

# BERKSHIRE PLANNING TOOLS



One in a series of “toolbox” items to accompany the Regional Plan for the Berkshires

June 2002

## Affordable housing

*This toolbox item is designed to provide communities with uniform definitions of affordable housing and in what context these definitions are appropriate.*

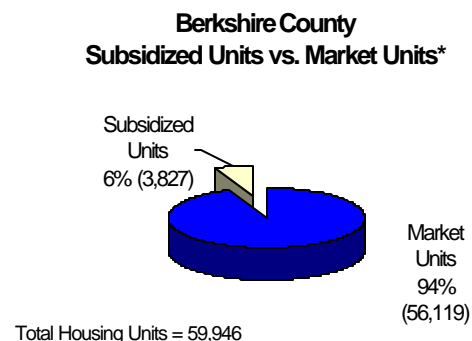
### What is Affordable Housing?

It would seem that defining what constitutes housing that is affordable would be a fairly simple and straightforward task. Unfortunately, simply defining affordable housing has become complex and seemingly contradictory. Communities that are trying to have substantive discussions on how to address local housing issues often get bogged down or thrown off track by the myriad of different definitions that are commonly used to describe affordable housing.

The primary distinctions when trying to define affordable housing are 1) is affordability being defined based on a public subsidy; or 2) is affordability being defined based on relative market rates, or factors. Nearly all definitions of affordable housing can be placed into one of these two broad categories. The chart at the right indicates that only 6% of all year-round housing units in Berkshire County are publicly subsidized and the remaining 94% are market rate units. These two broad categories are discussed in more detail throughout.

### Publicly Subsidized Affordable Housing

Affordable housing is most often thought of in terms of publicly subsidized \*housing. That is, housing that is constructed, managed and/or operated by a government entity, or with heavy public subsidies for the purpose of serving persons with specific needs, e.g. seniors, persons with disabilities, or persons of limited income. To be eligible for subsidized housing a person or family must demonstrate need. The key test of need for nearly all housing subsidy programs is income. When determining need based on income, the majority of federal and state-funded programs operate on the basic assumptions noted below. If an applicant can document eligibility in one of these categories they are considered low to moderate income (LMI) and may qualify to participate in subsidized housing program.



\* Source: MA Department of Housing and Community Development Chapter 40B Subsidized Housing Inventory

## Berkshire Planning Tools

---

### Income Levels

80% of area household median income Moderate Income
50% of area household median income Low Income
30% of area household median income Very Low Income

Some subsidy programs have additional needs tests that are applied. An obvious example is senior housing. To be eligible for this type of program a person would have to meet the LMI requirement as well as certain age criteria. Persons with disabilities are another good example of additional need criteria.

In addition to eligibility based on need, another key characteristic of publicly subsidized housing is that it almost always has use restrictions, or resale controls to ensure its long-term affordability. Usually the restrictions are in place anywhere from 5 to 30 years, and in some cases in perpetuity. For example, if a developer accepts a public subsidy to build a multi-unit affordable housing development and then discovers two years later that local rents have risen by 70% the developer could not rent the subsidized units at the appreciated market rates. The subsidy program requirements would control the rents to ensure affordability for the prescribed time period.

There are a great number of federal and state sponsored housing programs but most of these programs fall into the three primary assistance categories discussed below.

- **Rental Assistance** – One common example of this type of program is rental unit complexes that are operated by local Housing Authorities and provided to qualifying LMI applicants at below market rents. Another example of this type of assistance is rental vouchers. Vouchers allow qualified applicants to live in any type of rental unit they can secure (including market rate rental units) and the voucher is applied toward
- **Housing Rehabilitation Assistance** – These types of programs commonly provide low or interest free loans to qualified applicants to make necessary repairs to a home that is owned by the applicant. Eligible projects are usually limited to critical repairs and cannot typically be used for improvements. For example, repairing an aging roof or replacing an old furnace would be eligible projects, but building a room addition or purchasing new carpet would not typically be eligible. Often these program funds are used to prevent or eliminate blight and to remediate code violations. There are programs that provide rehabilitation funds for larger multi-unit rental projects. For example, if a non-profit organization wanted to purchase a dilapidated building and repair it for affordable housing units, this project may also be an eligible project under some rehabilitation programs.
- **Home Ownership Assistance** – These types of subsidy programs take a variety of forms. Some of the programs simply provide educational assistance in the form of credit and homeownership counseling. There are several subsidy programs that assist income eligible homeowners with assistance in financing a home either through down-payment assistance, low-interest loans or second mortgage programs such as the Soft Second Loan Program sponsored by the Massachusetts Housing Partnership Fund. Finally, there are also subsidy programs that assist developers in the production of new and rehabilitated affordable housing (production can be for rental units as well as

payment of the monthly rent. For example if a program participant held a \$400 rental voucher and wanted to rent an apartment in Pittsfield that costs \$500 a month, the participant could apply the voucher toward the monthly rent and the remaining \$100 would be paid out-of pocket by the participant.

