MassDREAMS

MassHousing

Homeownership: Empowering New Buyers

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Homeownership – Empowering New Buyers

State and Local Fiscal Recovery Funds (SLFRF) that flowed to Massachusetts as a result of ARPA (American Rescue Plan Act) provided an exceptional opportunity for MassHousing to develop a bold homebuyer assistance program which has been the most successful in the Agency's history.

The program, known as MassDREAMS (Delivering Real Equity and Mortgage Stability), offered a grant of up to $50,000 for down payment, closing cost and mortgage insurance assistance for borrowers at 100% or less of AMI and $35,000 for borrowers between 101% - 135% of AMI.

MassDREAMS was funded through a line-item allocation by the Massachusetts Legislature of state ARPA funds in December of 2021. The legislative language established a $65 million reserve to: *"create and maintain opportunities for homeownership for residents of communities disproportionately impacted by the 2019 novel coronavirus pandemic; provided, that funds shall be expended to create and enhance access to homeownership in order to foster a strong, inclusive and equitable recovery with long-term benefits for housing security, health and economic outcomes and to address a systemic homeownership gap that contributed to more severe impacts of the 2019 novel coronavirus pandemic in socially disadvantaged communities and among targeted populations; provided further, that funds shall be expended to create opportunities for first-time homebuyers; provided further, that funds may be expended for down payment assistance programs, mortgage insurance programs and mortgage interest subsidy programs administered by the Massachusetts Housing Finance Agency and the Massachusetts Housing Partnership; provided further, that funds may be expended to first-time homebuyer counseling and financial literacy programs."*

This particular emphasis on efforts to address the "systemic" homeownership gap was a result of ongoing education and lobbying efforts by MassHousing with the Legislature through the Massachusetts Black and Latino Legislative Caucus (MBLLC) and created a strong foundation for the program's direction.

MassHousing was ultimately allocated $38 million from this fund which it shared with another agency and designed a program to meet the goals set out in the legislation. Specifically, MassHousing sought to structure the MassDREAMS program to reach as many borrowers of color as possible – and to serve the communities that had been hardest hit by COVID.

In all, the MassDREAMS program made 1,141 awards to help borrowers purchase a first home. Of these, 621 grants went to BIPOC households – representing 54% of all the borrowers who were assisted. 75% of the awards went to households with incomes below 100% of the area median income (AMI) and of that – 42% were to borrowers at 80% or less of AMI. The average grant was just under $33,000.

In order to qualify for a MassDREAMS grant, borrowers were required to live in one of 29 communities in Massachusetts that were disproportionately impacted by the COVID-19 pandemic and be a first-time homebuyer purchasing a single family 2-, 3-, or 4-family home that will be used as the buyer's primary residence. Applicants were also required to meet income and other eligibility criteria.

To meet the legislative mandate of serving disproportionately impacted communities, MassHousing targeted the funds to the 26 "Gateway Cities" in Massachusetts plus Boston and two additional cities.

In the Commonwealth of Massachusetts, 26 of its 351 cities and towns have been designated as "Gateway Cities" defined as, "a municipality with a population greater than 35,000 and less than 250,000, a median household income below the Commonwealth's average and a rate of educational attainment of a bachelor's degree or above that is below the commonwealth's average."

Gateway Cities face a different set of economic challenges than other communities in Massachusetts. The 1.8 million citizens of the Commonwealth who reside there represent about one-quarter of the state's population and include: 37% of the state's foreign-born residents; 44% of the state's population living in poverty; 47% of the state's population without a high school credential; and 51% of the state's linguistically isolated residents.

Targeting the Gateway Cities was a practical way to ensure that the program would reach borrowers for whom this grant would have the greatest impact. But while eligible borrowers were required to live in one of the 29 communities – the program design specifically allowed for the purchase of a home anywhere in the Commonwealth in order to empower borrowers to make the best decision for their families on where to buy their first home.

A critical component of the MassDREAMS program's success was to make it easy for prospective homebuyers to make an initial determination of their eligibility, and to provide them with clear guidance on how to apply for a DREAMS grant and a mortgage loan.

Because MassDREAMS funds were provided to two housing agencies, MassHousing determined that a neutral, single point of entry, third-party website was needed. It would be a website where consumers could go to learn about MassDREAMS, determine their initial eligibility by completing a screening questionnaire, and receive an eligibility letter that they could take to a lender.

MassHousing approached CHAPA (Citizens Housing and Planning Association), a statewide, nonprofit housing advocacy group which already provided information on affordable homeownership programs for consumers on a website, www.mymasshome.org. MassHousing contracted with CHAPA to build this new MassDREAMS eligibility functionality, which can be seen here. The screening questionnaire could be completed in just a few minutes, and an eligibility letter was generated which provided homebuyers with exact details on what to do next.

