

# **A ROAD MAP TO AFFORDABLE HOUSING**

## **HOUSING ISSUES AND SOLUTIONS AND BACKGROUND INFORMATION ON HOUSING**



### **BLUE RIBBON COMMITTEE ON HOUSING**

Christine Dwyer, City Council, Chair

Kenneth Smith, City Council

Laura Pantelakos, City Council

William Gladhill, Economic Development Commission

Joseph Couture, Portsmouth Housing Authority

Dick Ingram, The Housing Partnership

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Karen Maneen, Finance/Banking Community

John P. Bohenko, City Manager (ex-officio)

Cindy Hayden, Deputy City Manager

David Moore, Assistant Community Development Director

**City of Portsmouth**

**November 18, 2008**

# **A ROAD MAP TO AFFORDABLE HOUSING**

## **PART 1: HOUSING ISSUES AND SOLUTIONS**

## **PART 2: BACKGROUND INFORMATION ON HOUSING IN PORTSMOUTH**

# **HOUSING ISSUES & SOLUTIONS**

## **BLUE RIBBON COMMITTEE ON HOUSING FINAL REPORT TO CITY COUNCIL**

**NOVEMBER 18, 2008**



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# **HOUSING ISSUES & SOLUTIONS**

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### **FINAL REPORT TO CITY COUNCIL**

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#### **INTRODUCTION**

The City has long played a leadership role with regard to assuring the availability of housing affordable to people earning less than 60% of median family income. The need now is for the City to play a leadership role in leveraging private resources to create new housing that meets the needs of the City's middle income workforce – from small business owners, to technology sector workers, to teachers and firefighters. The City's greatest housing challenge is to find creative, non-federal solutions to create housing opportunities that are affordable to Portsmouth's middle class wage earners, that is, those earning between 80% and 120% of median family income, or between \$55,350 and \$83,484 for a family of three.

In recognition of this challenge, early this year the Portsmouth City Council established the Blue Ribbon Committee on Housing and charged the Committee with developing a "road map", or guidance document, on local housing options and issues; identifying creative solutions to address those issues; and developing a short list of policy and action items that could be taken by the City and others to increase affordable housing options.

The Blue Ribbon Committee has worked over the course of the last six months to carry out this charge and below the Committee has laid out what they agree are the key principles, issues and solutions.

The Committee's work has taken place in the context of recently enacted State workforce housing law, which requires that municipalities provide reasonable and realistic opportunities for the development of workforce housing by compelling cities and towns to make regulatory changes at the local level such that workforce and multi-family housing is permitted. New state law does allow for existing local housing stock to be considered in determining whether a community is meeting its fair share of the regional housing need.

In this report, the terms "workforce housing" and "affordable housing" have specific definitions. "Workforce housing" refers to housing (ownership or rental) affordable to those who earn between 80% to 120% of median family income, which is between \$61,500 and \$92,760 for a four-person household. For the purposes of this report, housing is considered affordable if less than 30% of a household's gross income is applied to housing costs (including utilities). "Affordable Housing" refers to housing which is affordable for those who earn less than 60% of median family income, which is \$46,380 for a four-person household. In Portsmouth, this would include housing owned by the Portsmouth Housing Authority as well as privately-owned rental housing where federal subsidies are applied based on household income.

## WORKFORCE HOUSING PRINCIPLES

The Blue Ribbon Committee on Housing identified the following principles with regard to workforce housing:

- Workforce housing development can best be accomplished by leveraging private resources. Workforce housing should be developed and owned by the private sector and non-profit housing developers. The City's role should be to stimulate workforce housing creation by:
  - ~ playing a leadership and advocacy role;
  - ~ providing funds, land or other resources that leverage private resources;
  - ~ creating zoning and other regulatory incentives for the private sector.
- The greatest local need is for more housing – both rental and owner occupied – that is affordable to the City's workforce. "Workforce Housing" is housing that is affordable to families earning between 80% and 120% of median family income (between \$61,500 and \$92,760 for a family of four).
- Workforce housing solutions will require a variety of approaches. Creating additional units of workforce housing will best be achieved in small increments, through redevelopment of existing sites and through infill development. Additional units of workforce housing will be built over time rather than quickly; the current economic climate is the perfect time to plan for the future so that the right mechanisms and incentives are in place once the economy ramps up for the next wave of economic growth.
- Preserving the City's existing affordable housing stock is as important as creating new units of workforce housing.
- Regional solutions to workforce housing are essential. In light of a new state law requiring cities and towns insure that reasonable opportunities exist to build workforce housing, Portsmouth can be both a catalyst and a resource for other communities.
- Future employment growth should be linked with the creation of additional workforce housing that is targeted to meet the needs of Portsmouth's workforce.
- Workforce housing units should be dispersed throughout a development to insure a mix of market rate and workforce housing; the design and quality of market rate and workforce units should be comparable; workforce housing that is integrated into market rate neighborhoods is preferable to concentrations of exclusively workforce housing.

