DC Fiscal Policy Institute

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TESTIMONY OF JENNY REED, POLICY DIRECTOR
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At the Public Hearing on B20-604
"Affordable Homeownership Preservation and Equity Accumulation Act of 2013"
District of Columbia Committee on Economic Development
May 29, 2014

Chairperson Bowser and members of the committee, thank you for the opportunity to testify today. My name is Jenny Reed and I am the Policy Director at the DC Fiscal Policy Institute. DCFPI engages in research and public education on the fiscal and economic health of the District of Columbia, with a particular emphasis on how policies impact low- and moderate-income families.

I am here today to share concerns DCFPI has with B20-604, the "Affordable Homeownership Preservation and Equity Accumulation Act of 2013." While well intentioned, the bill could actually accelerate the loss of affordable homeownership opportunities in DC.

The bill proposes to shorten the length of time that a home subsidized through the Housing Production Trust Fund would be required to remain affordable when re-sold, for homes in high-poverty neighborhoods. Affordability restrictions are important because they help ensure that DC's HPTF investments help build a stock of affordable homeownership units. Short periods of affordability create the risk that subsidized homes will not remain affordable, and thus shortening the current affordability standards should be considered carefully.

Under current law, for-sale homes subsidized by the Housing Production Trust Fund – including condos and single family home sales -- must remain affordable for at least 15 years and can be affordable for longer if the developer chooses. If the units located in a Census tract with more than 30 percent of poverty, the affordability restriction is 10 years. That means that if a homeowner wants to sell their unit before the affordability period is up, they must sell it at a price that is affordable to another low-income homebuyer. After the affordability restriction ends, the homeowner can sell it for whatever price they like, but must repay the Housing Production Trust Fund subsidy.

The proposed bill would shorten affordability periods to five years in neighborhoods considered "distressed." After five years, a home could be sold at any price, with the initial HPTF subsidy re-paid to the HPTF. It appears that this is intended to promote home sales in neighborhoods where some homebuyers may be reluctant to locate. And since homes in poorer neighborhoods may have low market prices, a potential homebuyer in such neighborhoods may be more interested in buying an unsubsidized home without restrictions, rather than a slightly cheaper home with restrictions.

Nevertheless, this proposal would go in the opposite direction from rules in nearby jurisdictions, which have much longer periods of affordability. It would run counter to a national model for affordable homeownership – known as "shared equity"-- that has been shown to create a balance between helping homeowners build equity while maintaining long-term affordability. And it would designate too many neighborhoods as "distressed" and eligible for short affordable housing periods.

For all of these reasons, the bill would mean that DC's investments in affordable homeownership could have only limited effects and may not live up to their potential to create long-term affordable housing.

Bill Is Not Consistent with Local Practices

Montgomery County, Maryland used to use a five year affordability restriction for its moderately priced dwelling unit program but then discovered that it had lost nearly two-thirds of the affordable units it had subsidized. As a result, most of the properties now contain a 30 year affordability restriction. Arlington also uses a 30-year length of affordability for units developed with its Affordable Housing Investment Fund.

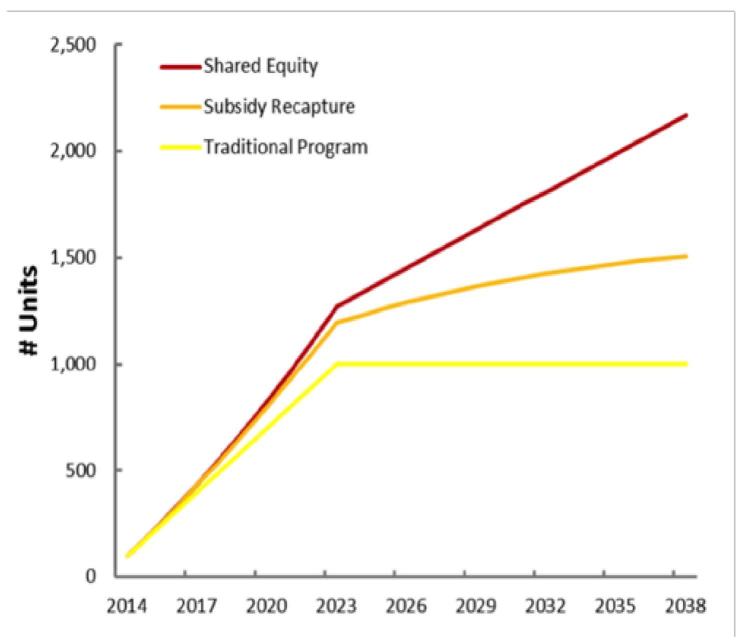
Bill Is Not Consistent with Successful National Model

The bill proposes that after five years, a homeowner could sell their home for full market value. The initial subsidy would be repaid, with the homeowner taking all of the remaining equity from the appreciated value. This model has two key problems. First, the subsidy amount needed to create an affordable unit is likely to grow over time, as construction costs rise and as market values rise. This means that repayment of a subsidy provided five years ago will probably not be enough for the District to subsidize a new affordable home. Second, if a home in a given neighborhood that is affordable becomes unaffordable as resale restrictions end, it will likely be much harder to find another unit to make affordable within the same neighborhood. This will make it especially hard to preserve affordable homeownership opportunities in rapidly changing neighborhoods.