To promote MassDREAMS, MassHousing conducted a competitive procurement to select an advertising agency. A minority-, woman-owned ad agency was selected and they developed a MassDREAMS logo, and launched a digital ad campaign in English and Spanish using Google Ad Words, Facebook, Instagram as well as radio ads in English and Spanish.

The ad campaign, which was amplified by MassHousing's own social media, as well as word-of-mouth and social campaigns by lenders and Realtors, resulted in an enormous spike in visits to MassHousing's website (where consumers were redirected to the eligibility page on mymasshome.org) and helped to drive the massive interest in MassDREAMS and the rapid drawdown of grant funds.

On the technical side of the program, MassHousing supported the MassDreams grant through our correspondent lending channel. Our long-standing workflow of originating, processing, approving, and closing the first and second mortgages lies entirely with our participating lender. Due to the source of the funding from the federal government for this program, we decided to originate the MassDREAMS grant directly with the consumer. The goal was to ensure compliance with the program guidelines, and to speed up the adoption of the program by our lenders. By eliminating the need for lenders to create new workflows and potentially interim fund the grant – the goal was to get their policy "buy-in" quickly.

As for MassHousing's internal delivery system – this had to be developed out of whole cloth. MassHousing leveraged ICE technology to support the origination, approval, and funding of the grant. The main components developed to support the program were implementation of business to consumer technology to communicate and submit documentation and an enhanced system to allow for the tracking and approval of grant applications. As part of our streamlined program design, MassHousing wired the grant monies along with the grant agreement to the lender 24 hours prior to closing.

The program design, marketing efforts and internal workflow development all came together with great success. After its initial launch in September of 2022, the program was suspended just 79 days later on November 30, 2022, as all of the available funds ($38 million) had been expended. This was a testament to the highly effective program design of MassDREAMS and the enormous individual effort of the Homeownership Division at MassHousing. It was also important for legislative leaders in Massachusetts to see the program push out available funds this expeditiously given the time constraints for utilization of ARPA funds.

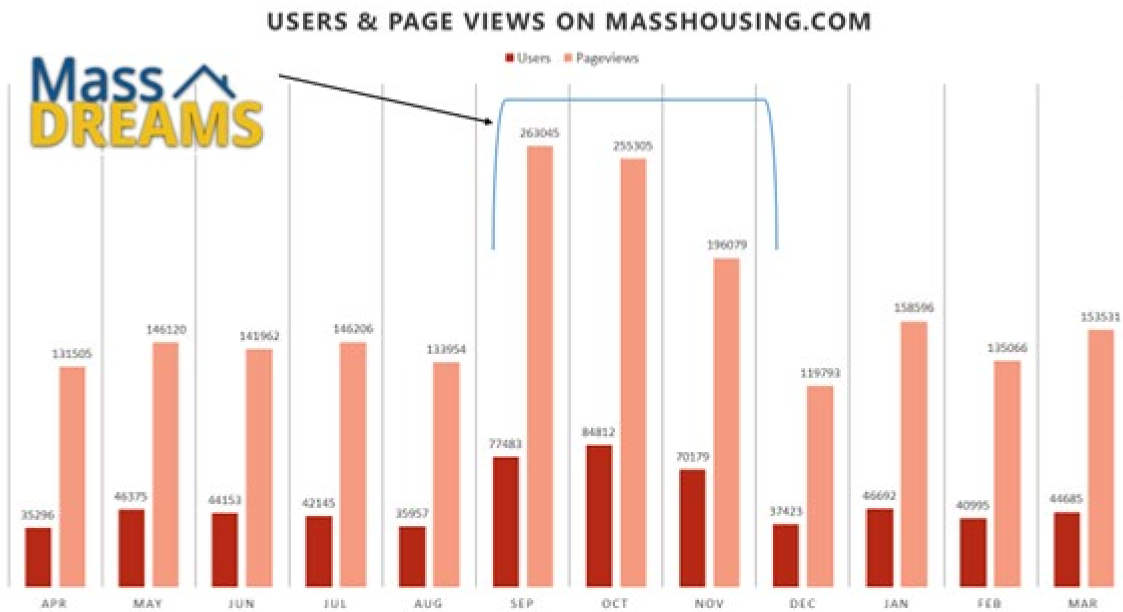
MassDREAMS is a powerful homebuyer assistance program that helped prove what MassHousing, and other affordable housing partners, have long theorized – that there are many low- and moderate-income borrowers who are ready to be homeowners but who need the boost of meaningful downpayment assistance to overcome the last obstacle to ownership.

Given the high rents that residents in Massachusetts are paying – many are ready to make a mortgage payment – but can't save enough on a monthly basis for a downpayment and closing costs. MassDREAMS broke down this barrier – especially for borrowers of color – and its success has been acknowledged by legislative leaders, the Massachusetts Mortgage Bankers Association and the press.