## KEY FACTS

### There is a Jobs-Housing Imbalance

- Portsmouth has become a regional job center with the City's jobs-to-housing ratio shifting dramatically as Pease Air Force Base was redeveloped to become Pease Tradeport. Over the last three decades local employment has doubled, while the resident population has remained roughly the same. While it is challenging to quantify accurately the number of housing units any particular community needs based on the number of local jobs, the Rockingham Planning Commission has developed a regional model that identifies current and future year fair share workforce housing needs. The Planning Commission's model indicates that for the 2006-2015 period Portsmouth's fair share workforce housing need will increase by 586 for a total need of 5,270 workforce housing units.
- The City's economic growth, combined with the fact that the City has become an increasingly desirable place to live, has translated into increased demand for local housing and, as a result, the cost of housing has increased significantly.
- Limited developable land has meant that the local housing supply has not kept pace with the growth of the workforce and many workers have to travel long distances to work from outside the City. The need exists to close the gap between where people live and where they work by providing increased opportunities for those who work in the City to live in the City.

### There is a Rental Cost-Wage Imbalance

- The City offers a range of housing choices with roughly half the City's 10,186 housing units being owner-occupied and half rental.
- The City has a substantial amount of federally subsidized rental housing, which is owned and/or managed by the Portsmouth Housing Authority as well as private entities. In fact, there are roughly 1,000 subsidized rental units, including apartments for families (e.g., Wamesit, Gosling Meadows) and apartments for seniors (e.g. Margeson, Feaster); these subsidized apartments represent approximately one-fifth of Portsmouth's entire rental housing stock.
- Federally subsidized apartments are only available to those earning less than 60% of median family income -- which means a family of three would need to earn less than \$41,742 to live in one of these apartments -- and the waiting list is very long.
- With regard to market rate apartments, demand exceeds supply as evidenced by low vacancy rates and high rents. Median gross rent (including utilities) for a 2-bedroom apartment in Portsmouth is \$1,282 and ranges from a low of \$990 to a high of \$2,051. A family of three seeking a two-bedroom apartment and earning 80% of median family income earns \$55,350 and, assuming the standard 30% of income to housing costs, could afford a maximum rent of \$1,384 per month.
- A family is considered "housing cost burdened" if they are paying more than 30% of their household income for housing costs, inclusive of utilities. According to year 2000 U.S. Census data, 24% (1,140) of all renter-households in Portsmouth pay more than 35% of their gross monthly incomes to housing costs, inclusive of utilities. As of the 2000 Census, approximately half of all under 65 households were paying more than 35% of their incomes to rent.

### There is a Purchase Price-Wage Imbalance.

- Unlike other areas of NH and the U.S., housing prices remain strong in the City and local foreclosure rates are low even in the recent economic downturn. The median purchase price for a home during the first six months of 2008 was \$310,000. However, the maximum mortgage affordable to a family of four earning the median family income (\$77,300) is \$255,000.
- As indicated above, the City's greatest housing challenge is to provide affordable housing options for Portsmouth's middle class wage earners, that is, those earning between 80% and 120% of median family income, or between \$55,350 and \$83,484 for a family of three. With the exception of the City's first-time homebuyers Hometown program, which is funded through a private, non-federal endowment and available to those earning up to 120% of median family income, only very minimal subsidies are available for those wishing to purchase homes.

### The City has Very Limited Developable Land.

The vast majority of Portsmouth's developable land area is already built out with the remaining large undeveloped parcels of privately and publicly owned land consisting almost exclusively of undevelopable wetlands. As a result, unlike other more rural communities with large tracts of developable land, Portsmouth does not have the ability to "build its way out" of the affordable housing issue and additional units of workforce housing will primarily be brought about through redevelopment.