The "subsidy recapture" model thus allows a small number of fortunate homebuyers to gain appreciation from their home but at the cost of producing only a limited amount of affordable housing.

Figure 1

A Shared Equity Model Allows for the Greatest Level of Affordable Homeownership Preservation



Source: Brett Theodus, "Can Affordable Housing Create Wealth and Stay Affordable?" Greater Greater Washington 12/20/2013, available at: http://greatergreaterwashington.org/btheodos/

Brett Theodus from the Urban Institute has found that subsidy recapture models do not preserve as many affordable units in the long-run as another model, known as shared equity (see **Figure 1**). Shared equity means that when a homeowner sells a unit, they are required to keep a portion of the subsidy in the home so it can remain affordable and then are allowed to take some of the equity with them. Shared equity models work to strike a balance between preserving low-cost housing through resale rules while also allowing for wealth creation through home equity. Shared equity allows for both, and the model can be adjusted to meet the unique needs of each jurisdiction.

In his research, Theodus has found that homeowners using shared equity models move and sell their units at the same rate as other homeowners, suggesting that the resale restrictions do not trap them in their home or deny them the ability to build home equity, while at the same time allowing for the permanent preservation of the affordable home for future buyers.

The Proposed Definition of Distressed Is Not an Accurate Indicator of the Housing Market

Beyond these concerns, the proposed bill's definition of neighborhoods considered "distressed" is not a good measure of the housing market and as a result, sweeps up many neighborhoods that no one would consider to have a distressed housing market.

A neighborhood would be considered distressed if the poverty rate is 20 percent or greater. Under this measure, census tracts within neighborhoods like Columbia Heights, Bloomingdale, Navy Yard and Mount Pleasant could be deemed distressed and lose affordable homeownership units after just five years.

Why isn't the poverty rate a good indicator of the housing market? For one, poverty data isn't collected in real time. To get data at the census tract level, data must be averaged across five years. Moreover, the data is always a little behind the current year. For example, if this bill were in effect today, the most recent data that would be available to determine a distressed neighborhood would be from 2008-2012. Housing markets can change very significantly in DC in a much short period of time.

Furthermore, the poverty rate includes everyone in the census tract, including renters who tend to have lower incomes than homeowners. In DC and many cities, there are neighborhoods with both high poverty rates and high home prices. As a result, the definition of distressed in the bill would mean that 67 census tracts, or nearly 40 percent of all census tracts in DC would have affordability restrictions of just five years. I have included a map from the Office of Planning showing the DC census tracts that would be captured under this measure. (See attachment 1.)

A better approach to identifying "distressed" housing markets would be to look at sales prices and changes in sales prices. A neighborhood that has low home values and low appreciation would better fit the definition of a distressed neighborhood where it could be harder to incentivize people to purchase into it.

For example, DCFPI analyzed home sales and home value data from the Office of Tax and Revenue's property tax database and identified neighborhoods where sales values and changes in sales price were 40 percent or less of the city-wide median, which means sales prices of under $272,400 and a change in sales price of under 8.96 percent. This measure identified 16 property tax areas, including parts of Congress Heights, Woodridge, and Fort Dupont.[1] (See **Table 1.**) I have attached a map of the Census Tracts that would be captured under this measure from the Office of Planning (see attachment 2).

Table 1: Areas of DC That Have Low-Value and Low-Appreciation Sales of Homes	
Property Tax Assessment Area	**Neighborhood Name**
2B	Anacostia
3	Barry Farm
5A&B	Brentwood
16B	Congress Heights
18A&D	Deanwood
22,B&D	Fort Dupont
32A	Lily Ponds
33A	Marshall Heights
43B&C	Randle Heights
47	Riggs Park
56D	Woodridge

