

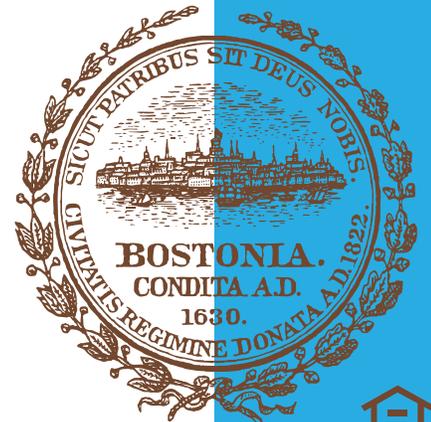


Leading The Way III

A Report on Boston's Housing Strategy for 2009-2012

March 2009

City of Boston
Thomas M. Menino
Mayor



ACKNOWLEDGEMENTS

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March 2009

Dear Friends,

In October of 2000, I announced the creation of *Leading the Way*, a comprehensive three-year housing strategy designed to increase the production of new housing within the city of Boston. We established ambitious goals, pledging to build 7,500 units and to preserve 10,000 more. When the first *Leading the Way* concluded in 2003, the Boston Housing Authority (BHA), the Boston Redevelopment Authority (BRA) and the Department of Neighborhood Development (DND) had proved that city government can truly work together to not only achieve goals, but in some cases, to exceed them.

I have never been content to rest upon my laurels, so in 2003, I convened a second Housing Advisory Panel to assess what strategies had been successful in *Leading the Way*, and to expand upon them. When *Leading the Way II* was announced, we had committed ourselves to a new cross-Cabinet collaboration with ambitious goals. Despite facing a rapidly changing economic environment, we were able to achieve all of *Leading the Way II's* major goals by the initiative's end in 2007, permitting 10,969 new units of housing, including 2,213 affordable units. 3,569 units of affordable rental housing were also preserved, including 577 units of reclaimed public housing. In addition, we reduced the number of homeless seniors living on the streets by 63%, and created a more effective method to prevent homelessness by establishing the new Boston Homelessness Prevention Clearinghouse.

With the success of both the earlier *Leading the Way* strategies in mind, but with a vastly different economic landscape looming on the horizon, the City hosted the Boston 2012 national housing conference in the spring of 2007, which drew accomplished housing leaders from around the country. At the event, best practices were conceived and distilled for consideration by the Third Mayor's Housing Advisory Panel, convened in 2008. From these sources, we've formulated Boston's new housing strategy through 2012, called *Leading The Way III*. Our focus for the next few years will be in four key areas: Housing Boston's Workforce; Reversing the Rise in Homelessness; Addressing the Foreclosure Crisis; and Preserving & Stabilizing Boston's Rental Housing.

Our challenges may be different as we move forward with *Leading The Way III*, but our essential goals have never changed: to house every Bostonian at any income level in affordable housing. As we move forward with *Leading The Way III*, I'd like to thank the members of the Housing Advisory Panel, many of whom have worked with me from the beginning of this process ten years ago; my past and present Cabinet chiefs; the BRA, the BHA, DND, the Inspectional Services Department, Fair Housing, the Budget Office, the Emergency Shelter Commission and the Rental Housing Resource Center; the staff of these agencies; our government partners both at the state level at the Department of Housing and Community Development and our federal partners at HUD; and last, but certainly not least, our partners in the nonprofit and private development communities, without whom we could not have accomplished so much. I look forward to our continued collaboration.

Sincerely,

A handwritten signature in blue ink that reads "Thomas M. Menino". The signature is fluid and cursive.

Thomas M. Menino, Mayor
City Of Boston

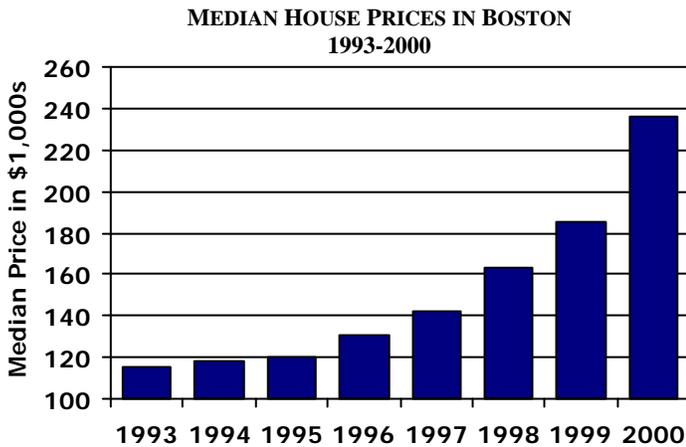
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1. HOUSING BOSTON'S WORKFORCE

BACKGROUND & HISTORY 2000-2007: PRODUCTION TO MEET GROWING DEMAND

In 2000, when the first *Leading the Way* plan was launched, Boston, like most American cities, had experienced an unprecedented period of economic growth. From 1993 through 2000, Boston gained more than 105,000 jobs. However, the housing supply during that time failed to keep pace with the rising demand from new workers moving to the area, despite the fact that the City of Boston doubled its rate of housing production to more than 2,000 new units per year in 1999¹.



With employment growing faster than the housing supply, sales prices and rents began to rise at alarming rates. From 1999-2000 house prices jumped by 22%, more than 7 times the rate of income growth. By the time *Leading the Way* began in 2000, house prices had risen by 103% since 1993 when the economic expansion had begun.

The *Leading the Way* housing strategies were designed to address this unmet housing demand via greatly expanded production of both market-rate and affordable housing. By the time *Leading the Way I* and *II* ended in mid-2007, more than 18,300 new units had been produced, representing over \$5 billion in private and public investment. 13,375 of these units were market-rate, and were produced primarily by the private sector through developments such as the Archstone Development pictured on page 2.

Affordable housing initiatives resulted in almost 5,000 new units over the seven years of the first two *Leading the Way* initiatives, 73% of which were affordable rental, and 27% were reserved for first-time homebuyers. More than 750 long-vacant units of public housing were reclaimed and reoccupied by our poorest citizens. A new Inclusionary Development Policy² resulted in 896 new affordable units and almost \$15 million in new resources committed for affordable housing. The balance of units were created

¹ The *Housing 2000* campaign was announced by Mayor Menino in his 1999 State of the City address, challenging the development community and his own administration to work together to double housing production in 1999 to 2,000 new units. Ultimately 2,140 units were permitted. It established the groundwork for the *Leading the Way* campaigns that followed.

² Enacted by Executive Order of Mayor Menino in February 2000, and amended in May 2007, the Inclusionary Development Policy requires 13% of the units in developments of 10 units or more to be affordable to households with incomes between 60% of Area Median Income and 100% of Area Median Income, or make a cash-in-lieu payment toward affordable housing.

through City-supported affordable housing developments, many of which built on City-owned vacant land and or rehabilitated vacant buildings.

A NEW COURSE FOR CHANGING TIMES

In 2007, as *Leading the Way II* was coming to a conclusion, the City recognized that the changing economy was going to require new approaches and strategies. Rather than launch a new plan immediately after *Leading the Way II* ended, the City decided to step back, and reassess its strategies before committing itself to another ambitious 4-year campaign

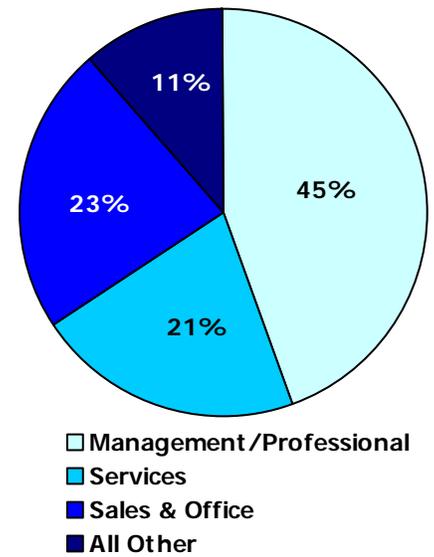
In the spring of 2007, Boston hosted a national conference called *Boston 2012* where some of America's most accomplished housing leaders shared perspectives and strategies as the City of Boston looked to chart a new path for housing through 2012.



KEY FACTS & ISSUES: WORKFORCE PROFILE

Boston's workforce is divided into two primary sectors. Higher wage professional and managerial occupations constitute 45% of the City's workforce, and lower wage service and retail occupations represent another 44%. This dual labor market creates some unique housing challenges for the City. Most of the former cohort holds a bachelor's degree or graduate, and its earning power has both the size and capacity to drive the housing market. This higher income-earning segment necessarily creates affordability problems for the lower-wage service/office sector of the workforce, as the housing market seeks to put their housing needs first. For the City's housing strategy to be successful, it must address the disparate needs of both ends of the workforce.