# ISSUES & SOLUTIONS

## **ISSUE 1: HOW CAN THE CITY TAKE A LEADERSHIP ROLE TO CREATE WORKFORCE HOUSING?**

Land costs are at a premium in the City and market rate housing is in high demand. Developers need incentives to develop workforce housing. The Blue Ribbon Committee on Housing discussed various options that would incentivize private as well as non-profit housing developers to construct workforce housing. Those incentives could take the form of regulatory or monetary incentives.

**SOLUTION (HIGH PRIORITY/IMMEDIATE):** The City should establish a **Workforce Housing Trust Fund** to create incentives for the private sector to develop workforce housing targeted to those earning 80% to 120% of the median area income. Such a trust fund would need to be established by the City Council, with expenditures requiring Council approval. The City would have the flexibility to control affordability requirements and development characteristics and create partnership initiatives where public funds could leverage private investment. It should be noted that it will take time to “grow” the trust fund to a level sufficient to become self supporting. For example, if the trust fund were capitalized initially at \$500,000 and it earned 6% interest, \$30,000 in interest income would be available to expend at the end of the first year without tapping into the principal; if it were capitalized initially at \$1 Million and it earned 6% interest, \$60,000 in interest income would be available to expend at the end of the first year without tapping into the principal.

The Blue Ribbon Committee on Housing anticipates the Workforce Housing Trust Fund would be structured as follows:

**Primary Purpose:** To fund the creation of additional units of workforce housing affordable to those earning between 80% to 120% of median family income.

**Use of Funds:** The Workforce Housing Trust Fund should be used by the City to facilitate the following activities in partnership with public, non-profit, and private housing developers:

- acquire land to be used for the development of workforce housing;
- purchase and rehabilitate existing housing for workforce housing;
- construct new workforce housing;
- retain existing workforce or affordable housing; and
- provide workforce housing subsidies through programs such as the City’s existing HomeTown Program.

**Capitalization of Trust Fund:** Such a fund could be capitalized as follows:

- allocate a percentage of the annual payment that comes to the City through the Municipal Services Agreement (MSA) with the Pease Tradeport (e.g. 5% of the annual MSA payment would be \$100,000);
- allocate UDAG (Urban Development Action Grant) funds on a matching basis, with \$2 of UDAG money – up to a maximum amount – placed in the trust for every \$1 in private contribution; and
- conduct research to determine if/how the trust fund could be augmented through the use of impact fees, which are a charge on new development to pay for offsite improvements that are necessitated by the new development.

**Financial Management:** Similar to other City trust funds, the Workforce Housing Trust Fund should be invested and managed by the Trustees of Trust Funds to insure fund growth.



## **ISSUE 2: HOW CAN THE CITY INCENTIVIZE PRIVATE DEVELOPMENT OF WORKFORCE HOUSING?**

Key transportation corridors such as Route 1 South (Lafayette Road) and Woodbury Avenue provide opportunities for multifamily residential development either as single-use upgrades of substandard sites or as part of mixed use, transit-oriented developments. This approach was outlined in the 2005 City-wide Master Plan and the Planning Board and its zoning consultant have discussed this approach as they work on the comprehensive Zoning Ordinance revision currently underway. Zoning changes could allow for a vertical mix of uses – for example, ground floor retail uses and upper story workforce housing, or a horizontal mix with businesses interspersed amongst residences. Encouraging mixed use redevelopment along transit corridors also meets the City's sustainability goals and could include transforming or growing an existing center (including new uses, i.e. workforce housing), or creating a new center that is largely undeveloped.

**SOLUTION (HIGH PRIORITY/IMMEDIATE):** The City Council should support Planning Board initiatives and zoning recommendations that would result in the creation of mixed use (residential/non-residential) redevelopment that incorporates workforce housing along transit corridors. The Committee believes this recommendation has the greatest potential for creating new workforce housing units. Zoning recommendations for these areas may include: a horizontal mix of uses within a development with non-residential uses in a core and residences in the periphery; a horizontal mix of uses throughout the development with businesses interspersed among residences; or a vertical mix of uses with businesses at street level and residences on upper levels.

## **ISSUE 3: HOW DO WE HELP MIDDLE INCOME RESIDENTS TO BUY THEIR FIRST HOME?**

One solution already in place is the City's first-time homebuyer program HomeTown, which provides deep downpayment and closing cost assistance to first-time homebuyers earning up to 120% of median family income. 85 families have received up to \$50,000 each in assistance through this program since its 1989 inception for a total of \$1.2 million in assistance provided over the last two decades. This program is administered by the City's Community Development Department.

