

CITY OF SOMERVILLE, MASSACHUSETTS
OFFICE OF HOUSING STABILITY
JOSEPH A. CURTATONE
MAYOR

MEMORANDUM

TO: Legislative Committee - MAPC
FROM: Ellen Shachter and Fred Berman Somerville Office of Housing Stability on behalf of Mayor Joseph Curtatone
DATE: April 9, 2019
RE: Request for endorsement of H.1769/S.773 – “An Act establishing local options for generating affordable housing monies” (Transfer Fee Enabling Act)

Background

The housing market varies from community to community across the state. In some markets, escalating rents and housing prices have destabilized communities and led to rampant displacement while in other areas vacancy rates are high and housing stock shows signs of disinvestment. In many areas of the state, rents have risen significantly faster than wages, leading to large numbers of residents with dangerously high rent burdens. In Metro Boston, 52.5% of renters are housing cost-burdened, that is, paying over 30% of their income for rent.¹ In Metro Boston, Middlesex and Norfolk counties, it is estimated that families need annual incomes of close to \$90,000 to be able to afford the apartments priced at the median rent for their respective counties.² Meanwhile, more than 25% of all Massachusetts families have incomes under \$35,000.³

In much of the state, and especially in Greater Boston, market forces have resulted in a huge unmet demand for affordable housing.⁴ The National Low Income Housing Coalition estimates that 162,286 new *affordable* rental units are needed to meet the demand for such housing in Massachusetts.⁵ The Metropolitan Mayors Coalition Regional Housing Taskforce (MMC) estimates that 185,000 housing units need to be built between 2015-2030 to meet the anticipated demand for housing in the MMC geographical area. While MMC has not yet established specific affordable housing goals for its region, the need for affordability of these new units is a principal shared and clearly articulated by the coalition members. MMC lists transfer fee legislation as one tool to achieve this affordability. At the same time that demand

¹ Boston Foundation, Northeastern University and the Warren Group. (November 2017). *Greater Boston Housing Report Card 2017* See Table 1.3, p. 18, <https://www.tbf.org/-/media/tbf/reports-and-covers/2017/2017-housingreportcard.pdf>

² (1) Rental Values: Data from ZRI Time Series Multi-Family <https://www.zillow.com/research/data/> (Retrieved 1/10/2019). Zillow suggests the \$200/mo. utility bill estimate. (2) Income Data: 2013-2017 American Community Survey (U.S. Census) 5-Year Estimates Selected Economic Characteristics https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_17_5YR_DP03&src=pt

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⁴ For example, MetroHousing Boston indicates on its website that Section 8 vouchers are currently being offered to applicants who applied in April, 2007. <https://www.metrohousingboston.org/what-we-do/voucher-programs/housing-choice-voucher-program-section-8/section-8-waiting-list/>.

⁵ National Low Income Housing Coalition. Housing Needs by State. <https://nlihc.org/housing-needs-by-state/massachusetts>

for affordable housing is growing dramatically, resources available for affordable housing programs have been cut significantly. After two consecutive budget reductions, FY18 state spending on housing related programs was \$71,000,000 below the FY2016 budget, representing a decrease by 14% as compared to the previous two years.⁶

Federally, the prior two decades saw a loss of approximately 500,000 units of public and privately owned, federally subsidized housing, compared to the modest increase of only 90,000 tenant-held subsidies in that same time period.⁷ H.1769/S.773 provides cities and towns experiencing increased displacement as a result of rising rent and housing prices and erosion of their affordable housing stock with a critical funding tool for (1) subsidizing the development of new affordable housing, (2) purchasing and deed-restricting still-affordable housing to remove it from the inflationary spiral, (3) rehabilitating distressed units to bring them back on line and (3) developing services and programs to help at-risk tenants remain in their homes.

In the City of Somerville, we estimate that a 2% real estate transfer fee -- with 1% paid by sellers and 1% paid by buyers and that exempts owner-occupants (defined as persons residing in the property for at least two years) -- could generate up to \$6 million per year for affordable housing. The hotter the market, and the greater the number of property transactions, the more such a fee would generate.

These funds could leverage significant other funding for acquiring, developing, and preserving affordable housing and preventing displacement.

Despite arguments to the contrary, a transfer fee would have a minimal impact on the price of market rate housing. A .5-2% transfer fee is less than the typical 3% realtor's fee. A 1% fee, for example, on a \$500,000 property is \$5,000; less than annual real estate inflation in most communities, and far less than real estate inflation in hot markets like Metro Boston. If the buyer shouldered the full cost of the transfer fee, over the course of a 30 year mortgage their monthly payments would be about 1% or \$25 higher than the monthly payment without a transfer fee.⁸ If the transfer fee were split by the buyer and seller, the increased costs would be an estimated \$17.50/month. The one-time \$12.50-\$25 increase in monthly payments is far less than the typical annual increases in rent, let alone the 10-, 20-, and 30-year cumulative increases in rent levels that have made Metro Boston increasingly unaffordable.