BOSTON EMPLOYMENT BY JOB SECTOR, 2007



**MEDIAN HOUSE PRICES IN BOSTON 1999-2008
(IN SIX-MONTH PERIODS)**



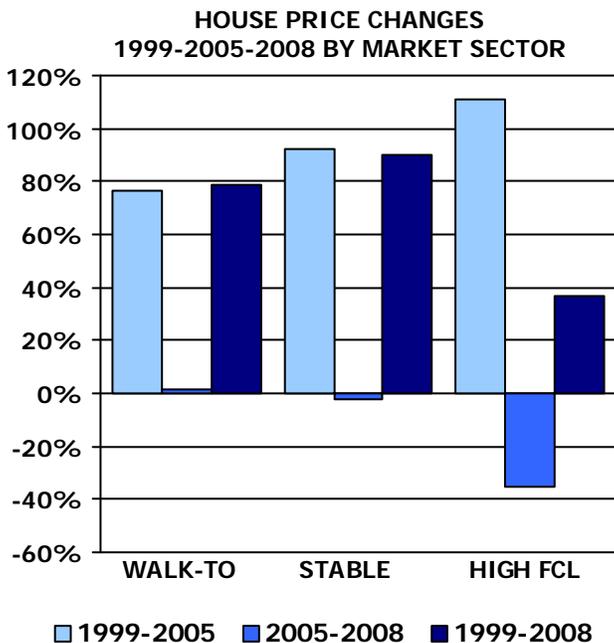
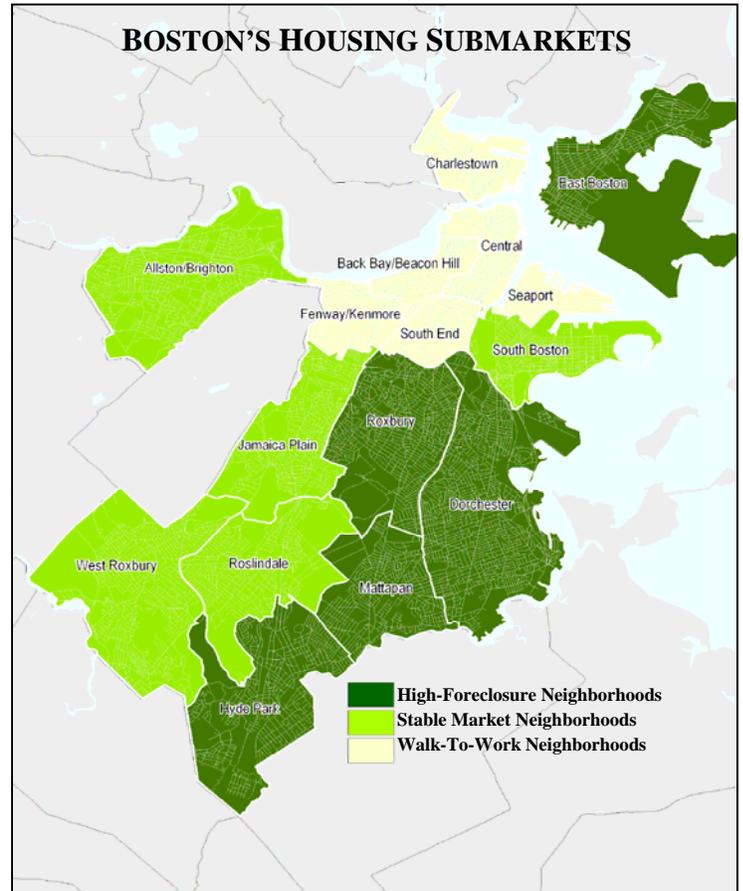
HOMEOWNERSHIP

While the recent declines in house prices have made homeownership incrementally more affordable than it has been in some years, they have not offset all of the price inflation that has occurred since 1999. From 1999 to the early 2005 peak, median house prices rose by 94.1%. From 2005 through 2008, overall house prices have declined by 15.1%, with more sharp declines in specific sub-neighborhoods. Despite this reduction, home prices in Boston at the end of 2008 were still 65% above their 1999 levels.

BOSTON'S HOUSING SUBMARKETS

Boston's affordability gains also depend greatly on location as well. As shown here, there are three distinct submarkets developing in Boston: 1) The "Walk-to-Work" market segment includes the neighborhoods that are very close to the city's employment centers, and have the highest housing prices in the city; 2) The "High-Foreclosure" market segment experienced the highest rates of subprime lending and is now showing significant market instability due to foreclosures, and consequently have showed the greatest gains in affordability; and 3) The "Stable Market" neighborhoods have not had the concentrations of foreclosures necessary to destabilize prices significantly.

As shown here, even in the high-foreclosure neighborhoods, the price declines of the last three years (-35.2%) only offset part of the price growth of the previous six years (+111.2%). In the Walk-To-Work neighborhoods, prices have actually *risen* 1.3% over the last two years. Prices in all three market sectors are still higher than they were in 1999.



For families looking to buy their first home, house prices may be down, but only in specific neighborhoods of the city, and not nearly enough to offset the price inflation of the "housing bubble" of the early 2000s.

ACCESS TO HOMEOWNERSHIP

Access to homeownership is also largely determined by income, as shown here. At annual incomes of \$70,000-\$80,000, there are sufficient overall options in today's market that these households are not priced out³ of the market in general, while those with incomes in the \$50,000-\$60,000 still have relatively few options.

Looking more closely at the types of properties that people can afford, a clearer understanding of what these buyers are facing in the market becomes apparent. As shown here, families with incomes between \$50,000-\$70,000 are priced out of the single-family and condominium markets and will have to consider purchasing a 2- or 3-family house if they want to get into the market. However, the single-family and condominium markets represent 88% of all sales in Boston, which limits these buyers to the remaining 12% of the market.

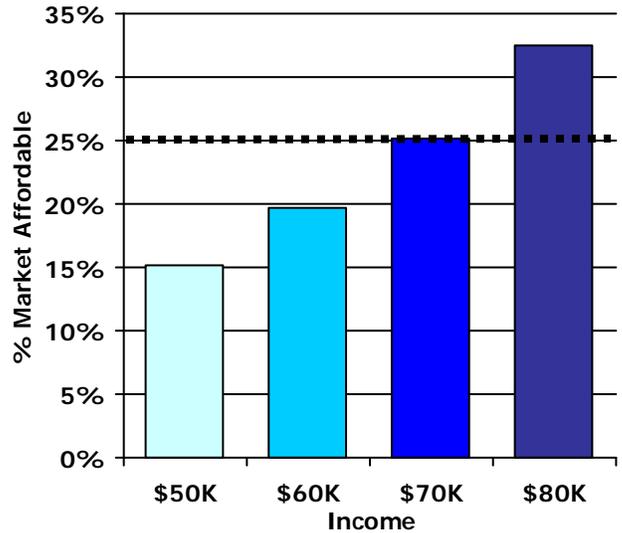
While there is more access to the single-family and condominium market for households with incomes in the \$70,000-\$80,000 range, the range of options is prohibitive for families due to housing unit size. In the all-important condominium market, which represented more than 70% of the home sales in Boston

for the half of 2008, nearly 50% of the units at the lower end of the market were too small for families.

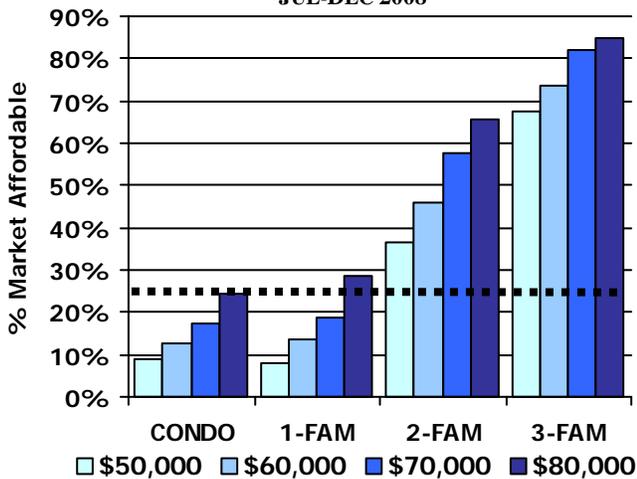
For comparison's sake, it is noteworthy that in Greater Boston, 66% of households in this income range (\$50,000- 80,000) own their homes. In Boston, only 46% of the same income range has become homeowners. If Boston were to achieve the same homeownership rate for this group as its suburban neighbors, about 8,000 more households in this income range would need to become first-time homebuyers. Even with the current price reductions in certain neighborhoods, the limited choices for home purchases reduces this population Boston's would-be first-time buyers choices to: 1) remain a renter in Boston, 2) become

a first-time owner and a first-time landlord by buying a 2- or 3-family home, or 3) look outside the City for a more affordably priced condo or single-family. For this income group, City assistance, in the form of new housing options and other affordability programs, is vital.

**MARKET ACCESS BY INCOME LEVEL
JUL-DEC 2008**



**MARKET ACCESS BY PROPERTY TYPE
& INCOME LEVEL
JUL-DEC 2008**



³ "Priced Out" is defined for the purposes of this analysis as an inability to afford the bottom quartile of sales of a given property type.

RENTAL MARKET

At incomes above \$50,000, there is reasonable access to the rental market. Less than 5% of renter households with incomes above \$50,000 spend more than half of their income on rent. At income levels of \$20,000-\$50,000, however, the rental market becomes increasingly burdensome, with more than 20% of these households spending more than 50% of their income on rent. In Boston, 25% of the workforce occupies this income range. Below this income level, the burdens of the rental market are even more extreme, with one in three households devoting more than 50% of their income toward rent.

This analysis clearly shows that the greatest need for affordable rental housing is with households with incomes below \$50,000 and especially for those with incomes below \$20,000. In total, almost 32,000 households in Boston with incomes under \$50,000 are carrying dangerously high rent burdens. It is this income group upon which the City must focus its rental housing efforts.

RENTERS WITH RENT BURDENS ABOVE 50% OF INCOME, 2007

INCOME	RENT BURDENED HOUSEHOLDS	% OF RENT BURDENED HOUSEHOLDS
< \$20,000	20,090	61%
\$20,000 - \$50,000	11,722	36%
> \$50,000	857	3%
TOTAL	32,669	100%

HOUSING BOSTON'S WORKFORCE: BOSTON'S STRATEGY FOR 2012

THE CENTRAL BOSTON PLAN

Accommodating the housing demands of the higher income part of Boston's workforce through new production is necessary to help keep this income group from putting too much upward price pressure on the existing stock. However, with falling prices and rising foreclosures, it might be thought that a little upward pressure might be welcomed. While that might be true in areas of the city with high foreclosure rates and rapidly falling values, it is not the case in one part of the city that has not seen the value losses experienced elsewhere.

This area, the Walk-To-Work neighborhoods of Charlestown, Central, Back Bay/Beacon Hill, South Boston Seaport, South End and Fenway/Kenmore has had remarkably stable prices – actually posting a year-to-year price *gain* of nearly 5% in the second half of 2008 compared to the same period in 2007. As of December 2008, the median price for this area of the city has risen enough that the current median price now exceeds the peak achieved in the first half of 2005. For this area, today is the top of the market.