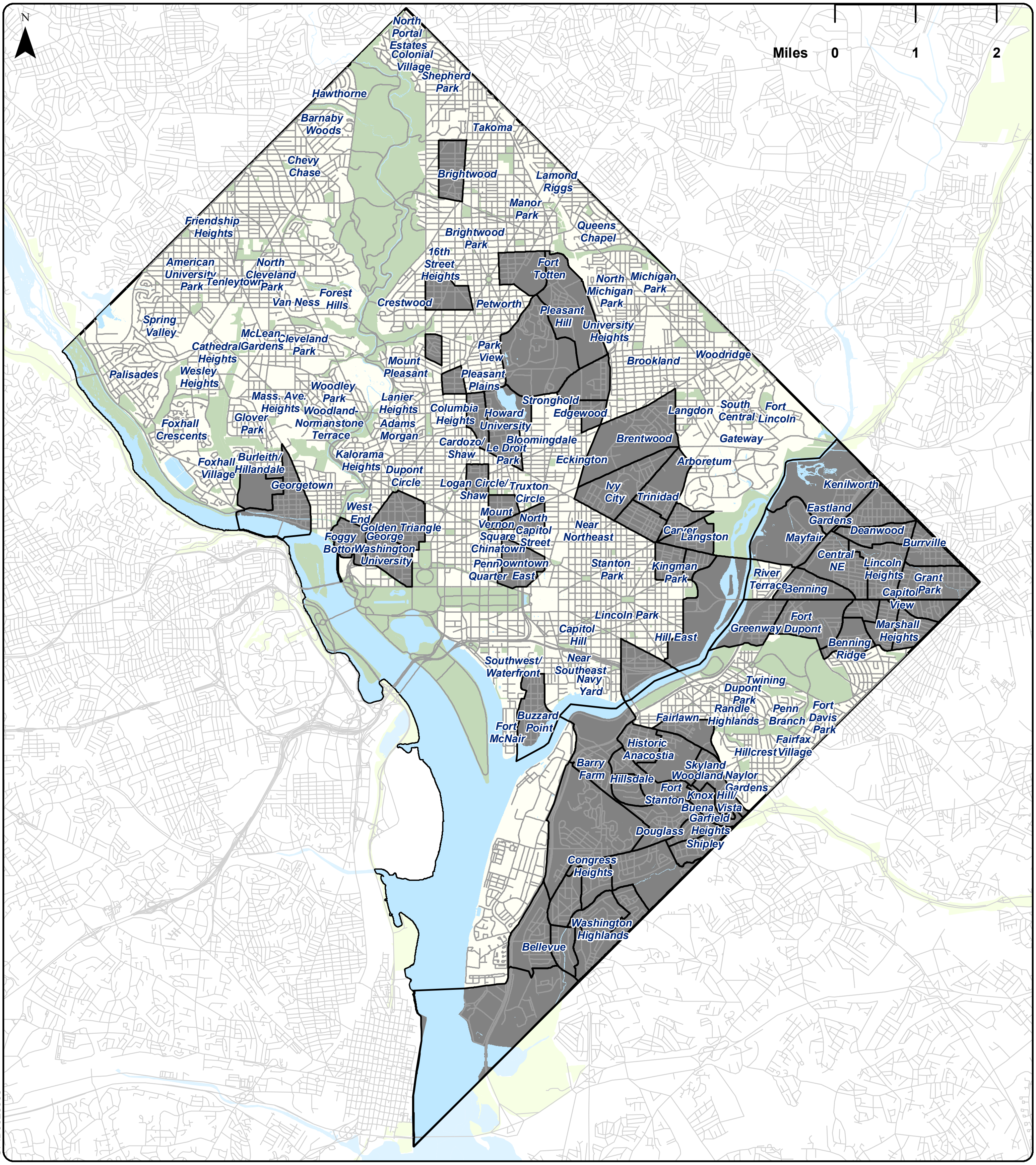
Includes assessment areas with home sale prices and change in sales prices that are less than 60 percent of the city-wide median (8.96% and $272,400 respectively. Source: DCFPI analysis of Office of Tax and Revenue Property Tax Data.

Two other significant concerns with the bill are that as written, the bill would end affordability restrictions at 15 years, no matter what, and would then prohibit the use of permanent affordability models such as shared equity and community land trusts. Currently, the law says that affordable periods must be at least 15 years, which allows for developers to have longer affordability periods. While we feel these are just errors in the bill and not the intent of the legislation, it will be critical that the District amend the bill to allow for longer affordability periods so as to allow other models of affordable homeownership opportunities in DC.

DCFPI urges the committee not to move the bill forward as is. At a minimum we urge the committee to use the definition of distressed that looks at low sales price and low sales price appreciation that DCFPI modeled and that more accurately captures neighborhoods that may have distressed housing markets. In addition, we ask that DC amend the bill to allow for affordability periods to extend beyond 15 years. Adopting a model that balances a homeowner's desire to gain equity in their home with a need to preserve affordability would ensure that the District creates affordable homeownership opportunities today but also for the future low- and moderate-income residents who may want to purchase a home in the District.

Thank you for the opportunity to testify and I am happy to answer any questions.