Here are just two comments from actual borrowers about the program:

> *"We were super excited to hear that we may be eligible for the MassDREAMS Grant.* ***It was a tremendous help to us****. I'm not sure how far we would've gotten without it. I am so happy to have a home for my kids to come home to and extremely grateful."*
>
> MassHousing Borrower who purchased in Brockton, Massachusetts
> Received **$40,480 in MassDREAMS Funds**
>
> *"My biggest surprise was when she told me the closing date.* ***Yes! It did happen!*** *I'm still hoping that this is not just a long dream."*
>
> MassHousing Borrower who purchased in Methuen
> Received **$35,932 in MassDREAMS Funds**

Increase in Visits to MassHousing's Website During the Months that MassDREAMS was Advertised and Available



MassHousing - MassDREAMS
Homeownership – Empowering New Buyers

Buying a house in Mass. is expensive. Now the state is offering some people $50,000 to help.

A new Massachusetts program will direct $65 million to help first-time homebuyers cover down payments, closing costs, and other expenses.

By Andrew Brinker Globe Corresponden . Upda ed Oc ober 30, 2022, 5:38 p.m.

Framingham, site of the above residence, is one of 29 Massachusetts communities where a new state program will offer lower and middle income first time homebuyers up to $50,000 in down payment assistance. B LL S KES

Buying a house in Massachusetts seems to become harder each year, particularly for lower- and middle-income residents. Now the state is putting $65 million in federal COVID relief money toward an effort to help.

State officials last week announced a new program — MassDREAMS — that will offer sizable upfront cash to first-time homebuyers in 29 communities in Massachusetts that were hit hard by the pandemic, including the state's 26 so-called Gateway Cities, as well as Boston, Framingham, and Randolph. Those funds will help cover a down payment, closing costs, and other expenses that might otherwise serve as a barrier to homeownership for lower-income residents.

Would-be buyers making less than 100 percent of the area median income — $140,200 for a family of four in Boston, for example — will be eligible for up to $50,000 in assistance, though aid will vary based on their community's home prices. People making between 100 and 135 percent of the AMI could receive up to $35,000.

"By helping with things like closing costs, we're helping people keep money in their pocket, so that when they purchase they're not buying a new home with zero dollars in their savings account," said Elliot Schmiedl, the director of homeownership at the Massachusetts Housing Partnership, one of two quasi-state agencies that will handle the funding. "So this program isn't just about achieving homeownership, but it's also about helping folks sustain it, so that they don't end up in a property that they can't afford down the road."

MHP and MassHousing will dole out the assistance to qualified applicants through their discounted mortgage products. The agencies have already been offering mortgage assistance in smaller amounts but the ARPA funding will allow them to reach hundreds, if not thousands, more would-be buyers, said Schmiedl.

The program, announced last week, represents an unusually large step toward boosting homeownership in a state that has some of the most expensive housing in the United States and where even middle-income buyers struggle to afford a home. Harvard's Joint Center for Housing Studies estimated earlier this year that families in Greater Boston need to earn a combined $181,254 to afford the area's median-priced house.

That was before mortgage interest rates surged to their highest since 2002 — with the average 30-year fixed-rate mortgage topping 7 percent this week, according to Freddie Mac — meaning someone who closes on a home in Massachusetts today would in many cases shoulder a monthly payment more than $1,000 higher than people who purchased a home for the same price a year ago.

That makes the rollout of the program particularly timely, as mortgage payments are a leading barrier to purchasing a home. Lower-income residents also struggle to come up with enough money to cover a down payment. Often, said Schmiedl, a grant like MassDREAMS is the boost people need to buy a home, and by targeting Gateway Cities, they'll boost communities that have relatively high populations of renters.

"It was a bit of a coincidence" that the program started out just as mortgage rates soared, he said, "but it means that we're going to start giving out this help at just the right time. The bottom line is, if people can't afford the average mortgage payment, they can't afford to buy a house."

And the program may also, in theory at least, help relieve some of the pressure on the state's housing market. By giving more people the means to purchase a home, more stock will be freed up in the red-hot rental market.

"The fact that many of our residents can't afford to buy a house impacts all corners of the housing market," said Schmiedl. "We're hoping this will help a broad group of people."

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MassHousing - MassDREAMS
Homeownership – Empowering New Buyers

Boston Globe 1/26/23

Mass. is spending big to boost homeownership. What happens when the money dries up?

Both the state and Boston have poured COVID relief funds into programs to help tackle the rising costs of housing. Now some are wondering if the programs are sustainable.

By **Andrew Brinker** Globe Correspondent,Updated January 26, 2023, 7:28 a.m.

Jasmine Toussaint at her new home in Haverhill.JONATHAN WIGGS/GLOBE STAFF

Boston Globe 1/26/23

She had to move about 30 miles from Boston, but Jasmine Toussaint is at last a homeowner.