**RENDERING OF PROPOSED PARCEL 7
AIR RIGHTS DEVELOPMENT**

One reason for the continuing market strength of this part of the City is that it was not over-inflated by subprime lending (less than 2.5% of loans in this area were subprime, compared to more than 25% in other parts of the city). A second reason is its unique locational advantages. No other place in New England is walking distance to more than a half million jobs, and there is a growing demographic of working empty-nester baby boomers trading in the suburban house for a city condo. For these reasons, the City will support development proposals to add a significant number of new units of market-rate housing primarily in these Walk-To-Work neighborhoods. There exists a

pipeline of 1,834 market-rate units already permitted here that are likely come on line in 2009/2010. However, significant problems in the credit markets are making it very difficult to finance new development, even if those projects with solid financials behind them. Until these financing problems are resolved, many projects may have to be shelved in the near term. Finally, if the current economic downturn lasts past 2010, then considerably fewer new units are likely to be built in this area despite its locational and demographic advantages. The City's role in this activity is primarily regulatory – to ensure

that developers can build at economically feasible densities while respecting the neighborhoods in which they are building. The City is also seeking the continued development of this housing for the much-needed construction jobs that it will create. There are 5,596 units of privately-sponsored housing already approved by the BRA, of which 4,298 are in these centrally located neighborhoods. Those 4,298 units represent about \$1.7 billion in investment and more than 5,000 potential new construction jobs.

There are another 2,217 units in the development pipeline that are seeking review and approval from the City, and that may be permitted by 2012 if market conditions permit. Another 12,300 units in the planning and approval process will not be permitted until after 2012.

While current market conditions may not support constructing many of these units in the near term, the City is committed to moving these projects through the approval process in a timely manner. This policy of approving projects that may not be built for several years may seem ill advised, but there are two compelling reasons for this strategy. First, it is not possible for the City to tell definitively which projects have the financial strength to go into construction and which do not, and by approving as many as possible, more projects will move forward, creating much needed construction jobs. The second reason to have a stockpile of approved projects is that when the economy does start growing again, we will have a number of permit-ready developments that can go into construction very quickly to meet rising demand. That will help mitigate the kind of shortage-driven price inflation that we saw in the late 1990s, when the supply of jobs outpaced the supply of housing for those new workers.

In addition to supporting market-rate housing development in these Walk-To-Work neighborhoods, the City will also support the creation of new affordable homeownership and rental units through new City-sponsored projects and Inclusionary units. Market prices in these neighborhoods are too high for market access strategies to be effective, so the City will continue its efforts to provide access to these neighborhoods through new production.

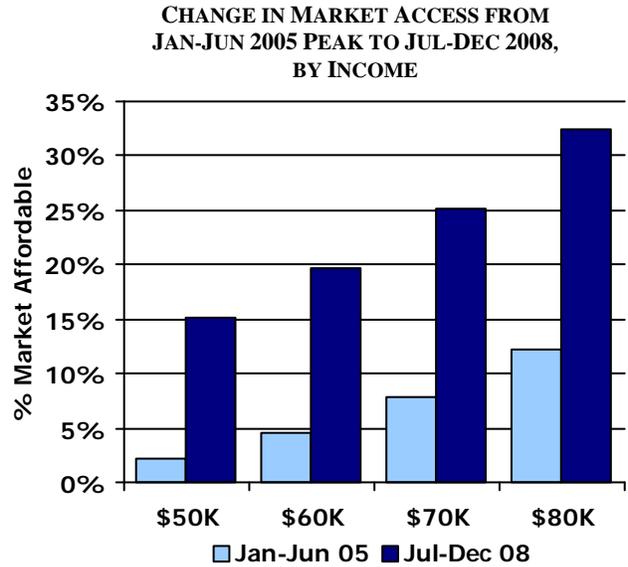
2012 TARGET: PERMIT 3,000 NEW UNITS OF MARKET-RATE HOUSING & COMPLETE CONSTRUCTION OF 2,000 UNITS PERMITTED PRIOR TO LEADING THE WAY II.

Most new housing production in Boston over the next four years is likely to be limited primarily to the walk-to-work neighborhoods near the major employment centers where market conditions are relatively good. The absorption rate of new market-rate units in this part of the City has been approximately 1,400 units per year between 2000 and 2007. Even the recession of 2001-2003 in which Boston lost almost 45,000 jobs (6.6% of its job base) did not affect the rate of housing production. While the current economic forecasts⁴ show Boston losing fewer jobs (4.1% of its jobs by 2010) than we did in the last recession, this downturn is accompanied by a significant tightening of credit compared to the plentiful credit conditions that existed in the last recession, and that will certainly impede development, at least in the short term. With a market absorption capacity of about 5,600 units over four years, and 2,718 units already in construction, a target of permitting 3,000 more units should be feasible, most of which will probably come in 2011 and 2012 as credit becomes more readily available.

⁴ Boston Redevelopment Authority forecast of Boston employment based on projections from the New England Economic Partnership projections for Massachusetts.

CREATING ACCESS TO HOMEOWNERSHIP

For the segment of Boston's workforce with incomes between \$50,000-\$80,000 who have been priced out of the market for many years, access to a newly more affordable homeownership market is a priority. Declining prices in some neighborhoods, especially for 2- and 3-family homes, is creating some significant opportunities for homeownership that weren't there at the peak of the market in 2005. In 2005, a buyer with an income of \$70,000 could afford only the bottom 7.8% of the market. Today, that buyer can afford 25% of the sales in the market. In 2005, a buyer with an \$80,000 income was only able to afford the bottom 12% of sales in 2005; now nearly 33% are in their price range. However, the current state of the credit markets is creating obstacles for these buyers, as financing has become much more difficult to obtain. The City's primary strategy for opening up access to the market for this income group will therefore be focused on providing these potential new buyers with assistance in obtaining affordably-termed financing.



For buyers at the \$50-60,000 end of the income range, there is one new and growing market opportunity. Bank-foreclosed properties (“REOs”) are being sold by lenders at deep discounts, generally at prices affordable to this income group. However, while the REO market presents some unique opportunities for this income group to get into the market, it is also a tricky and sometimes risky market to be in. Speculators with ready cash are rushing into this market and crowding out would-be homebuyers. In addition, many properties that have been through the foreclosure process have been neglected or stripped by their former owners. These properties often have significant renovation needs, many of which would

be unknown to an uninformed buyer. However, it is the City's strong belief that the more of these properties that get into the hands of owner-occupants and not speculators, the better it will be for neighborhood stability over the long run. For this reason, the City has decided to invest heavily in helping qualified homeowners buy these properties. Using new funds allocated by the Federal government under the Neighborhood Stabilization Program (NSP) as well as its own funds, the City will be offering up to \$15,000 in financial assistance to homebuyers purchasing REO properties in high-foreclosure areas, and will also provide up to \$50,000 in renovation assistance to these buyers. Training classes to help homebuyers better navigate the complexities of the REO submarket are already underway.



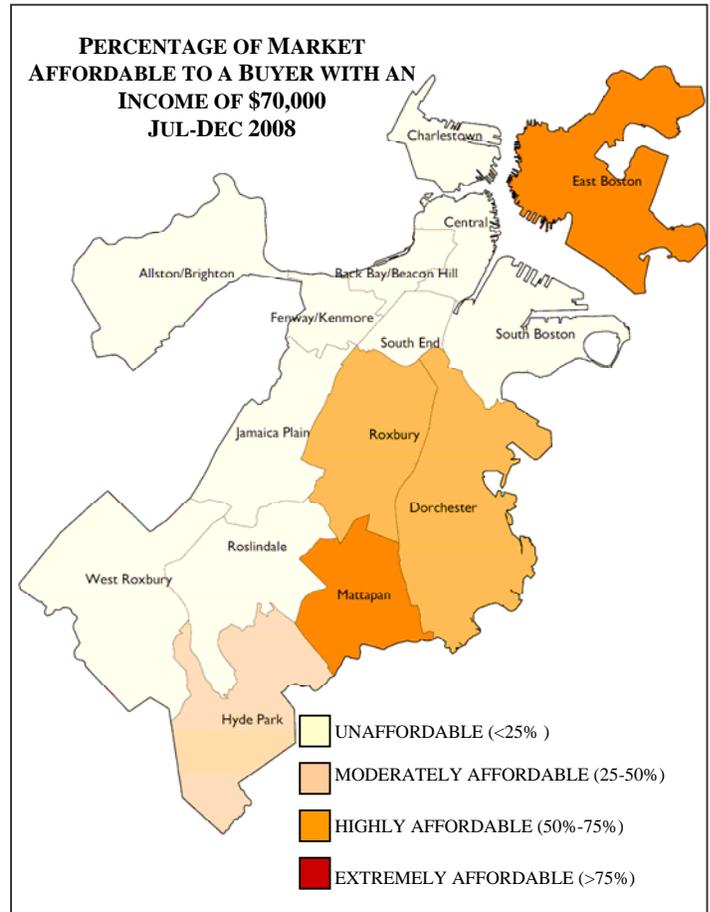
The opportunities presented by the market and the REO stock are not citywide, however. Most of the significant drops in house prices are limited to the high foreclosure neighborhoods of Dorchester, Roxbury, Mattapan, Hyde Park and East Boston. To get the benefits of a down market, would-be homebuyers will have to be attracted to these neighborhoods. While price alone may be enough to attract some new buyers to these neighborhoods, there are also many potential homebuyers that already live in these neighborhoods who would be most inclined to buy in the community where they are now renting. In the five high-foreclosure neighborhoods, there are more than 3,000 renter households with incomes between \$50,000-\$75,000 that have been targeted as candidates for homeownership.

To help first-time homebuyers seize these opportunities, the City intends to redirect some of the resources that it would have otherwise invested in producing affordable homeownership toward enhancing its tools to help homebuyers buy in the private market. This includes the Soft Second Program, Downpayment & Closing Cost Assistance and tools to enable buyers overcome tightening credit. Approximately \$5 million of new CDBG funds will be coming to the City as part of the Federal stimulus plan, the American Recovery and Reinvestment Act ("ARRA"). Some of these funds will be used to support these expanded homebuyer assistance efforts.