## Berkshire Planning Tools

---

homeownership) units through no or low interest loans, e.g. the HOME Program.

### Market Based Definitions of Affordability

As noted in the chart on the first page, only a very small portion (6%) of the housing units in Berkshire County are publicly subsidized. Does this mean that only 6% of the housing units in the County are actually “affordable” to the typical family? Housing proponents, public officials and planners have attempted to develop a more relevant and useful definition of affordability that is not confined to the programmatic definitions attached to publicly subsidized housing. This alternative definition seeks to quantify what a typical family may, or may not, be able to afford based on income, housing costs and other relevant market factors. An alternative method of determining affordability that is often used is the housing affordability index (Index). The Index looks at family income as a key variable effecting affordability, but it also looks at a number of other local market variables including home sales prices, current interest rates, homeowner’s insurance rates, and property taxes.

In addition to these variables, there are certain key assumptions that are also factored into the affordability formula. These assumptions typically include a fixed down payment amount<sup>1</sup> and that no more than 30%<sup>2</sup> of a household’s income should be spent towards housing. The purpose of the Index is to compare the amount the median family is able to pay for housing with the actual current cost of housing in the given area. The difference in the amount a household is able to pay and the actual cost of housing is termed the affordability gap. As examples, the

Index and gap analysis for the Towns of Lee and Stockbridge are noted below<sup>3</sup>.

In simplest terms, what this index illustrates is that in the Town of Lee, families earning at or above the median income level would probably be able to afford to buy a house in Lee. In fact, in this case, even families earning about 11% less than the median income would probably be able to afford a home in Lee. Conversely, in the Town of Stockbridge a family earning the median income would most likely not be able to afford to buy a home in their own town. In fact, the median earning family would probably need to increase its income by about 150 percent to afford a house in Stockbridge.

### Sample Housing Affordability Index

	<i>Lee</i>	<i>Stockbridge</i>
2001 Median Family Income	\$53,365	\$58,129
30% of Monthly Income for (PITI) <sup>4</sup>	\$1,334	\$1,453
Est. Affordable Purchase Price	\$173,508	\$188,997
2001 Average Sales Price	\$140,593	\$430,242
Income Required to Purchase Home	\$47,535	\$145,466
Affordability Gap	(\$5,830)	\$87,337

<sup>1</sup> Most housing advocacy groups assume a 10% down payment, the State Dept. of Housing and Community Development (DHCD) assumes a 30% down payment

<sup>2</sup> This assumption is used as the standard by the U.S. Department of Housing and Urban Development. This would include mortgage payment, taxes, and insurance.

<sup>3</sup> Data excerpted from the Southern Berkshire Housing Coalition (SBHC) – *Housing for Everyone- Housing Needs, Barriers & Opportunities in South-Central Towns of Berkshire County*

<sup>4</sup> Maximum Mortgage Payment including Principal, Interest, Taxes, Insurance

## Berkshire Planning Tools

---

### Summary

This toolbox item provides local communities with a basic understanding of some the underlying assumptions of how affordable housing is defined. This item certainly does not include every specific programmatic definition of housing affordability, because these often vary significantly from program to program. However, in most cases the underlying assumptions and terms used here are applicable and useful to understand when discussing the issues of affordable housing in your community.

### Resources

Mass. Department of Housing and Economic Development (DHCD) – [www.mass.gov/dhcd](http://www.mass.gov/dhcd)

Citizen’s Housing and Planning Association (CHAPA) – [www.chapa.org](http://www.chapa.org)

U.S. Department of Housing and Urban Development (HUD) [www.hud.gov](http://www.hud.gov)

---

*This publication is one in a series of “toolbox” items to support the Regional Plan for the Berkshires. If you would like to receive additional copies of this or other toolbox items, please contact the Berkshire Regional Planning Commission, 1 Fenn St., Pittsfield, MA 01201 or call (413) 442-1521. Copies of the toolbox items are also available on the web. Visit [www.berkshireplanning.org](http://www.berkshireplanning.org)*

*Funding provided by the Massachusetts Executive Office of Environmental Affairs  
and the Massachusetts Executive Office of Transportation and Construction*