A longtime resident of the city, Toussaint, 40, had for the better part of five years fruitlessly scoured the Boston area for anything in her price range. Then, at the beginning of 2022, her luck turned.

She got a better-paying job. Her student loans were forgiven through a federal public service program. And crucially, she received a $38,000 grant from a state-backed housing agency to use toward a down payment on the newly constructed townhouse in Haverhill that she now calls home.

"It has changed a lot for me," said Toussaint, who works for the educational equity initiative Campus Without Walls. "I'm the first person in my family to buy a house. It feels like I've been lucky enough to unlock a better future for myself."

But in the state's frenetic housing market, stories like Toussaint's are about more than good fortune: they also speak to the success of government programs aimed at helping people clear the increasingly insurmountable hurdles to becoming a homeowner. In her case, Toussaint was one of roughly 1,600 people who were on track at the end of 2022 to receive homebuying grants through a program known as MassDREAMS, which was financed with some of the billions the state received from the federal pandemic relief law known as the American Rescue Plan Act.

In total, the city and state together have directed more than $100 million toward down-payment and mortgage-assistance programs, and another $550 million or so to affordable housing development, initiatives that have helped thousands of people find permanent homes.

But those federal funds are set to dry up in 2024, which would leave homeownership programs like MassDREAMS, now seen by advocates as crucial aid initiatives, high and dry. And the same advocates and program administrators who have witnessed firsthand the success of the initiatives are lobbying the state to continue funding them, given the enormous stockpile of money on Beacon Hill, such as the nearly $2 billion in remaining ARPA funds and the record $6.9 billion accrued in the state's rainy day fund.

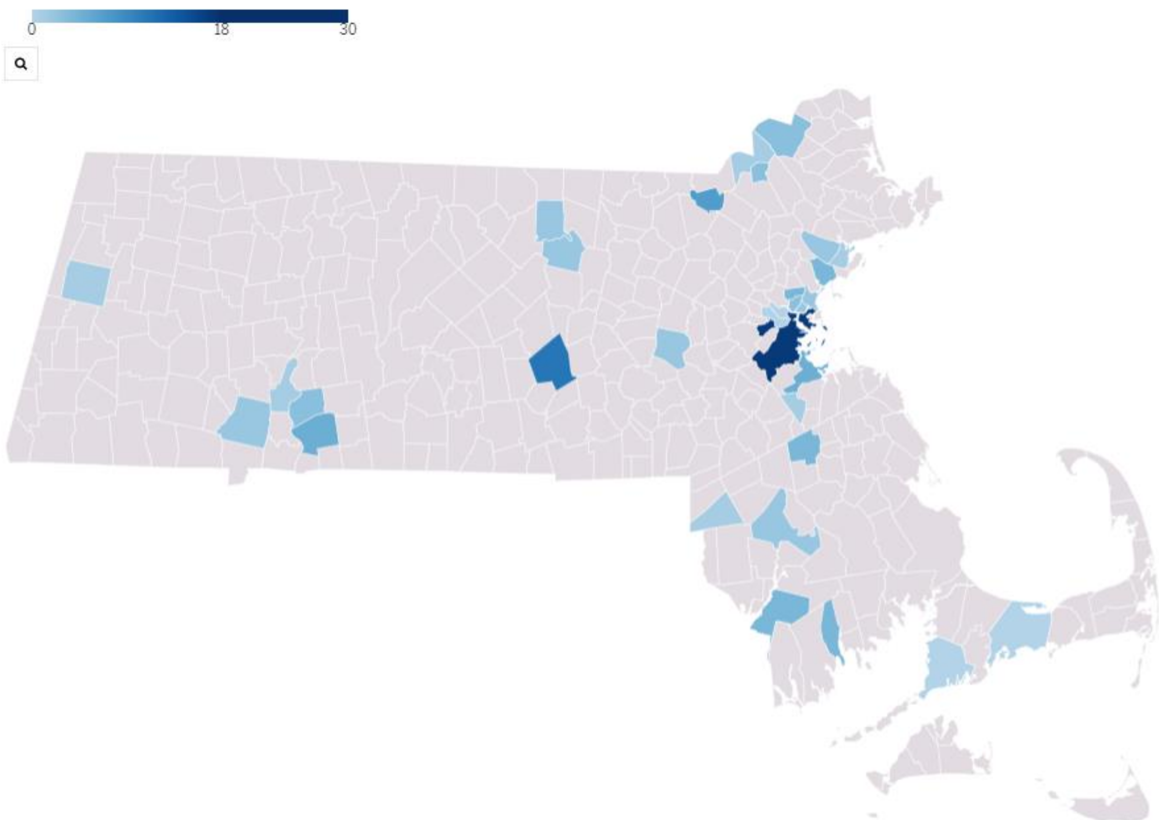
It's a pivotal choice, they say: Keep funding these programs with money the state has on hand, or watch them fizzle out.

