

VHFA Middle-Income
Homeownership Development Program
Vermont Housing Finance Agency
Homeownership: Encouraging New Construction

HFA Staff Contact

Mia Watson

mwatson@vhfa.org

VHFA Middle-Income Homeownership Development Program

Like many parts of the country, Vermont’s high development cost environment has made it economically unfeasible for developers to produce homes affordable to most homebuyers. [Vermont Housing Finance Agency’s Middle-Income Homeownership Development Program](#) provides incentives to support the construction or rehabilitation of modest for sale homes through a two-part strategy of a construction guarantee and a development subsidy, making homeownership attainable for more moderate-income households.

Program origin

Vermont experienced rapid home sale price increases during the pandemic, with the median home price rising by nearly 14% from 2021 to 2022. Vermont also experienced meteoric increases in the cost of housing development due to material and labor markets, with year-over-year costs increasing by more than 12%.

In recognition of this growing challenge, the Vermont Legislature and Governor Phil Scott allocated \$15 million in funding through the American Rescue Plan Act (ARPA) to VHFA in June 2022 to establish the Middle-Income Homeownership Development Program.

VHFA held multiple public meetings to recruit interested developers and design the program, which were attended by over 60 interested parties from across the state. After incorporating feedback, the program opened applications in December 2022.

Program design

The Middle-Income Homeownership Development Program was designed to address two parallel challenges:

1. Value gap: due to increasing development costs, it now costs more to build a modest single-family home in Vermont than the home could likely appraise for at the time of completion.
2. Affordability gap: the sale price of even a modest new single-family home significantly exceeds what Vermont households earning between 80-150% of AMI can afford.

Value Gap Calculation	
Cost to Construct Home	\$400,000
Appraised Value	\$375,000
<i>Value Gap</i>	<i>\$25,000</i>
Affordability Gap Calculation	
Appraised Value	\$375,000
Affordable Sales Price	\$319,500
<i>Affordability Gap</i>	<i>\$55,500</i>
Final Sources	
Final Sales Price	\$319,500
Total Middle-Income Award	\$80,500
Total Final Sources	\$400,000

The program was partially modeled after the [Neighborhood Homes Investment Act \(NHIA\)](#), proposed federal legislation to offer a tax credit to close the value gap for up to 35% of eligible development costs for homes sold to moderate income households. Should the NHIA pass in the future, Vermont has a natural vehicle and program infrastructure to quickly activate that funding. The program was designed to be as simple as possible to encourage participation from developers new to affordable housing programs.

VHFA's program includes two components:

1. Development Subsidy that provides up to 35% of development costs for program eligible homes.
2. Construction Guarantee that provides construction loan guarantees for up to 15% of the development costs for program eligible homes

The development subsidy is calculated based on the value gap (the difference between the cost to build the home, or the cost to acquire and rehabilitate the home and the market value of the home as supported by an independent appraisal) and the affordability gap (the different between appraised value and what a 150% AMI borrower can afford). An adjusted value gap can be determined post-construction closing if construction costs change due to material or labor.

In addition to the development subsidy, VHFA recognized that developers are working in a rapidly changing environment that makes it difficult to predict the final cost of projects. VHFA also offers a construction guarantee for up to 15% of eligible development costs in the form of a construction loan. Upon repayment, the construction guarantee lien is released, or the incentive investment deposited amount will be returned to VHFA. Funds or guarantee capacity will be revolved and used for the next eligible project.

Eligible projects

Homes produced under the program must be sold at prices affordable to homebuyers earning at or below 150% of Area Median Income (AMI). Eligible types of housing units include construction or substantial rehabilitation of one to four-unit houses, manufactured or modular houses, condominium units, and houses or apartments owned by cooperative housing corporations.

At least 33% of the program funds are targeted to support the [shared equity model](#) of home ownership to provide deeper affordability. Vermont has several non-profit housing developers experienced in long-term stewardship for shared equity homes. Shared equity arrangements sell homes to buyers at AMI-targeted prices with low or no down payment requirements. If the buyer moves, the home is resold to another income-eligible buyer. The arrangement allows the original homeowner to retain a portion of the appreciated value (typically up to 25%) while ensuring the perpetual affordability of the home.

VHFA retains a right of first refusal on all non-shared equity homes, where VHFA could work with a local non-profit at the time of a sale to convert it to shared equity. Should additional public resources not be available to convert a home, VHFA would recapture the subsidy when the owners sell the property and would revolve funds into the construction of a new program-eligible home. The complete language is available in VHFA's [program subsidy covenant](#), which required for each project.

Project priorities

VHFA gave projects funding priority for meeting additional criteria including geographic disbursement, maintaining historic settlement patterns, areas of historic underinvestment, energy efficiency, deeper affordability, alignment with local/regional plans, and leveraging other community development resources.