[1] In 2013, 60 percent of the median sales price in DC was $272,400 and 60 percent of the change in home sales price was 8.96 percent.



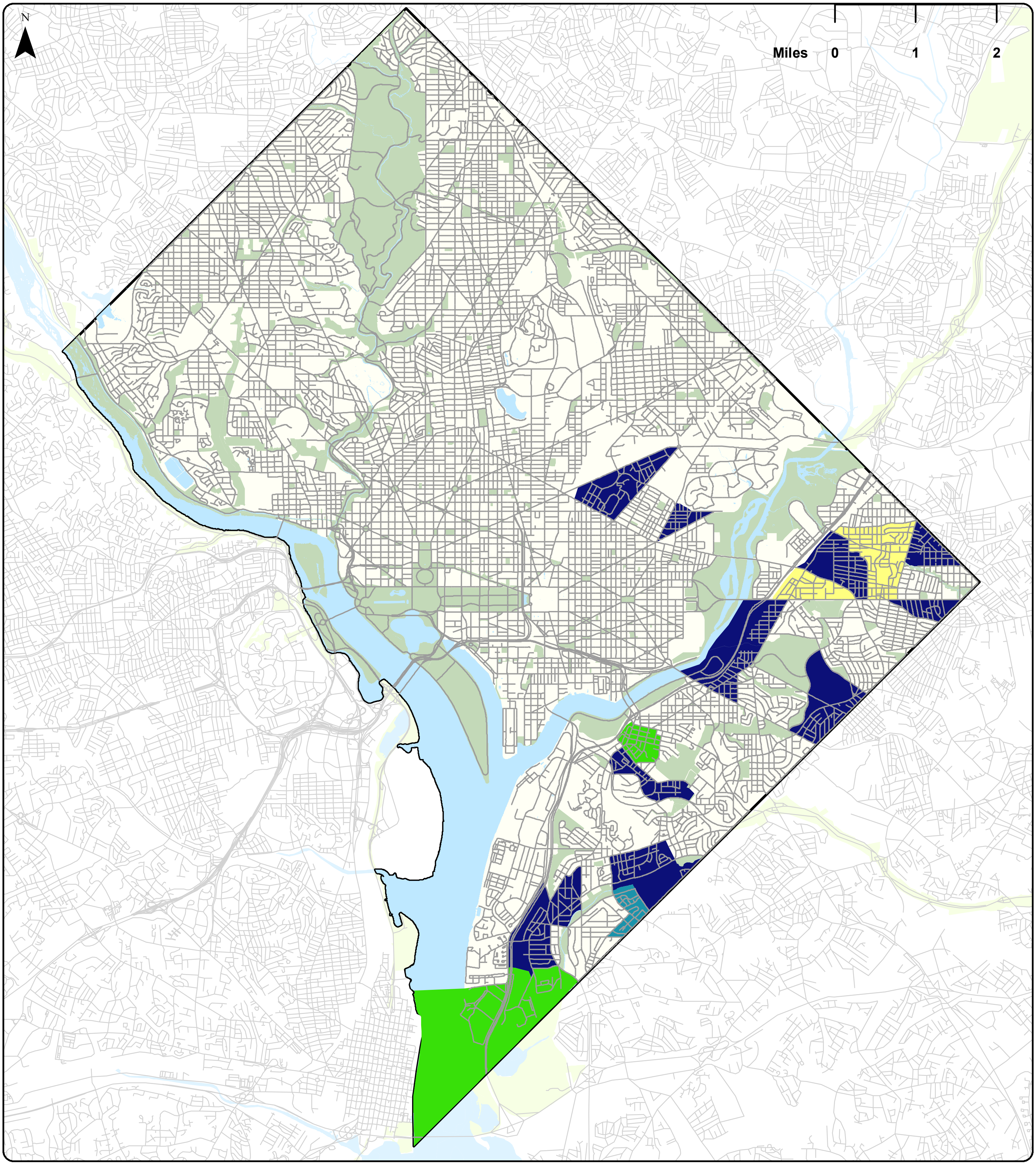
Census Tracts at 20% or Greater Poverty

Office of Planning ~ May 22, 2014

Government of the District of Columbia

This map was created for planning purposes from a variety of sources. It is neither a survey nor a legal document. Information provided by other agencies should be verified with them where appropriate.

Source: 2012 ACS 5-year Estimate, US Census Bureau



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Census Tracts Below 60% of DC Median Price Appreciation Rate & Below 60% of DC Median Price

Prices Depreciated

Prices Appreciated Up to 20% of Median Rate

Prices Appreciated Up to 40% of Median Rate

Prices Appreciated Up to 60% of Median Rate

Office of Planning ~ May 21, 2014

Government of the District of Columbia

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