Boston Globe 1/26/23

"The beauty of the ARPA money is that we've been able to spend it on some programs that we've been thinking about for a while but just haven't had the resources for," said Chrystal Kornegay, executive director of MassHousing, one of two quasi-state agencies that run MassDREAMS. "The downside is that we've now been able to see how much demand there is for homeownership assistance, but might not have the money to keep providing it."

Where borrowers are using MassDREAMS downpayment assistance grants

This map shows the towns where homebuyers used downpayment assistance grants from the MassDREAMS program in Nov. and Dec. 2022.



Source: MassHousing • CHRISTINA PRIGNANO/GLOBE STAFF

A Flourish map

A Flourish map

Access to homeownership in Greater Boston has been an issue for decades. Rising housing costs and, more recently, surging interest rates have made owning a home ever harder, particularly for lower- and moderate-income residents. And at 60.5 percent, the homeownership rate in the region lags the national average of 66 percent; in Boston itself just 35 percent of residents own their home.

That longstanding dynamic accelerated during the pandemic, first when waves of layoffs destabilized thousands of households, and then more dramatically when the housing prices went into hyperdrive in 2021.

City and state officials saw ARPA, signed into law in March 2021, as a way of offsetting the accelerating cost of homebuying, and those funds allowed housing initiatives to quickly expand far beyond typical funding levels. For instance, the Commonwealth Builder Program, which helps fund the development of new housing that can be purchased at subsidized rates, had $115 million in federal relief dollars piled onto its initial $60 million in state funding. That's helped to fund projects like the St. Therese in Everett, which has more than 80 units for senior citizens.

"There's a whole generation of potential homeowners who are being squeezed out by lack of housing supply, high prices, and now higher mortgage rates," said Clark Ziegler, executive director of the Massachusetts Housing Partnership, the other quasi-state agency that administers MassDREAMS. "The help we're giving out right now essentially functions as relief from the immense pressure in the market."

Demand for that assistance has been immense, too.

In November and December alone, MassHousing reviewed or administered more than 1,200 down-payment assistance grants — ranging from $17,000 to $50,000 — across 32 communities, most of them in so-called Gateway Cities that were hit hard by the pandemic. That accounts for $40 million of the $65 million allocated to the program in just its first two months.

The two-month total is about equal to the number of households the agency helped with down-payment assistance in the entire 2020 fiscal year, the majority of which received loans, not no-strings-attached grants that buyers do not have to pay back.

"We have to hope," said Kornegay, "that we get more money for this. Because there is a demonstrated need. We could very easily go through another $65 million."

For its part, Boston has directed the majority of its $60 million for homeownership programs to construction of homes on vacant, city-owned lots that will be set aside for purchase by low- and moderate-income buyers. Last November, the city said it would make 70 of the 150 city-owned parcels the Boston Planning and Development Agency identified as suitable for development available to developers. The city is also providing down-payment assistance, writing down interest rates, and supporting state mortgage programs.

Jasmine Toussaint, a longtime resident of Greater Boston who was able to purchase a home in Haverhill with the help of a state program aimed at lowering barriers to homeownership.JONATHAN WIGGS/GLOBE STAFF

Symone Crawford, executive director of the Massachusetts Affordable Housing Alliance, said those efforts represent a shift from how the government typically thinks about housing assistance. In most cases, housing aid funds go to rental assistance programs, which, while designed to help residents retain their housing, can still leave people vulnerable to eviction or displacement.

Adding homeownership programs to the city and state's funding priorities helps anchor people in their neighborhood, said Crawford, even if the amount needed per person is higher.

“For at least over a decade, the state has been heavily focused on rental production and preservation,” said Crawford. “And it's not that we can solve our homeownership crisis with these programs, but if we can offer the security and stability of owning a home to more of our residents, particularly to our vulnerable populations, that's worth investing in.”

But the path forward may prove tricky.

At the city level, Sheila Dillon, Boston's chief of housing, said she's optimistic demand for the new programs will convince city leaders to continuing investing in homebuying programs.

"This infusion is going to help us reach a significant number of families," said Dillon, "and we're thinking about homeownership now as one of our top priorities."

Ziegler, the MHP director, is hoping the state will make the MassDREAMS program permanent, citing the remaining $1.75 billion in ARPA money as a potential source of funding.

Beyond that, advocates hope those programs dovetail with the priorities of Governor Maura Healey, who has put housing affordability at the top of her agenda.

Karissa Hand, a spokesperson for Healey, said in a statement that the governor will prioritize both housing production and homebuying assistance, and that she will "explore all resources available to achieve these goals, including the use of ARPA funds, state capital and operating funds, as well as other sources."

People like Toussaint say that any money toward homeownership is well worth it.

"Every part of buying a house is just so expensive here — your monthly payment, your down payment. And then you add in things like furniture," she said. "It makes me wonder how anyone does this without help."