In addition to these new services that will help homebuyers gain access to the REO market, the City will enhance its homebuyer training services to help first-time homebuyers become successful owner-landlords of 2- and 3-family properties they may be purchasing.

2012 TARGET: INCREASE THE RATE OF HOMEBUYER ASSISTANCE BY 50% AND CREATE 1,500 NEW HOMEBUYERS

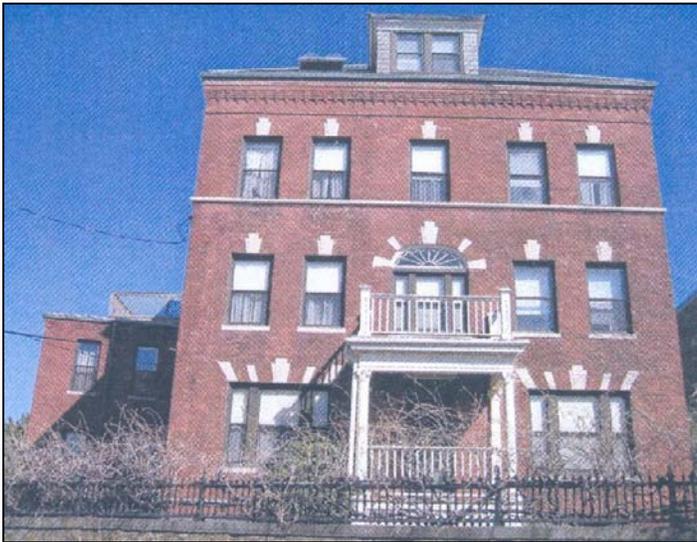
This represents a 50% increase over the rate achieved during Leading the Way II, a particularly challenging goal given the status of the 2009 credit markets. To achieve this goal, the City will offer expanded homebuying assistance, especially for buyers purchasing bank-foreclosed properties. With REOs and 2 and 3-family homes rapidly becoming the most affordable homeownership options in the market, the City will substantially expand its efforts to help new homebuyers acquire these properties. Additionally, the City will continue to pursue new homeownership production (primarily through its Inclusionary Development Policy) in the higher cost areas of the city where the market is still out of reach to moderate-to-middle income homebuyers.



HOUSING FOR BOSTON'S SERVICE WORKERS

Expanding the supply of affordable rental units is the only tool the City has available to meet the housing needs of this workforce segment. With more than 32,000 of Boston's renters paying more than 50% of their income on rent, new production of below-market rental housing will continue to be a priority. However, achieving the goal of new rental housing production will be more challenging, due to the dismal performance of the Low Income Housing Tax Credits in the credit markets. Lower proceeds from LIHTC syndications convert into larger gaps that must be filled by scarce governmental resources. In some cases there have been no buyers at all for Tax Credit syndications. While the City hopes that this is a relatively short-term problem that will correct itself before 2012, the current situation has effectively stopped forward movement on 361 units of housing, representing \$100 million in total development.

It is hoped that the 2009 Federal stimulus plan (ARRA) will include allocations of HOME funds to the States to fill those gaps in stalled LIHTC projects. However, it is not known whether these funds will be sufficient, or if the State will use these funds to fill the entire gap, or will require additional commitment of resources from the City. If the latter proves to be true, the City will have ultimately had fewer resources to undertake new affordable rental projects.



REDEVELOPMENT OF BLESSED SACRAMENT CHURCH INTO AFFORDABLE AND HOMELESS HOUSING; AWAITING LIHTC STIMULUS GAP FILLER FUNDING FROM STATE

Also unresolved is the issue of what happens to the remaining pipeline of 600 affordable rental projects that had been planning to use LIHTC funding. Are those projects going to have to be shelved until the markets stabilize? Will the City have to fill the LIHTC gaps with its own resources, thereby further reducing the potential number of projects? These factors will have a determinative effect on whether or not the City will achieve its *Leading the Way III* production targets for affordable rental housing.

However, the City acknowledges that LIHTC units alone do not meet the needs of all lower income households. While rental assistance programs such as Section 8 serve people with the very lowest incomes especially the homeless, and LIHTC units serve households with incomes between \$35,000 and \$45,000, there are many in Boston's workforce who cannot afford the LIHTC rents, but are not prioritized for rental assistance either. The City commits to working with its State, Federal and Private partners to develop models to better serve this part of Boston's workforce.

2012 TARGET: 1,000 NEW AFFORDABLE UNITS PERMITTED

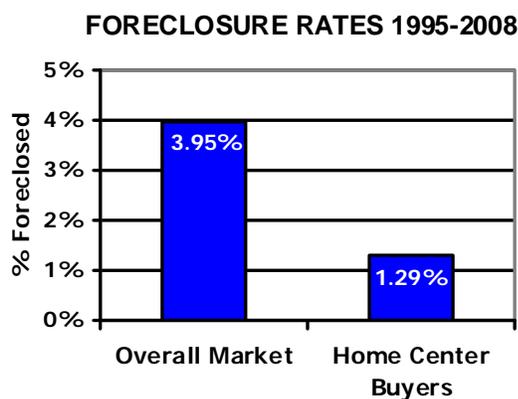
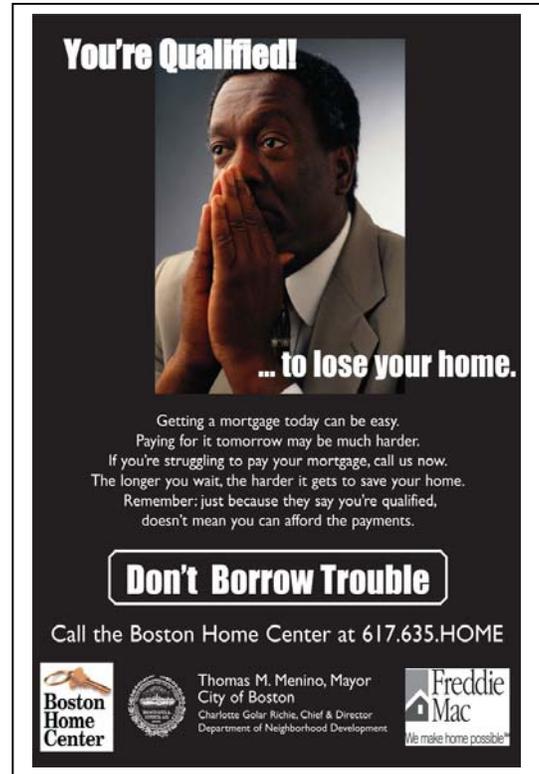
This is likely to be a particularly challenging goal, but with almost 32,000 lower-income renters paying 50% of their income on rent, it is one that the City is committed to making the necessary efforts toward achieving. Difficulties in the Tax Credit markets will make projects more costly to finance, and declining production in the market-rate sector means fewer affordable Inclusionary units and resources. Nonetheless, expanding the supply of lower-income housing must be a high priority if the city if it to make positive progress on reducing homelessness.

2. HOUSING BOSTON'S WORKFORCE

BACKGROUND & HISTORY 2000-2007: PRODUCTION TO MEET GROWING DEMAND

While it may appear to be a relatively recent crisis, Boston has actually been trying to forestall a foreclosure crisis for the last decade. In 1999, the City launched its *Don't Borrow Trouble* campaign, which was created to warn people off the new and risky mortgage products that were flooding into the market. The City knew that the terms of these mortgages, while very attractive at the outset, could potentially become unsustainable as resets and negative amortization took hold. This campaign was acquired for distribution nationally by Freddie Mac in 2000, and eventually adopted by 50 other cities around the country.

Not only did the City warn people away from these mortgages, it also provided much safer and affordable financing products through the Boston Home Center. Chief among these products was the Soft Second Loan Program that offered very affordable financing with none of the risky features that subprime loan products included. Those that came to the Home Center for help with financing are in far better shape today than their neighbors who accepted subprime offers of easy money. Homebuyers who purchased with the help of the Boston Home Center have a foreclosure rate less than one-third the rate experienced in the rest of the housing market.



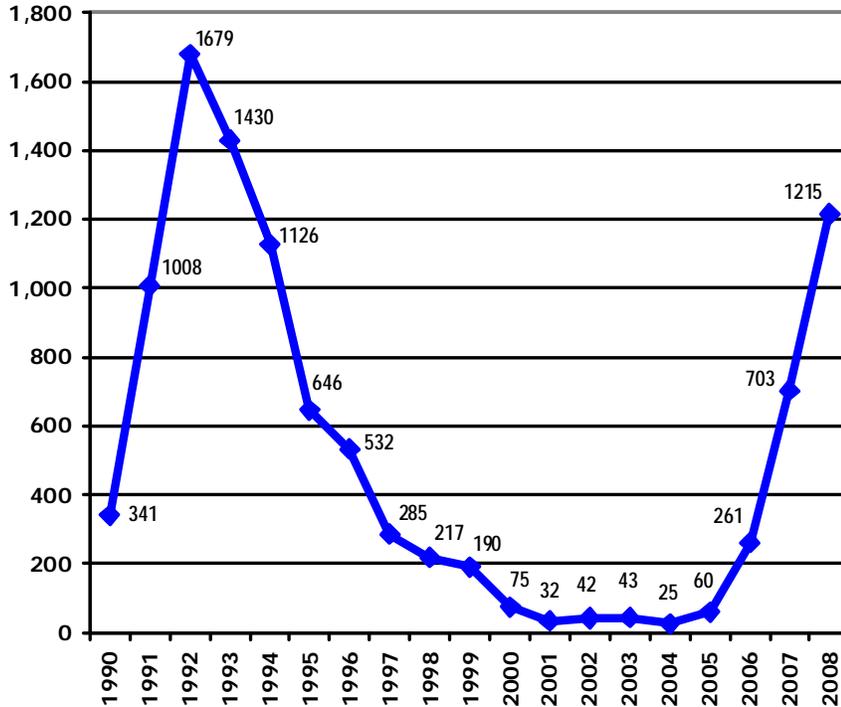
Since the last foreclosure boom in the early 1990s, the City has been closely monitoring the foreclosure rate, looking for the earliest signs of a new surge in foreclosures. Starting in 1999, the City has been especially concerned that the growing pool of unsustainable mortgages out there would eventually result in widespread defaults in the neighborhoods targeted by the subprime lenders. In 2003, as part of its *Leading the Way II* plan, the City warned that the rapidly rising house prices were masking a foreclosure surge from these bad loans as owners sold their homes to avoid foreclosure – they had lost their house, just not to the

bank. Any downturn in the market could turn these hidden foreclosures into real ones and “trigger a self-reinforcing cycle of foreclosures and devaluation”¹.

