

Homeownership Development Proposal

Subsidy for new construction & substantial rehab of for-sale homes.

Why this is needed:

- Home prices in VT have gone up 37% in three years, and supply of homes has not kept pace with need, as seen on right:
- Builders are facing unprecedented labor and material shortages, causing delays and cancelled developments, as reported in the [State of Development report](#).
- Cost pressures are far outside their control of developers, stemming from labor, lumber, and steel market volatility.

What this builds upon:

- VT has funded \$14.4 million for 452 for-sale homes through the State Homeownership Affordable Housing Tax Credit. VHFA has loaned an additional \$18 million in construction loans for purchased homes.
- \$2 million has already been awarded to lower the cost of construction loans for this program through loan guarantees and direct capital access through state funding of VHCB.
- This proposal stemmed from a new federal tax credit to build or rehabilitate distressed properties in some communities in Vermont, called the [Neighborhood Homes Investment Act \(NHIA\)](#), from BBB.

Structure of program:

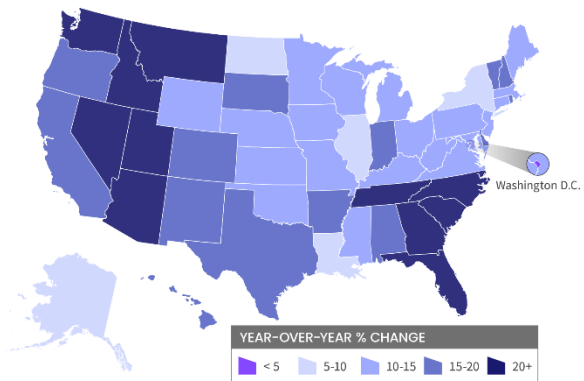
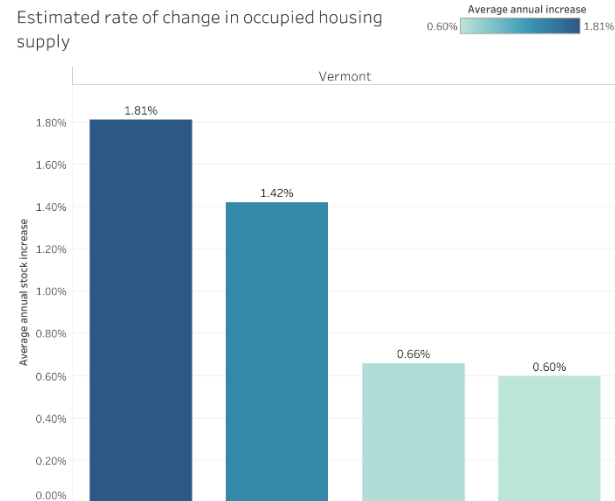
- A builder-based subsidy, this funding will lower the cost of housing for buyers and encourage more modestly priced homes to come on the market.
- Program limits target those earning 80-120% Area Median Income (roughly \$47,000 to \$115,000).
- Subsidy will cover up to 35% of eligible development costs, modeled off the [NHIA](#) described above.
- Limits would be set to specify eligible homes which would govern size, price per square foot, and builder profit as well as ensure state policy priorities like smart growth and energy efficiency are promoted.
- Like all other funding for housing, priorities for awards would adhere to state housing policy. VHFA is the largest funder of affordable housing in Vermont and awards over \$36 million to rental and for-purchase housing annually. There are existing public processes in place to design the program, such as the state and federal tax credits.
- Affordability subsidy would be permanent and stay with the home in the form of a land covenant so future income-eligible buyers could purchase the home at a reduced rate. Any appreciation of the home is kept by the owner.

Program Example:

The example below shows how this funding could be used to address:

1. The gap between the high cost of construction and the sales price based on an appraisal (called “value gap”); and
2. The “affordability subsidy” between the sales price and the amount a household earning the area’s median income can afford.

Estimated rate of change in occupied housing supply



Total construction costs (new or acquisition/rehab)	\$425,000
LESS: Maximum sales price based on appraisal	– \$375,000
Value gap subsidy	\$50,000
Maximum sales price based on appraisal	\$375,000
LESS: Target price for those earning median income	– \$315,000
Affordability subsidy (permanent subsidy)	\$60,000

A total subsidy of \$110,000 could create a home that sells for \$315,000 to an income-eligible buyer. Buyer obtains a mortgage and may use other existing homebuyer resources. Subsidy covenant will remain on the home to maintain the affordability subsidy for future sales of the home.

VHFA's proposed changes to the Administration's language on the Missing Middle Income Home Ownership Development Program

\$15,000,000 to the Department of Housing and Community Development to grant to the Vermont Housing Finance Agency to establish a Missing Middle Income Home Ownership Development program. The program will provide development subsidies for new construction or acquisition and substantial rehabilitation of owner-occupied homes. Program funds will be used by Vermont Housing Finance Agency to provide a direct project subsidy for up to 35% of eligible development costs for income-eligible buyers. Funds invested to buy down the sales price of a home will remain permanently available to future buyers.

“Affordable owner-occupied housing” means:

- owner-occupied housing identified in 26 U.S.C. § 143 (c)(1) or that qualifies under Vermont Housing Finance Agency criteria governing owner-occupied housing.

(A) The Vermont Housing Finance Agency shall have the authority to provide funds to make grants or investments to eligible applicants for affordable owner-occupied housing. An eligible applicant may apply to the agency in adherence with program priorities set by the Agency. Selection criteria set forth in a program plan must include:

- (1) Project location;
- (2) Geographic distribution;
- (3) Leveraging of other programs;
- (4) Housing market needs;
- (5) Project characteristics, including whether the project includes the use of existing housing as part of a community revitalization plan;
- (6) Construction standards, including considerations for size;
- (7) Priority will be given for plans with deeper affordability and longer duration of affordability requirements;
- (8) Sponsor characteristics;
- (9) Energy efficiency of the development; and
- (10) Historic nature of the project.

(B) The Agency shall use the proceeds to provide long-term affordability on homes that receive investments from the program or use the proceeds of the program for investments or grants to eligible owner-occupied housing projects.

(C) The Agency may assign its rights under any investment or grant made under subdivision XXX of this section to the Vermont Housing and Conservation Board or any State agency or nonprofit organization qualifying under 26 U.S.C. § 501(c)(3), provided such assignee acknowledges and agrees to comply with the provisions of subdivision XXX of this section.

(D) Initial investments made under this program must be obligated by December 31, 2024, and expended by December 31, 2026, as defined by [ARPA State Local Fiscal Recovery Funds].

(E) The Department will report to the House Housing, General, and Military Affairs Committee and Senate Economic Development, Housing, and General Affairs Committee on the status of the program every year by January 15th through 2026.