The HomeTown program is funded through the Portsmouth Housing Endowment Fund, which was initially capitalized through a private endowment. The endowment fund is invested by the Trustees of Trust Funds and interest earned is used to fund downpayment and closing costs for first-time homebuyers. Assistance through the HomeTown program is in the form of loans, which are repaid by borrowers through installment repayments as well as lump sum payments at the time families sell their homes. Using this revolving loan fund approach, funds are replenished by past borrowers and then lent again to new first time homebuyers with the City carefully stewarding the fund.

Interest in the HomeTown program has been strong in recent years and, while the program currently has funds for eligible first-time homebuyers, resources are limited and demand may soon outpace available funding.

**SOLUTION (ON-GOING PRIORITY):** Continue to actively promote the HomeTown, First Time Homebuyers Program and provide staff support for its operation.

**SOLUTION: HIGH PRIORITY/IMMEDIATE:** There is a need to augment the first time homebuyer endowment fund by seeking additional contributions from private employers and through other sources such as private philanthropy and bequests.

#### **ISSUE 4: HOW CAN CITY-OWNED LAND BE USED TO ADDRESS HOUSING NEEDS?**

The perception exists that the City owns a number of parcels of land that could be used to develop workforce housing. As a result, the Blue Ribbon Committee on Housing reviewed City-owned parcels for possible use in the development of workforce housing. The Committee found that the City's largest tracts of land consist of undevelopable conservation parcels (for example, Great Bog, Sagamore Headlands) and open space recreation areas (for example, 27-acre Peirce Island). Smaller parcels of land owned by the City, with few exceptions, have significant development limitations with regard to site access as well as frontage, setback and other zoning requirements intended to protect the adjacent neighborhoods.

**SOLUTION (HIGH PRIORITY/IMMEDIATE):** The City should consider selling small surplus City-owned parcels with the proceeds to be placed in the Workforce Housing Trust Fund. Revenues generated through sale of parcels could be used to purchase parcels that would be more appropriate for workforce housing development. Another option would be for the City to provide a long-term ground lease to another party wishing to develop workforce housing on a City-owned parcel.

#### **ISSUE 5: CAN PEASE TRADEPORT PLAY A ROLE?**

The perception exists that there is a significant amount of land at Pease, which could be used for the development of workforce housing. In reviewing this matter with the Tradeport and City staff, the Blue Ribbon Committee on Housing found that developable land at Pease is limited with the vast majority of land that is not yet developed consisting of wetlands and land that is already under lease for future development or subject to deed restrictions. Despite this, the opportunity remains to introduce residential uses at the Tradeport through future mixed use redevelopment.

**SOLUTION (HIGH PRIORITY/IMMEDIATE):** Pursue initiation of a pilot mixed use demonstration project at the Tradeport that would incorporate workforce and market rate housing with appropriate non-residential development.

**SOLUTION (HIGH PRIORITY/IMMEDIATE):** As indicated above, utilize a percentage of the payment from the Tradeport's MSA payment to annually capitalize the Workforce Housing Trust Fund. The redevelopment of Pease has played a key role in the growth of quality jobs; this economic growth has also contributed to the demand for local workforce housing. There is a strong case for utilizing a portion of the MSA payment from the Tradeport to fund the creation of new workforce housing.

**SOLUTION (LONGER TERM):** Urge the Pease Development Authority to revise its long-range land use plan to include mixed use redevelopment (residential mixed with non-residential) that would incorporate workforce and market rate housing.

#### **ISSUE 6: ARE THERE REGIONAL SOLUTIONS TO ADDRESS LOCAL WORKFORCE HOUSING NEEDS?**

Given the limited amount of developable land in the City available to develop new housing and the fact that Portsmouth functions as a critical economic engine for the region, the development of additional workforce housing in neighboring communities is critical.

The City partners with a number of regional and statewide housing and planning agencies to address affordable housing issues in the City including:

- NH Housing Finance Authority, which partners with the City on the HomeTown program to provide reduced rate first mortgage financing;
- The Housing Partnership, which worked with the City on the development of the RDI-PUD Ordinance and works cooperatively with the City on the homebuyer education component of the City's HomeTown program;
- the Workforce Housing Coalition, which works with the private sector, local government and community groups to catalyze and advocate for the development of housing options;
- the local legislative delegation and the Local Government Center with regard to support of appropriate housing legislation;
- the Rockingham Regional Housing Commission, which assesses future housing needs based on projected employment, and conducts regional housing education forums.