¹ *Leading the Way II: A Report on Boston’s Housing Strategy FY04-FY07*, pg 29.

It was therefore not surprising to the City when it saw an uptick in foreclosures at the end of 2005. Recognizing the long-predicted foreclosure surge for what it was, the City was able to take action on the coming crisis well before the issue ever gained national recognition. By mid-2006, a foreclosure prevention service and call center was established at the Boston Home Center, and by the end of the year, five non-profit foreclosure prevention partners were funded and trained, creating the Foreclosure Prevention Network. By the end of 2008, the Network had served 1,500 clients and has saved 475 homeowners from foreclosure, preserving \$146 million in home values.

HOME FORECLOSURES IN BOSTON: 1990-2008



The City’s early efforts have produced meaningful results. In 2008, when almost every other major city in the country was posting record rates of foreclosures, Boston was not. In fact, the 1,215 foreclosure deeds issued in 2008 was actually 28% below the 1,679 deeds issued in 1992, at the peak of the last housing market crash.

In April 2008, the City passed an ordinance requiring that the Servicers responsible for the management of bank-owned properties register with the City, provide a local contact for resolving code and safety issues that arose with their property, and post the contact information on the property. To date, 1,689 properties have been registered through the on-line

registration program, and the Inspectional Services Department (“ISD”) has written 182 violation notices, and issued another 671 warning letters to owners of these foreclosed properties. Another 193 foreclosed properties have been secured and/or cleaned through the ISD’s Project Pride program through its “Clean It or Lien It” program.

KEY FACTS & ISSUES: FORECLOSURES TODAY

FORECLOSURE DEEDS. Home foreclosures in Boston have risen from 60 in 2005 to 1,215 in 2008. While it is not possible to definitively determine how many of these foreclosures represent an owner-occupant, available data suggests that figure is about 40%. Adjustable rate mortgages (“ARMs”) represented 72% of all foreclosures in 2008. However, since only 31% of those ARMs made it to their first reset date before foreclosure, the popular belief about ARMs as a primary cause of the foreclosure crisis is not born out. Instead, most of the ARMs going to foreclosure were probably unsustainable the day they were written.

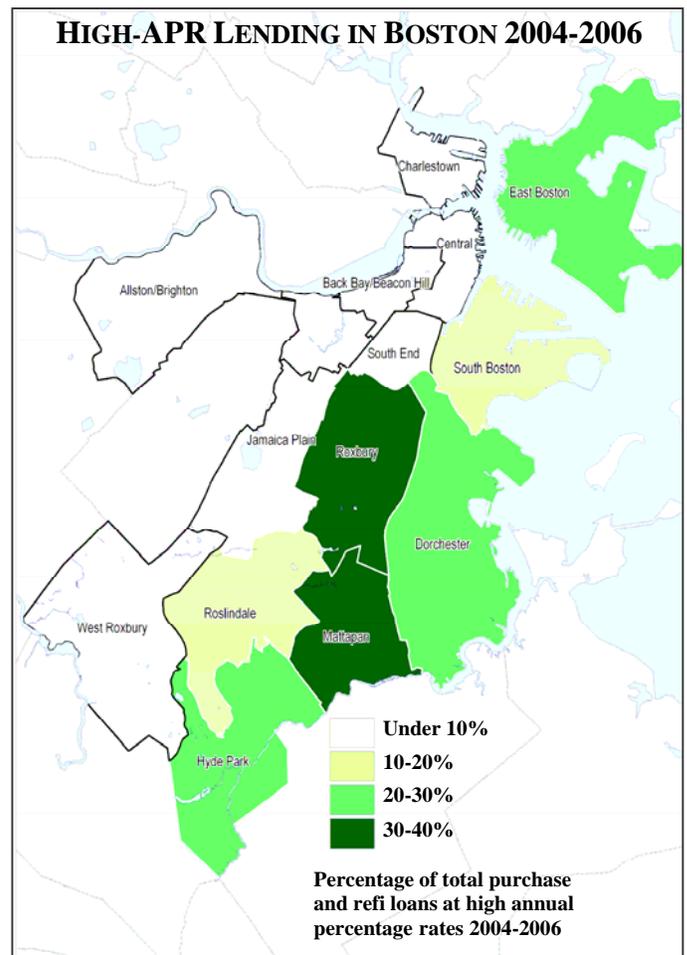
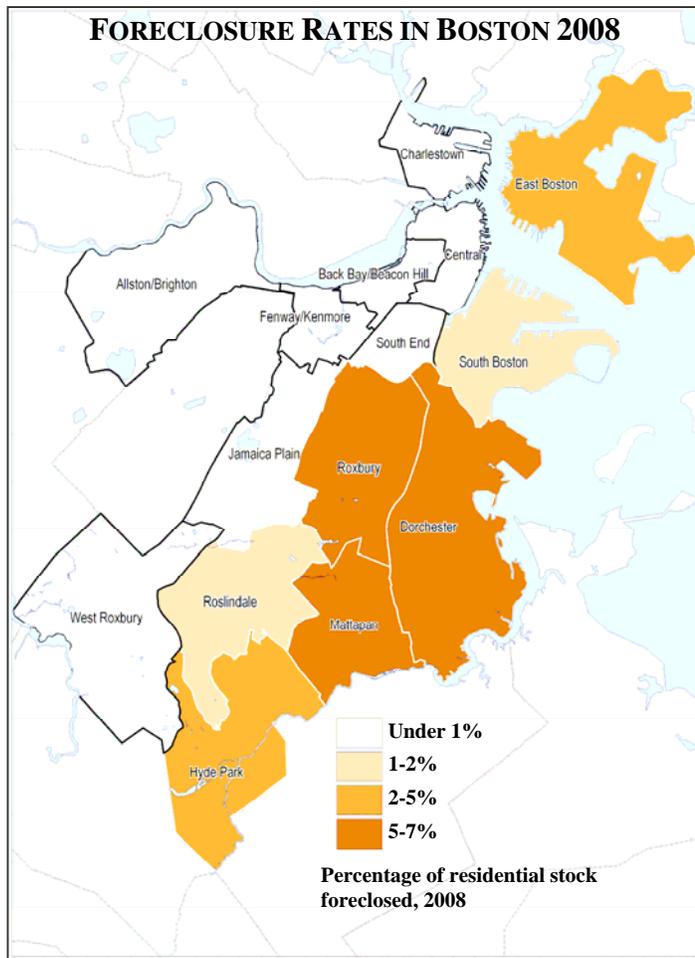
Foreclosures by property type were relatively evenly distributed in 2007, but no longer in 2008. Condominium foreclosures rose 162% from 2007 to 2008, while the other property types rose by 50% or less. The sudden surge in condominium foreclosures in 2008 may be due to the “domino effect” in small condo associations (2-4 units) where one or two foreclosures can so destabilize the association that the remaining units are forfeited to foreclosure soon thereafter. In 2008, 74% of foreclosed condominiums were in properties of 4 or less units.

FORECLOSURE DEEDS 2007-2008 BY PROPERTY TYPE

	2007		2008		% CHANGE 2007-2008
	DEEDS	% TOTAL	DEEDS	% TOTAL	
CONDO	198	28%	519	43%	162%
1-FAM	162	23%	200	16%	23%
2-FAM	169	24%	236	19%	40%
3-FAM	174	25%	261	21%	50%
TOTAL	703	100%	1216	100%	73%

Geographically, the pattern of foreclosures ties closely to the pattern of subprime lending as can be seen on page 4. In 2008, the five neighborhoods of Dorchester, Roxbury, Mattapan, East Boston and Hyde Park represented more than 83% of all foreclosures in Boston.

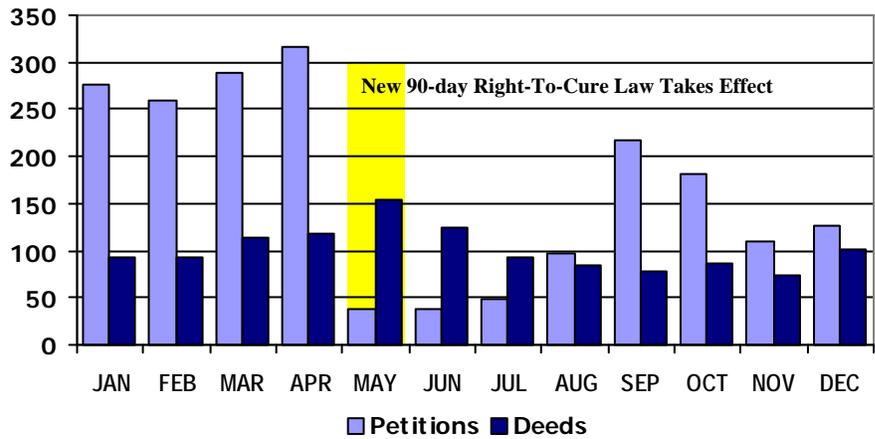
While subprime mortgage resets will decline significantly in 2009-2010, the City is not anticipating that this will have much effect in Boston, where resets were never the primary source of the foreclosure problem. There are larger forces, however, that unfortunately will sustain the foreclosure issue for some time to come. Values in the high-foreclosure neighborhoods have dropped 33.6% since the peak in early 2006. This has resulted in a lot of owners in these neighborhoods having “upside down” mortgages where their loan exceeds the value of the property. Any interruption in income for these owners may force them into foreclosure because they can no longer sell or refinance. The type of loan, subprime or not, makes no difference under these circumstances. Currently, 40% of the City’s foreclosure prevention clients are in trouble because of job loss or life events. With the economic recession and the projected loss of almost 30,000 jobs in Boston by 2010, we can anticipate foreclosures will persist until both the economy and housing market improve, particularly in the neighborhoods with depressed values.