A full description of the program design is available in [VHFA's program guidelines](#).

Program launch

The application was opened to the public in December 2022. VHFA reviewed applications with over \$22 million in funding requests for 136 homes, exceeding the available funding by nearly \$8 million. VHFA allocated \$14.2 million in available funding in March 2023.

After this overwhelming initial demand, an additional \$9 million was provided to the program during a mid-session budget adjustment by the Vermont Legislature in 2023. VHFA awarded this second tranche of funding in September 2023.

This fund represents the largest single investment into homeownership for sale development in the state's history. All currently available funds have now been awarded, although VHFA is currently working with the Legislature on additional funding in the State budget to fund additional projects.

Results

The \$24 million in committed funding will create 138 homes with 361 new bedrooms. 76 of these homes will be perpetually affordable in the Shared Equity model, helping new households become homebuyers for years to come. VHFA has funded projects as small as a single-family home and homes in a 40-home project that is part of a 200-unit comprehensive development. Awards have been made to 18 unique partners including both nonprofit and for-profit developers. Projects are spread across 20 different communities in 9 of Vermont's 14 counties. The program has created new homeownership opportunities in several rural areas that have experienced limited new development.

A local Habitat for Humanity director wrote, "[Our project] had unique challenges including no water and wastewater lines or an electrical line. Additionally, we were able to do a panelized duplex instead of a single home. What the [program] did was allow us to build more and build more quickly."

The average home size is 1,493 square feet, with an average of 2.64 bedrooms. The average purchase price is \$194,321. The median project cost \$323 per square feet, substantially lower than VHFA's LIHTC rental projects. 86% of the homes will be affordable to households at or below 110% AMI, and nearly 60% of the homes serve households at or below 80% AMI.

Replicability

VHFA's Middle-Income Homeownership Development Program can and should be replicated by other Housing Finance Agencies facing high-cost development environments with dwindling opportunities for moderate income homebuyers. [VHFA's program website](#) includes application materials as well as pro formas and subsidy covenant documents.

VHFA's decision to use the Neighborhood Homes Investment Act (NHIA) as a blueprint means that should that legislation be passed, VHFA is well poised to quickly deploy the new tax credits into projects.

VHFA has seen significant enthusiasm for the program among for profit and nonprofit developers, including developers with experience in LIHTC projects who have not previously taken on affordable homeownership projects due to limited resources and the difficulty of making projects pencil. The program has also attracted developers whom VHFA has not worked with previously, setting the stage for continuing partnerships to help address Vermont's long-term housing needs.

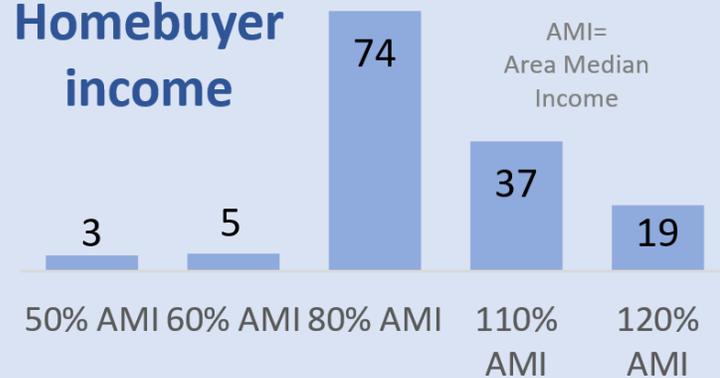
Middle Income Homeownership Development Program 2023 Impacts



Construction of home in Londonderry

Homes funded	138
Bedrooms built	361
Average subsidy per home	\$155,416
Average purchase price to buyers	\$194,321
Shared equity homes	68 (49%)
Neighborhoods expanded	20
Total funds deployed	\$24 million

Homebuyer income



Number of homes by income of eligible homebuyers



Elizabeth, Thatcher and Janet in their new home in Vergennes

“Our Randolph project had unique challenges including no water and wastewater lines or an electrical line. Additionally, we were able to do a panelized duplex instead of a single home. What the Missing Middle [program] did was allow us to build more and build more quickly.”

Zachariah Watson, Executive Director
Central Vermont Habitat for Humanity

Homes underway in 20 Vermont communities



Home under construction in Burlington's Old North End



Middlebury College-owned land will become 37 homes



Homebuyers and volunteers in front of new Vergennes home

"This is incredible... I had a moment of disbelief until the reality set in that we would be able to stay in this area, close to our family. The children's grandparents will be right around the corner, are so involved in their lives and help out a lot with childcare. Being able to purchase this house means the world to all of us."

Kara Corlew
Londonderry homebuyer



The Corlew family's new home in Londonderry



First home completed in Rutland