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ARPA Could Already Be Running Out Of Time To Bring 'Transformative' Change To The Affordable Housing Crisis

April 23, 2023 | Matthew Rothstein, Bisnow Philadelphia (https://www.bisnow.com/author/matthew-rothstein-51988) (mailto:matt.rothstein@bisnow.com)

Since its passage in 2021, the $1.9T American Rescue Plan Act has loomed large for state and local governments as a historic opportunity to not just stabilize after the shock of the pandemic but also to expand what they could do (https://www.bisnow.com/national/news/multifamily/biden-yellen-urge-local-officials-to-spend-billions-in-remaining-federal-aid-on-housing-117662) for constituents.

Some $350B in State and Local Fiscal Recovery Funds were a godsend in filling budget revenue gaps to keep the proverbial lights on, and many were able to do so with plenty left over. Those states, counties and cities were encouraged by the Biden administration to allocate at least some leftover funds to addressing three key issues: workforce and wage development, public safety and affordable housing.

“SLFRF was designed not only to help families, small businesses and communities weather the pandemic — but also to support transformative investments that build a stronger and more equitable economy for the future,” Deputy Treasury Secretary Wally Adeyemo said in a May 16 letter (https://home.treasury.gov/system/files/136/Deputy_Secretary_Adeyemo_Letter_SLF state, local and territorial leaders.

Most jurisdictions have begun rising to the Biden administration’s challenge to spend SLFRF on those three priority areas. But in the case of affordable housing, turning that spending into transformative investments that improve housing affordability and equity in the long term is a tall order.

As the next few years go by, it may prove unrealistic.

“Encouraging creativity is different from providing real solutions on how to deal with housing,” said FBT Project Finance Advisors Managing Director Frances Mennone, a Cincinnati-based attorney who advises jurisdictions on how to apply for, obtain and spend capital from government programs.

“The people doing the work on this are underpaid, understaffed, underappreciated, etc. That’s not an incubator of solutions. ... There’s a lack of creative thought on this issue. Everybody just looks at the next city over.”

Because of its conception as a pandemic recovery instrument, ARPA comes with a timeline that is quite tight compared to most federal spending programs. Jurisdictions must obligate their SLFRF dollars to specific projects and programs by the end of 2024 and spend them by the end of 2026, or else see the federal government claw them back.

At the state level, over $10B in SLFRF money has been budgeted for housing programs, which includes everything from direct rental assistance (https://www.bisnow.com/tags/rental-assistance) and gap funding for new affordable housing developments to homebuying and homeownership assistance, according to survey data (https://www.ncsha.org/advocacy-issues/coronavirus-state-and-local-fiscal-recovery-funds/) collected as of April 18 by the National Council of State Housing Agencies (https://www.bisnow.com/tags/national-council-of-state-housing-agencies).

Though it represents just over 5% of the $195B pool given to states and Washington, D.C., it marks an unprecedented amount of money to be allocated for housing affordability in such a short time, NCSHA Deputy Director of Tax Policy and Strategic Initiatives Jim Tassos told *Bisnow*.

“It’s a gigantic number compared to what we’re used to seeing in an allocated program,” Tassos said. “Unfortunately, it’s coming at a time when costs are higher than ever. It’s sort of masking the true benefit of $10B in new affordable housing money because everything is so much more expensive.”

Another $110B of SLFRF went to counties and cities. In those jurisdictions with populations over 250,000, about 75% of federal funds, or nearly $49B, had been budgeted by the end of last year, The Brookings Institution reports (https://www.brookings.edu/interactives/arpa-investment-tracker/). Just over 10% of that pool has been slated for use on housing.

Thanks For The Money. Now What?

Once jurisdictions were informed how much SLFRF funding they would receive, most were able to decide on how to divide it into broad categories like government operations, public health, infrastructure and housing after a few months, according to a Treasury Department fact sheet (https://home.treasury.gov/system/files/136/SLFRF-Housing-Investments-Factsheet.pdf).

Expenditures categorized as filling coronavirus-induced revenue gaps in government budgets were straightforward. But with real estate being an industry that runs on debt, initial rules that seemed to bar jurisdictions from using SLFRF to give loans became a massive problem (https://www.brookings.edu/blog/the-avenue/2023/04/17/as-local-governments-finalize-their-american-rescue-plan-priorities-some-dollars-have-become-easier-to-spend/), Tassos said.

“We worked with Treasury and tried to clarify some things with Congress about how money could be spent, and Treasury [became] extremely flexible with how the funds could be used so they could work in a traditional affordable housing transaction,” Tassos said.