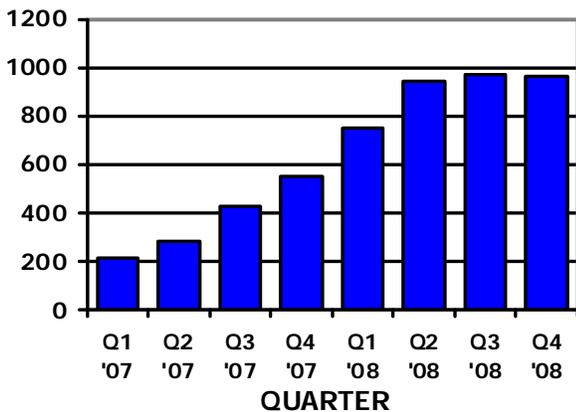
FORECLOSURE PETITIONS.

Foreclosure filings in 2008 (1,900 petitions) were 22% below the rate in 2007 (2,432 petitions). This is, however, due in large part to the State’s new “Right To Cure” law that granted owners a 90-day workout period before a lender could file a foreclosure petition in Land Court. As seen here, there was a dramatic decline in foreclosure filings from May to August of 2008, but by September of 2008 they were back up again. The decline in foreclosure filings near the end of 2008 most likely reflects the decisions of some major lenders such as Fannie Mae and FDIC to ramp down foreclosure activity until they, and the new administration in Washington, could develop better ways to address the foreclosure problem.

FORECLOSURE PETITIONS & DEEDS IN BOSTON BY MONTH, 2008



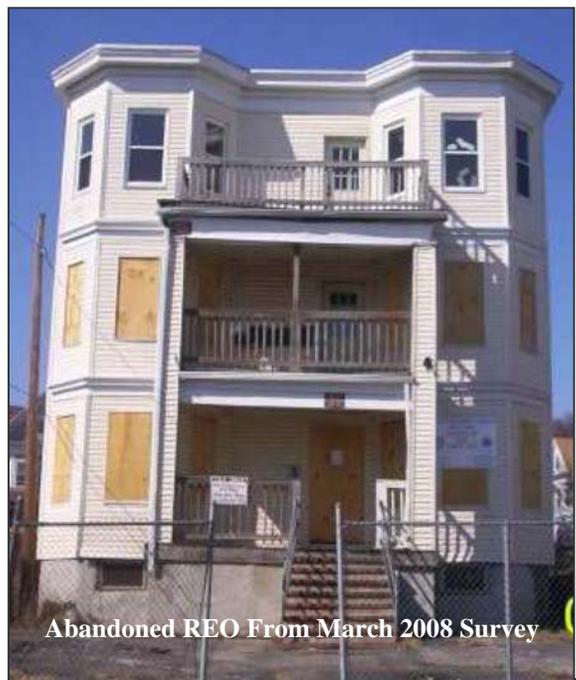
REO PROPERTIES IN BOSTON, BY QUARTER 2007-2008



REO PROPERTIES. Bank-owned foreclosed properties (“Real Estate Owned or REOs”) grew substantially in the later part of 2007 and early 2008, when the number of foreclosures rose faster than the lender’s capacity to sell the properties. By the second half of 2008, lender capacity to sell or auction their properties was keeping pace with the foreclosure rate, and the number of REOs leveled off, standing at 966 properties by the end of 2008.

As new foreclosures turn into REOs, the City surveys the properties to determine physical conditions and occupancy. Of the 861 properties surveyed as of December 2008, 56 (7%) were deemed to be abandoned and another 236 (27%) properties were in deteriorating condition and could become abandoned without proper attention.

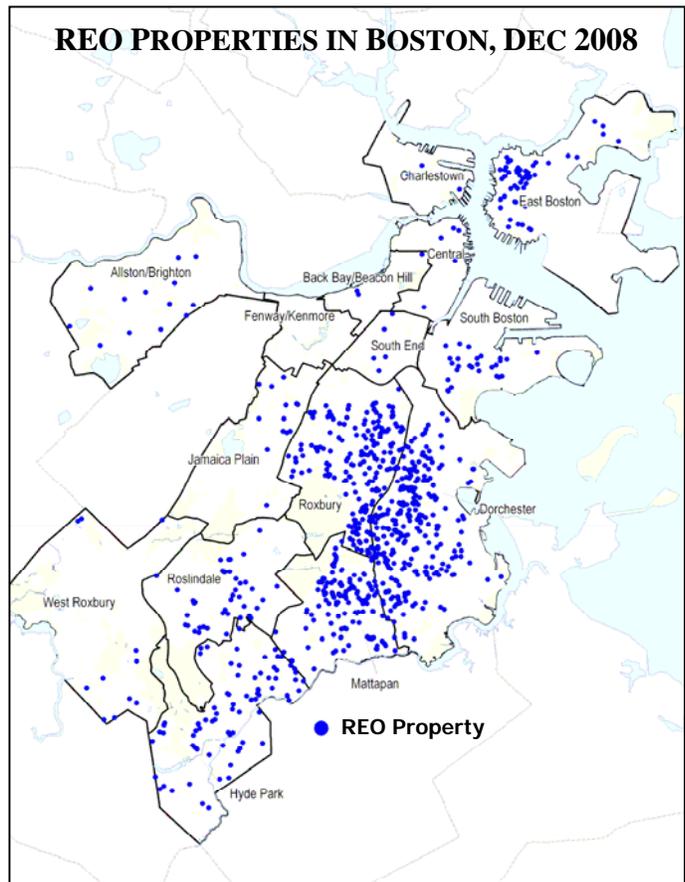
As was the case with foreclosure deeds, REOs are concentrated in a few neighborhoods as shown on page 6. Dorchester, Roxbury and Mattapan have the highest concentrations; East Boston and Hyde Park also have large numbers.



Abandoned REO From March 2008 Survey

MARCH 2009

Neglected REOs are the most visible and damaging aspect of the foreclosure issue. Derelict buildings reduce home values even blocks away; they create a sense of neglect and decline that encourages crime; they can pose real safety hazards to nearby residents from fire, collapse and vermin. For these reasons, getting REOs out of the hands of the lenders and into the hands of owners that will renovate and reoccupy will be a high priority for the City for Leading the Way III. The City also recognizes that just getting these properties out of the hands of the lenders will not be enough. To the degree that speculators or unsophisticated investors acquire these properties and are unable or unwilling to make the necessary improvements to their properties, the REO problem hasn't gone away, it has just changed hands. The City believes that this issue may become an increasingly large part of the REO problem in the future as lenders increasingly unload their properties to anyone that will give them their price, regardless of their intentions. To help mitigate this issue, public-spirited buyers need to have the capacity to acquire REOs before they go on the open market for any speculator to buy. The Citizens Housing and Planning Association, a statewide housing advocacy group, and the National Community Stabilization Trust, a nationwide organization formed to help resolve the REO issue, are now working with several major lenders to develop systems allow these early acquisitions by public and non-profit buyers.



ADDRESSING THE FORECLOSURE CRISIS: BOSTON'S STRATEGY FOR 2012

PREVENTION.

While Boston's efforts to prevent foreclosures, which dates back to the first *Don't Borrow Trouble* campaign in 1999, have delivered significant results, the need to prevent foreclosures has not disappeared with the demise of almost all of the major subprime lenders. In the coming months and years ahead, there will be tremendous uncertainty and volatility in the mortgage industry as lenders work themselves out of the current crisis. What new mortgage products arise out of this is yet to be determined, but it is very likely that not every mortgage will be equally sustainable or affordable. For the City of Boston and its Boston Home Center, a key role in the coming years will be to help homeowners and homebuyers understand these evolving products and find the loan that best suits their needs and is sustainable over the long run.

Additionally, there is a new and developing risk in the housing market in the form of REO properties. While these properties can present a very affordable opportunity for homebuyers that know what they are doing, they also pose a significant risk for the less sophisticated buyer. Homebuyers may be enticed by a low sale price only to be surprised later by costly critical renovations or an insolvent condominium association. Homebuyers may not even know if they are buying a former REO property, especially if they are buying from an investor who recently acquired the property from a lender. For *Leading the Way III*, the Boston Home Center will be adapting its homebuyer training services to meet these new realities. Already the Boston Home Center is offering workshops about how to be an educated buyer of REO properties.



**BOSTON HOMEOWNERS:
GET HELP NOW TO
SAVE YOUR HOME!**

Join Mayor Thomas M. Menino and Director of the Department of Neighborhood Development Evelyn Friedman as they bring together mortgage lenders and Boston homeowners.

This is a unique opportunity for you to:

- Meet face to face with your mortgage lender to discuss loan modifications and alternatives to prevent foreclosure.
- Meet with local housing and credit counselors
- Attend educational seminars about managing your debt.

Finally, the City recognizes the evolving problem of small self-managed condominium associations that are being undermined by foreclosures. Unsatisfied association obligations, especially insurance, can result in lenders calling their loans, pushing the entire property toward foreclosure. With 74% of condominium foreclosures occurring in associations of 4 units or less, stabilizing homeowners in these situations will also be a part of the City's foreclosure prevention strategy.

