals; some Massachusetts towns have created programs to provide subsidies and low-rate loans to help rehabilitate market-rate housing and make units affordable. These programs help maintain the housing stock, add to the number of affordable units in the community, and accomplish these with relatively efficient public grants, rehabilitating existing housing almost always costs less than constructing new units.

The funding and structures of these policies vary; this primer summarizes various programs throughout the state. Many are funded through federal funds from HUD in the form of CDBG and HOME programs. Others use an Affordable Housing Trust Fund, funded by enacting the Community Preservation Act and dedicating large portions of property tax surcharges to affordable housing purposes. The design and basis of the program can be flexible, and municipal leaders can determine which method would be most appropriate.

Overall, Housing Forward-MA recommends each municipality consider some of the options presented above to develop a program with similar goals. These individual municipal programs are important pieces in helping Massachusetts reduce its gap in available housing and make the commonwealth an affordable place to live.



**Housing Forward-MA** is a nonprofit research and education organization focused on developing and disseminating accurate data related to housing creation in Massachusetts and the broader economic impacts of housing supply and demand. By providing training, education, and model policy proposals our organization will support organizing and advocacy efforts for affordable, workforce housing across the state.

For more information, please visit our website: [www.housingforwardma.org](http://www.housingforwardma.org)