After the Treasury Department (https://www.bisnow.com/tags/treasury-department) made a series of rule tweaks and clarifications (https://www.bisnow.com/national/news/affordable-housing/affordable-housing-financing-could-loosen-up-as-biden-administration-acts-where-it-can-115752) in 2022, jurisdictions accelerated the process of allocating money to specific projects and programs, Tassos said, echoing research from The Brookings Institution (https://www.brookings.edu/blog/the-avenue/2023/03/09/the-american-rescue-plan-two-years-later-analyzing-local-governments-efforts-at-equitable-transformative-change/).

Most jurisdictions didn't have the infrastructure to handle such an infusion of money, fairly assess where it would be needed most, then distribute it in a way that complies with the rules the federal government placed on it. Creating that apparatus in time to get money out the door on ARPA’s schedule was the focus of most cities, counties and states for the first year after the law’s passage, The Brookings Institution (https://www.bisnow.com/tags/the-brookings-institution) reports.

Creating the structure to receive and spend ARPA funds meant hiring staff or even creating new departments, Tassos and Mennone said. Plenty also spent months engaging with their constituencies to make sure their spending aligned with their needs and wants.

“It wasn’t until [April 18] that officials were able to finally release an RFP for the Hamilton County portion of the ARPA dollars — $31M — for gap funding for affordable housing in the county,” Mennone said, referring to the Ohio county that contains Cincinnati. “That’s been a long time coming, but they need the allocations set by the end of 2024. Meanwhile, the affordable housing issue just gets worse by the day.”

Community engagement isn't exactly conducive to a nimble deployment of funds, but it is required by the Department of Housing and Urban Development (https://www.bisnow.com/tags/department-of-housing-and-urban-development) in many cases, said Chenin Dow, senior manager of economic development and real estate for the city of Lancaster in Los Angeles County (https://www.bisnow.com/tags/los-angeles-county).

Lancaster didn't wind up using any SLFRF funds on housing, partly due to how proactive its city government was in setting up pandemic emergency support programs, then using SLFRF as essentially a reimbursement for its initial outlay, Dow said. But it received $1.2M from ARPA's $5B HOME program, which wound up being the city's final use of ARPA funding.

"All of that funding helped shore up any general fund expenditures that had been made initially, and then to expand the programs we had begun," Dow said. "The HOME funding came later enough to not be applicable for acute [needs]."

The Ticking Clock

Anyone with even a passing familiarity with commercial real estate development is aware of the long timelines that come with new housing projects. With all the challenges of the past three years, those timelines have lengthened further.

"When you're talking about commercial real estate development, going through all the different phases of design, permitting, financing and construction takes two to three years — and that's in the case of well-defined programs," said Mark Teden, vice president of multifamily for MassHousing, Massachusetts' independent, quasi-public agency to improve affordable housing statewide.

"To build a new program, create a new pipeline and then try to get deals closed, we didn't see that as appropriate. For the things that would take more time, we allocated state money as opposed to federal funds. Because on that timeline, it's very difficult to develop something new."

Housing affordability had been a building national crisis (https://www.bisnow.com/national/news/multifamily/middle-class-housing-crisis-91946) for years before the pandemic.

When Covid-19 hit, its impact on housing in the U.S. came in two waves: First, there was the public health component, which was the target of eviction moratoriums (https://www.bisnow.com/tags/eviction-moratoriums) and other emergency measures to keep or put people in housing and out of congregate-care settings or the street. After that, the runaway inflation of housing prices (https://www.bisnow.com/national/news/multifamily/rent-increases-brought-billions-in-profit-for-largest-apartment-owners-113330) that began in 2021 exacerbated the high cost of housing (https://www.bisnow.com/national/news/multifamily/renters-cpa1-113622) across income spectrums and worked against the Biden administration's goal of using SLFRF to leave housing affordability in a better place than it had been in 2019.

The Biden administration's goal was to use SLFRF and other spending bills from the first two years of his term to "close the housing supply gap by 2027," Treasury Secretary Janet Yellen (https://www.bisnow.com/tags/janet-yellen) said at a national meeting of county officials (https://www.bisnow.com/national/news/multifamily/biden-yellen-urge-local-officials-to-spend-billions-in-remaining-federal-aid-on-housing-117662) in February. But the supply gap has persisted for so many years because of systemic issues that SLFRF can't solve, Mennone said.

"Most of the affordable housing projects that are done in communities are either Low-Income Housing Tax Credit deals or other HUD funding, and there are limitations for how much you can do with that in a community," she said. "So the federal funding gets caught in the pipeline of projects for that, and flooding the market with funding for housing is not the only solution."

The most common use of SLFRF funds under the affordable housing umbrella has been to fill financing gaps in affordable housing projects subsidized by LIHTC and similar programs, specifically for projects that were either under construction or attempting to finalize their capital stacks, according to NCSHA's survey and research (https://www.urban.org/sites/default/files/2023-03/Using%20ARPA%20Funds%20to%20Address%20Affordable%20Housing%20Needs by the Urban Institute.