A new tool to prevent foreclosures, *The Homeowner Affordability and Stability Plan*, was announced by the Obama Administration in February of 2009. Within this plan is a provision to allow homeowners in good standing to refinance their existing loan at much lower current rates, if: 1) their loan is owned by Fannie Mae or Freddie Mac; and 2) their current Loan-to-Value ratio ("LTV") does not exceed 105%. Although standards were different in the past, currently homeowners would not typically be able to refinance market unless their LTV was 80% or below. However, many of the most recent homebuyers received 95% LTV mortgages. That fact, coupled with declining property values, has made it impossible for these recent homebuyers to qualify for a typical refinancing loan. Under the President's new initiative,

however, homeowners will be able to get out of higher cost loans, reduce their monthly payments significantly and greatly lower their risk for foreclosure.

The City has analyzed the potential usefulness of this program based on calculating the typical LTV ratio by neighborhood, using home purchases made from 2000 to 2006 and factoring in the median price changes through the end of 2008. A further analysis was done where the percentage of home purchase loans from 2004-2006 that were high-rate subprime loans were compared to this data, in hopes of seeing if those homeowners with the biggest interest rate problems (and therefore a higher risk for foreclosure) would be able to benefit from this program.

Unfortunately, the neighborhoods with the highest rates of subprime lending are also those neighborhoods where the value declines have resulted in LTV ratios well above the 105% maximum allowable in the program. Of the affected neighborhoods, only Roslindale had both high rates of subprime lending and stable enough property values to benefit significantly from this initiative. In neighborhoods with very low rates of subprime lending and more stable property values, this program will also be effective and will provide some good affordability benefits for those areas that did take a higher-cost subprime loan. However, for those living where most of the subprime lending took place, this initiative will be of little value unless the homebuyer bought their home in 2001 or earlier.

CURRENT LOAN-TO-VALUE BASED ON DATE OF PURCHASE, BY NEIGHBORHOOD 2000-2006

NEIGHBORHOOD	% Loans High-APR ¹	2006	2005	2004	2003	2002	2001	2000
Mattapan	48.9%	155.7%	190.7%	159.7%	150.2%	135.7%	118.2%	88.2%
Hyde Park	39.0%	131.7%	135.0%	127.8%	116.4%	100.6%	87.5%	79.4%
Roxbury	37.9%	138.9%	153.6%	151.8%	167.4%	118.8%	99.7%	81.7%
Dorchester	35.5%	132.6%	156.4%	142.3%	129.8%	128.6%	95.0%	85.9%
East Boston	29.6%	127.4%	136.0%	172.7%	148.9%	112.1%	107.1%	84.2%
Roslindale	22.0%	100.1%	108.4%	104.8%	103.8%	93.4%	78.2%	71.0%
West Roxbury	10.6%	96.5%	103.3%	99.2%	89.8%	88.7%	73.8%	64.3%
Allston/Brighton	9.8%	92.1%	98.9%	88.9%	84.2%	71.8%	63.3%	53.7%
South Boston	9.8%	91.9%	97.6%	93.7%	82.4%	74.7%	65.7%	70.6%
Jamaica Plain	7.9%	91.1%	91.1%	97.6%	83.7%	84.0%	74.2%	64.2%
South End	4.3%	83.6%	98.5%	101.4%	71.3%	75.1%	68.9%	59.6%
Central	4.1%	117.3%	102.2%	95.0%	79.8%	76.9%	90.3%	59.7%
Back Bay/Beacon Hill	3.8%	84.3%	77.7%	70.2%	69.4%	62.8%	60.9%	66.6%
Fenway/Kenmore	3.6%	89.5%	92.4%	90.5%	77.9%	77.7%	66.0%	54.9%
Charlestown	3.5%	95.7%	106.6%	92.4%	93.5%	89.1%	89.1%	74.5%

	Ineligible for Refi Loan: LTV Exceeds 105%
	Eligible for Federal Refi Loan: LTV between 80% and 105%
	Federal Refi Loan not Required: LTV under 80%

¹ Average percentage of home purchase loans 2004-2006 that were high-APR using HMDA data. Source: Mass Communities and Banking C

2012 TARGET: 15,000 HOMEBUYERS AND HOMEOWNERS WILL HAVE COMPLETED FINANCIAL EDUCATION TRAINING OR REO ACQUISITION TRAINING.

INTERVENTION.

Boston's foreclosure intervention efforts since 2006 have produced good results, with more than 40% of homeowners participating in the program able to save their homes. However, it is also true that the circumstances leading to foreclosure likely change over the four years of *Leading the Way III*, with the primacy of subprime loan generated foreclosures giving way to those resulting from job loss and mortgages that exceed the value of the property. The City will focus its efforts on adapting its intervention services to this new reality.



MAYOR MENINO WITH A FORECLOSURE PREVENTION CLIENT AT A CITY WORKSHOP

Announced in February 2009, the new Federal *Homeowner Affordability and Stability Plan* included provisions to encourage lenders to be more flexible in their workouts by providing incentives for these lenders to do loan modifications. Government-owned lenders (e.g. Fannie Mae, Freddie Mac and FDIC-owed banks) and all lenders receiving Federal financial support are required to participate; other lenders participate on a voluntary basis. Homeowners that are delinquent or are highly at-risk of becoming delinquent are eligible to participate. This program requires participating lenders to reduce the interest rate on an individual mortgage loan until the homeowner's debt-to-income ratio is 38%. From there, the Federal government will share equally with the lender the cost of bringing down the interest rate to a level where the homeowner's debt-to-income ratio is 31%. The final interest rate for the individual mortgage cannot be below 2%. The Federal government will also pay the lender a fee (\$1,000 per loan and another \$1,000/year for 3 years if the loan stays current) for executing such a loan modification. Finally, the homeowner will receive \$1,000 per year for five years from the Federal government to pay down their principal as long as they stay current in their new loan. There is a yet-to-be-defined "net present value test" to determine if a specific loan is eligible for this modification program. Additionally, the specific underwriting standards that will be used to determine the debt-to-income ratios have yet to be released.

The City of Boston has evaluated the potential benefit of this loan modification program by comparing its provisions to the actual financial conditions of 483 of its foreclosure prevention clients. To determine how many of Boston's foreclosure prevention clients might be eligible for this program, the City looked at how many could successfully modify their loan at the minimum-allowed interest rate of 2%. As shown in the table on page 10, the number of clients that could potentially benefit from the program depends significantly on the underwriting standards that will be used to implement the program.

**ANALYSIS OF ELIGILITY OF BOSTON FORECLOSURE PREVENTION CLIENTS
FOR A FEDERALLY-SUPPORTED LOAN MODIFICATION**

Eligibility for A Loan Modification at 2%	Rental Income Underwriting Standard			
	With 75% of Rents Deducted from Payment		With Rents Added To Income	
	Clients	% Total	Clients	% Total
Eligible at Under 31% Debt-To-Income	299	61.9%	203	42.0%
Eligible at 31%-38% Debt-To-Income	60	12.4%	86	17.8%
Ineligible: Debt-To-Income Above 38%	124	25.7%	194	40.2%
TOTAL	483	100.0%	483	100.0%

For example, if the final debt-to-income must be 31% or less, then 61.9% of the City's clients might be able to participate. Another 12.4% could participate if the final debt-to-income ratio could be as high as 38%. With so many of Boston's foreclosures being in 2 and 3-family properties, the treatment of rental income is also a critical factor. If, as has been the standard in recent years, 75% of rents may be deducted from the payment when determining the debt-to-income ratio, then 61.9% of Boston's clients will qualify at the 31% debt-to-income ratio level. If more conservative underwriting standards are applied to rental income (e.g. adding rents to income instead of deducting from the payment) then only 42% of Boston's clients will qualify.

This program holds enormous potential for increasing Boston's ability to successfully prevent more foreclosures, but until its underwriting standards are fully defined, its impact cannot be calculated with accuracy.

2012 TARGET: SAVE 1,000 HOMEOWNERS FROM FORECLOSURE.

RECLAMATION.

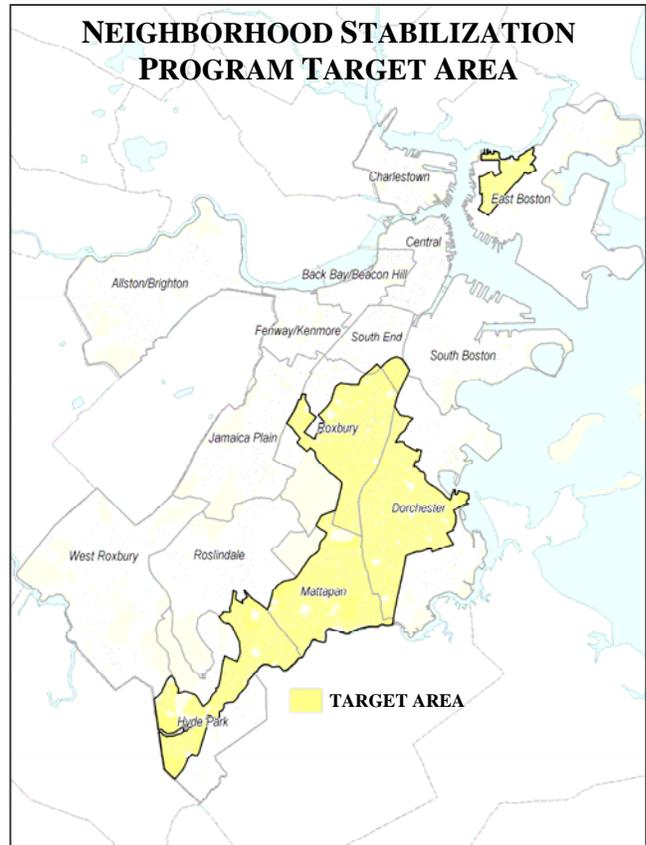
Even if the foreclosure boom is behind us by 2012, the aftermath of it will not be. Reclaiming and returning REO properties back to productive use will be an ongoing priority for the next four years. Boston's strategy for dealing with this issue includes three primary elements: 1) Redevelopment of distressed properties, 2) Direct homebuyer purchases of properties in decent condition and 3) Multi-Property Purchases by the City. Funding to support these activities will come, in part, from the new Federal Neighborhood Stabilization Program ("NSP") that was authorized by Congress in the summer of 2008, as well as additional so-called formula funding. The City will be getting \$4.2 million directly from the Federal government and another \$4 million will be coming to Boston from the State's allocation of NSP funds beginning in March of 2009. These funds are to be primarily targeted to those areas of the City with the greatest concentrations of subprime lending and foreclosures as outlined here.