The problem of rent increases outpacing wage increases is not confined to Somerville or Metro Boston. As illustrated in the graph on our fact sheet, in almost every county in the Commonwealth upwards of 40% of the households have incomes below what is needed for median rents. That statistic belies the fact that while rents largely cluster around the median, incomes vary dramatically, leaving a significant portion of the population earning far less than the \$23-34 per hour that residents need to afford median-priced housing outside Metro Boston, and earning far, far, less than the \$42-47/hour it costs to live in a median-priced rental in Norfolk, Middlesex, or Suffolk Counties.⁹

⁶ *Greater Boston Housing Report Card 2017*, p. 11. <https://www.tbf.org/news-and-insights/videos/2017/november/greater-boston-housing-report-card-2017>

⁷ G. Thomas Kingsley. (October 2017). Trends in Housing Problems and Federal Housing Assistance. Urban Institute, p.2. <https://www.urban.org/sites/default/files/publication/94146/trends-in-housing-problems-and-federal-housing-assistance.pdf>

⁸ Assuming a \$50,000 downpayment on a \$500,000 property, and a resulting \$450,000 30-year mortgage, with monthly payments of \$2,280. If the purchase price was increased by a 1% transfer fee, the buyer would have an \$455,000 mortgage with monthly payments of \$2,305, a net increase of \$25/month ([Dollartimes.com estimate](#), assuming 4.5% interest rate). Compared to the kinds of annual rent increases that result from property sales in a hot market, the one-time \$25 increase, if it were passed on to the tenant, would be a small fraction of cumulative increase in rents over even the last 10 years, let alone in the past 30-year period.

⁹ Sources: (1) Rental Values: Data from ZRI Time Series Multi-Family <https://www.zillow.com/research/data/> (Retrieved 1/10/2019). [Zillow](#) suggests the \$200/mo. utility bill estimate. (2) Income Data: 2013-2017 American Community Survey (U.S. Census) 5-Year Estimates Selected Economic Characteristics, downloaded from https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_17_5YR_DP03&src=pt

A critical tool that cities and towns have to ensure the availability of more affordable rents is to develop deed-restricted affordable housing, or to purchase and deed-restrict mainstream unsubsidized housing to remove it from the speculative market. To do that, cities and towns need new sources of funding -- the kind of funding that the Transfer Fee legislation (H.1769/S.773) provides.

H.1769 / S.773 does not mandate any new taxes; instead, it allows cities and towns that *choose* to enact a real estate transfer fee to fund affordable housing to do so. This legislation has the following features:

- It enables cities or towns to enact one time real estate transfer fees between .5% and 2% of the purchase price for residential and/or commercial properties
- It mandates an exemption for the sale or purchase of government owned property and property transferred to charitable organizations. (It should also exempt deed-restricted affordable units, regardless of the ownership.)
- It grants municipalities the authority to enact exemptions from this transaction fee. The scope of the exemptions from the transfer fee are unlimited. Enumerated as possible, but non-exclusive exemptions are:
 - Seniors age 62 or older
 - Purchasers with annual income below 80% of AMI for that City or Town
 - Residential transfers with a purchase price below the mean for the City or Town for the previous twelve months
 - Transfers between family members as defined by the City or Town

Note: While a minimum dollar threshold for imposition of the transfer fee is not specifically identified as a possible exemption in the legislation, a City or Town wishing to impose such a threshold (i.e. \$1,000,000) would be authorized to do so under this enabling legislation.

- Fees are paid to the City or Town when the deed corresponding to a purchase is recorded, along with an affidavit attesting to the price of the transfer and indicating whether or not the seller and/or buyer is exempt from the fee.
- Fees paid to the City or Town will be transferred into an Affordable Housing Trust Fund.
- Fees can be paid by the buyer, the seller, or divided between the two parties to the sale.

The legislation as drafted would allow only Cities or Towns with Municipal Affordable Housing Trust Funds established under M.G.L. c. 44 Section 55C to establish a transfer fee. The requirement that the City or Town have a Municipal Affordable Housing Trust fund ensures that funds generated by the fee are directed specifically to affordable housing and that there is transparency as to how the funds raised through the transfer fee would be allocated.

Current Endorsements

Our growing list of endorsers include the following: Boston Tenants Coalition, Cambridge Residents Alliance, Chinese Progressive Association, City of Somerville, Community Action Agency of Somerville, Franklin County Continuing the Political Revolution, Fresh Pond Residents Alliance, Green Cambridge, Heading Home, Home Start, Housing Corporation of Arlington, Housing Families, Just-A-Start, Lynn United for Change, Mass. Association of Community Development Corps., Mass. Coalition for the Homeless, Mass. Law Reform Institute, Mass. Senior Action Council/Cambridge and Somerville Chapter, Our Revolution Somerville, Progressive Massachusetts, Right to the City Boston, Somerville Community Corp., Somerville Community Land Trust Working Group, Somerville Homeless Coalition.