Those gaps were created by spiking costs of labor and materials — and delays in obtaining either — then widened by the rapid rise in interest rates (https://www.bisnow.com/tags/interest-rates) last year in response to runaway inflation (https://www.bisnow.com/tags/inflation).

"The story is what would have happened if these funds hadn't been made available, and that is that a lot of these affordable housing projects would have stalled," Tassos said. "Nobody expected what happened with inflation and interest rates, so deals that made sense financially two or three years ago fell apart. And the solution was this money."

Building A Money-Spending Machine From Scratch

MassHousing did manage to create a new program using SLFRF money, a down payment assistance program for first-time homebuyers called MassDREAMS, said MassHousing Director of Communications and Policy Paul McMorrow. State legislation made the program's creation official in December 2021, a few months after Massachusetts learned its SLFRF allocation total.

“We couldn’t really design a program until we had that signed piece of legislation, and we didn’t launch the program until the late summer and early fall of 2022,” McMorrow said. “So that was a good six months of figuring out which agencies would administer which buckets of money, then understanding more fully, ‘How does the money work? If it’s going to be a grant, what does that mean? How do we design systems to internally convert the check that we get from the commonwealth into a grant from a homebuyer?’”

MassHousing - MassDREAMS Homeownership – Empowering New Buyers

Almost immediately, officials at MassHousing saw how impactful a new program could be as well as how much that program paled in comparison to the acuity of the affordable housing crisis.

“When we put that fund together [for MassDREAMS], we anticipated that it would last a couple of years, and it was gone in less than three months,” McMorrow said.

Massachusetts allocated $960M of SLFRF money to housing, the second-highest total of the 46 state housing authorities that responded to NCSHA’s survey. New York, which did not respond, allocated $183M (https://openbudget.ny.gov/covid-funding/slfrf.html) for a statewide rental assistance grant program in fiscal year 2022. States without massive metros budgeted smaller percentages of SLFRF to housing, the NCSHA survey found.

That may be a symptom of how the existing pathways for generating affordable housing are set up, considering how government involvement in the sector has been heavily weighted toward densely populated areas for as long as governments have been involved at all, Mennone said.

“The way we dole money out now does not recognize the fact that we’re not all New York City or California,” she said. “So it’s problematic as far as whether the money lands where it needs to go.”

Take the city of Lancaster: Its $1.2M in HOME funding through ARPA isn’t enough on its own to fund the local government’s plan for redeveloping local motels into supportive housing for those experiencing housing insecurity, Dow said. The city added money from California’s Homekey program to build an incentive package it is now marketing to developers in the form of a request for proposals.

“There’s a lack of understanding from communities themselves when they say, ‘We need an affordable housing developer. We need someone to come to our town,’” Mennone said. “But no one will come there because the subsidies they would use wouldn’t be able to make the math work on the transaction.”

Ultimately, the shortage of affordable housing in the U.S. is a systemic problem (https://ssir.org/articles/entry/transforming_our_housing_system) with systemic causes (https://www.npr.org/2023/02/11/1155094278/states-cities-end-single-family-zoning-housing-affordable) — and one that can only be solved (https://housingmatters.urban.org/articles/we-cant-address-our-housing-crisis-without-addressing-our-climate-crisis) with systemic changes (https://www.thenewlocalism.com/newsletter/a-national-commission-on-solving-the-us-housing-crisis-an-urgent-proposal/). That was made clear in jurisdictions that lack the personnel or sophistication to navigate federal funding applications and regulations, Mennone said.

"I'm doing work in Appalachia right now, and those communities don't have a LIHTC lawyer and accountant that know how to deal with all of that, nor would those communities score well in state [Qualified Application Plan (https://nlihc.org/sites/default/files/2014AG-259.pdf)] stuff," she said. "They need affordable housing just like everybody else, and they're never going to solve those problems in the existing structure."

Even if it doesn't deliver a housing revolution, an infusion of billions of dollars will be crucial to saving a lot of affordable developments in the pipeline from suffering the same fate (https://www.bisnow.com/national/news/capital-markets/no-ones-immune-as-cre-values-take-hit-deals-fall-apart-with-rising-rates-114026) as market-rate projects in this period of spiking capital costs.

Yet in order for even that benefit to be realized, jurisdictions have further to travel to get the billions of dollars in their plans obligated to specific projects or subrecipients by the end of next year — and spent by the end of 2026, Mennone and Tassos said.

"Some funds are sitting there, ready to be used, but because of the development timeline, the money has not gone down to the project level yet," Tassos said.

In the absence of systemic change, jurisdictions will need to fight to meet those key deadlines and deliver on their billions of dollars in promises.

"Most jurisdictions are just now starting to get resources out the door," Mennone said. "They've been given the awards and the allocations, but [the money] has yet to arrive because of the need for subrecipient agreements. The money is not arriving as fast as it needs to, which is just making the problem worse."

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