**SOLUTION (ONGOING):** The City should continue to partner with regional and state housing and planning agencies to advocate for and develop additional workforce housing opportunities in surrounding communities and, by example, play a leadership role.

#### **ISSUE 7: CAN THE CONCEPT OF HOMESHARING PLAY A ROLE?**

Homesharing programs connect people who want to share their homes with tenants in exchange for services such as lawn mowing, painting and other chores. Often, those interested in sharing their homes are older, single people who wish to remain in their long-term home, but no longer have family living with them and need household help. Tenants in such situations tend to be younger, single individuals seeking reduced rent in exchange for services. The Blue Ribbon Committee on Housing reviewed other homesharing programs and determined that administrative resources (for example, a full-time employee) are likely needed to successfully operate such a program and that a regional focus would be the most effective approach. Typically, such programs operate by developing a database and matching those interested in sharing their homes with those interested in becoming tenants; reference and background checks are an important component of homesharing programs.

**SOLUTION (SHORT-TERM PRIORITY):** Identify an agency that would serve as a regional partner to expand homesharing opportunities for residents in the City and surrounding communities. Program funding partners also need to be identified as part of this effort. The City could play a role in such a homesharing initiative by assisting with its promotion and with regard to reference/background checks for interested parties.

## **ISSUE 8: WHAT OTHER APPROACHES DID THE BLUE RIBBON COMMITTEE ON HOUSING CONSIDER?**

**OPTION DISCUSSED:** A regulatory incentive for the construction of workforce housing, which is already in place is the Residential Density Incentive Planned Unit Development Ordinance (RDI-PUD) developed and adopted by the City in 2007. The RDI-PUD establishes a process under which development intensity in certain zoning districts can be increased to incentivize the creation of workforce housing. The Blue Ribbon Committee on Housing considered whether to recommend expanding the RDI-PUD to other zoning districts. However, because there is little vacant developable land, application of the ordinance would be very limited. Therefore, the Committee determined not to recommend at this time expanding its applicability to other zones.

**OPTION DISCUSSED:** Encouraging accessory/mother-in-law apartments is a technique sometimes discussed in other communities as a mechanism to allow for additional units of workforce housing. In Portsmouth, with its already dense, well-established single family neighborhoods, the addition of second dwelling units raises a number of issues. These issues include the potential for unintended negative effects on adjacent properties and the neighborhood as a whole with regard to impacts on parking, setbacks, maximum lot coverage and property values, as well as how additional “accessory/mother-in-law apartments” might evolve over time as the original “mother in law” occupant changed. The Blue Ribbon Committee on Housing considered whether to recommend zoning changes that would encourage accessory apartments and determined to recommend that the Planning Board consider whether there are appropriate zoning revisions that could be put in place to address this concern.

## **ADDITIONAL RECOMMENDATIONS**

The Committee briefly discussed additional recommendations, including:

- Continue to monitor the number of mortgage foreclosures in Portsmouth, which, to date, have been very low compared with other communities in the State.
- In the future, explore the potential for creative legislation that would allow boards of adjustment greater flexibility with regard to the development of workforce housing.
- Distribute this document widely including to land use boards, the press, the Local Government Center, and neighboring communities.
- Encourage other parties to develop and present to the City innovative solutions.

## **SUMMARY OF SOLUTIONS**

### **HIGH PRIORITY/IMMEDIATE**

- Establish a Workforce Housing Trust Fund to help facilitate workforce housing development in partnership with public, non-profit, and private housing developers
- Support zoning changes that encourage mixed use redevelopment that incorporates workforce housing along transit corridors.
- Augment the first time homebuyer endowment fund by seeking additional contributions from private employers.
- Consider selling small surplus City-owned parcels with the proceeds to be placed in the Workforce Housing Trust Fund.
- Pursue initiation of a pilot mixed use demonstration project at the Tradeport.

### **SHORT-TERM**

- Identify an agency that would serve as a regional partner to expand homesharing opportunities for residents in the City and surrounding communities.

### **ONGOING PRIORITIES**

- Continue to actively promote and support the HomeTown, First Time Homebuyers Program.
- Continue to partner with regional and state housing and planning agencies to advocate for and develop additional workforce housing opportunities in surrounding communities.

### **LONGER TERM**

- Urge the Pease Development Authority to revise its long-range land use plan to include mixed use redevelopment that incorporates workforce and market rate housing.