

Homeownership Development Pilot Proposal

Proposal to appropriate \$5 million through Budget Adjustment Act to support construction and rehab of for sale homes.

Existing Markets:

- Homes sold in Vermont have appreciated 37% over the past three years, a troubling trend worsening as costs rise.
- Vermont 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.

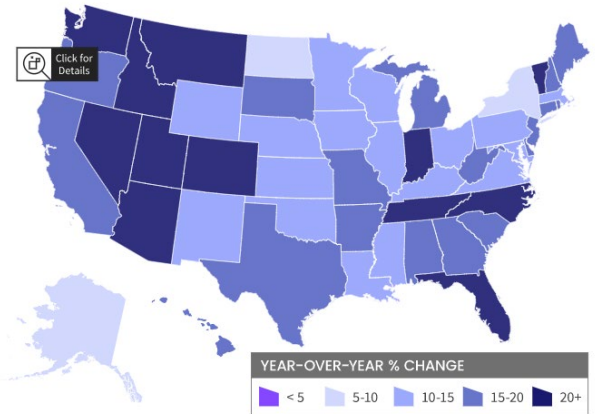
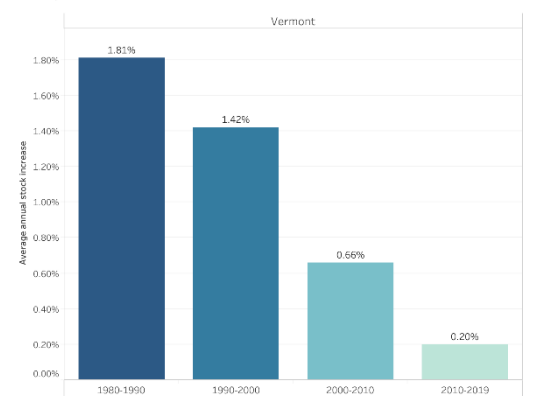
Existing Funding:

- Since 2009, VHFA has awarded \$14.4 million for the creation of 452 homes for purchase through Vermont’s State Homeownership Affordable Housing Tax Credit. \$7.8 million created 263 new manufactured homes and \$6.6 million supported 180 stick built homes/condos in 25 different locations.

Structure of Proposal:

- New financial subsidies to build or substantially rehabilitate modest owner-occupied homes.
- Homes could include 1-4 unit stick-built homes, condominiums (including a percentage of overall units in a larger development), co-operative housing, modular, and manufactured housing.
- Target modest homes for households between 80-120% Area Median Income (earning roughly \$47,000 to \$115,000).
- Subsidy will cover up to 35% of eligible development costs, modeled off [Neighborhood Homes Investment Act](#), a proposed federal tax credit that could supplement this funding if passed.
- Limits would be set annually to specify eligible homes to help limit size, price per square foot, and builder profit.

Estimated rate of change in occupied housing supply



Source: Corelogic, U.S. Home Price Insights, 11/2/2021

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 (due to an overheated housing market) and the amount a household earning the area’s median income can afford. Median income is about \$75,000 for a family of three in most the state, and \$11,000 higher in northwest Vermont.

Total construction costs to build or acquire/substantially rehabilitate home	\$425,000
LESS: Market rate sales price for a modest home	– \$375,000
Value gap subsidy	\$50,000
Market rate sales price for modest home (set by appraisal)	\$375,000
LESS: Affordability target for those earning median income	– \$315,000
Affordability subsidy (available to future buyers as well)	\$60,000

A total subsidy of \$110,000 in this example results in 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.