- REDEVELOPMENT.** Currently, about one in three REO properties are listed as in troubled condition or have been abandoned entirely. Reclamation of these properties will require involvement of experienced contractors or developers. To facilitate this process, the City will establish a *Foreclosed Home Reclamation Fund* that will provide financial assistance to non-profits, developers and contractor-builders so that they can buy, renovate and reoccupy foreclosed homes that are in need of substantial renovations. There will be three components of this the Fund: 1) Turnkey Homeownership will offer financial assistance to developers, contractors and non-profits to purchase, renovate and resell REO properties to income-eligible homebuyers; 2) Affordable Rental will fund developers and non-profits that have a demonstrated record as good property managers to buy and renovate REO properties for long-term use as affordable rental housing; and 3) Supportive Housing will offer development funding and project-based rental assistance to non-profit sponsors that will acquire and renovate REO properties for use as supportive housing for the homeless. Funding for this will come from the new Neighborhood Stabilization Program (NSP) grant created by the Federal government as well as existing resources under the City's control.
- HOMEBUYERS.** For the two-thirds of REO properties that appear to be in fair-to-good condition, the City will offer incentives and assistance to encourage homebuyers to buy and live in these properties, returning them to appropriate use in the neighborhood. These incentives include up to \$25,000 in downpayment assistance for purchases in targeted areas of the city, and up to \$50,000 toward the purchase and renovation of properties in need of significant repairs. A training program will be established that helps these homebuyers compete in a market increasingly populated by speculators.



- MULTI-PROPERTY PURCHASES BY THE CITY.** To facilitate the movement of REO properties into the hands of responsible purchasers, the City will also be pursuing multi-property purchases of REO properties directly from the lenders. These properties will then be made available to homebuyers, contractors, developers and non-profits for renovation and reoccupancy. The City’s goal in this is three-fold: 1) to increase the volume of properties that are going to responsible owners and developers and not to speculators, 2) to generate some pricing advantages through bulk purchasing, and 3) to stabilize tenancies in REO properties by purchasing properties *before* the lenders have emptied them out. These purchases will be achieved through a partnership of the BRA and DND. Acquired properties that need significant rehabilitation will be quickly routed to developers that have demonstrated the capacity to renovate and reoccupy these properties in a timely and cost-effective manner. More than 30 developers, contractors and non-profit entities have already been pre-qualified by the City to do this work. Funding from the *Foreclosed Home Reclamation Fund* will be available to these developers where needed to bring development costs down to market values or to achieve enhanced housing affordability. Properties in need of only limited repairs or are in move-in condition will be routed to the homebuyer programs through the Boston Home Center and sold directly to qualified homebuyers. Downpayment and construction assistance will be available to these homebuyers where necessary.

This initiative was successfully piloted with 12 units on Hendry Street in Dorchester in mid-2008. All those properties are now in the hands of a private contractor-builder, and construction is almost complete on six units, and is scheduled to start soon on the remaining six.



2012 TARGET: RECLAIM AND REOCCUPY 500 UNITS OF BANK-OWNED FORECLOSED HOUSING WITH CITY ASSISTANCE.

STABILIZATION.

There are parts of the City where foreclosures are so highly concentrated that entire communities are at risk. In these parts of the city, it will take much more than reclaiming the REO properties to undo the damage already done. Foreclosures, and the derelict properties they created, have opened the door for criminal activity, vandalism and disinvestment. Not only have some property owners become increasingly unwilling to invest, but those who wish to do so have been forestalled by property values that have dropped so much that their access to credit has been denied.

For these areas, the City created the Foreclosure Intervention Team (FIT) initiative. FIT is designed to stabilize the hardest hit communities through a comprehensive strategy of City actions that go well beyond reclaiming and reoccupying the foreclosed properties. These actions include everything from stepped-up police activity to uproot any criminal activity that has taken refuge in the foreclosed and vacant properties, to public improvements in streets and public spaces, to stepped up code enforcement and graffiti removal in the area, to receiverships of problem properties where the owner is unwilling or unable to maintain their property. Existing property owners are being provided with assistance in managing their properties. The City will also offer assistance to existing homeowners in these areas willing to reinvest in their properties and their neighborhood through a new home repair incentive program that will provide funding for critical and exterior repairs.

HENDRY STREET FIT. The first of the FIT areas was the Hendry Street area of Dorchester. Designated in February, 2008, the Hendry Street FIT initiative has already delivered significant improvements since then. At the time of its designation, there were 16 REO properties in the area; at the end of 2008 there was only one remaining REO property. Nine of those REO properties, representing 15 units, went to Bilt-Rite Construction through transactions engineered by the City. 12 units were acquired by the BRA and subsequently sold to the contractor and another 3 units were sold directly to the contractor by the lender in a transaction facilitated by the City. Renovation of those properties is now underway with the first two buildings now nearing completion. The number of abandoned properties in the Hendry Street FIT area has dropped by 50% -- from 12 properties at in February 2008 to six properties by the end of the year.

Building on the success of the Hendry Street FIT initiative, two new FIT areas have been designated including the Dacia Street and Langdon Street areas in Roxbury.



MAYOR MENINO ANNOUNCING THE CREATION OF THE HENDRY STREET FIT INITIATIVE. FEBRUARY, 2008

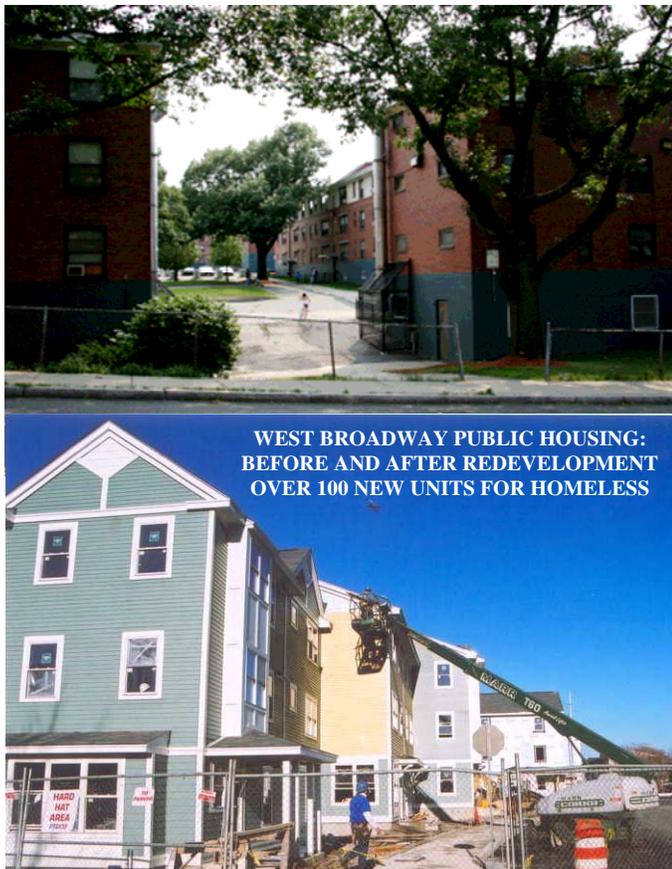
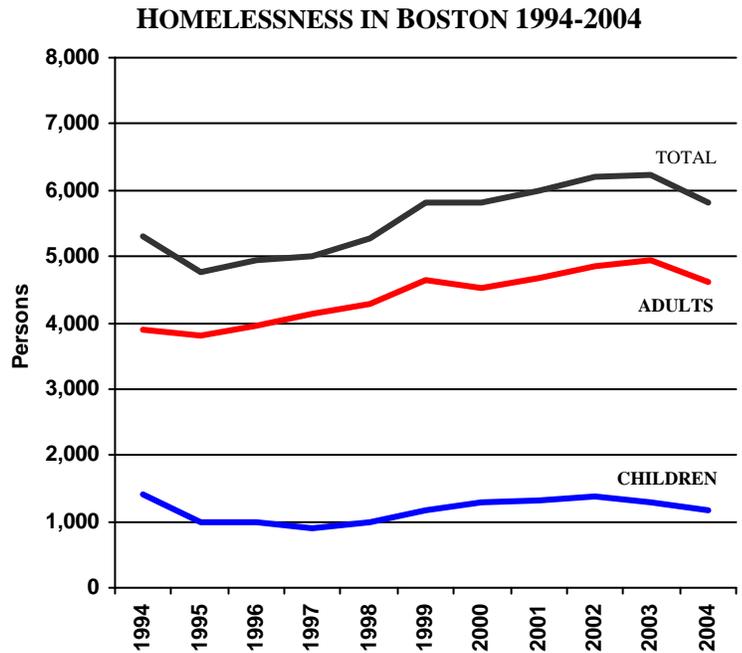
**2012 TARGET: STABILIZE ALL FIT AREAS
SO THAT THESE COMMUNITIES NO LONGER HAVE HIGH ABANDONMENT LEVELS,
EXCESSIVE CRIME CONDITIONS OR FALLING PROPERTY VALUES.**

3. REVERSING THE RISE IN HOMELESSNESS

BACKGROUND & HISTORY: 1994-2008

Boston has a long history of effectively addressing the housing and shelter needs of its homeless. In the late 1980s, the City was one of very few that could definitively state that there was available shelter for every homeless person who wanted it. Boston was also one of the very first cities to do a comprehensive annual census of its homeless population.

Between 1994 and 2004, homelessness in Boston grew slowly, relative to other similar sized cities, averaging about 1% growth per year. During the first two *Leading The Way* initiatives (2000-2007), the City was very concerned that the sharply rising housing market would lead to spiraling homelessness, as rent increases and condo conversions pushed more and more people into homelessness. To help pre-empt this potential problem, the City undertook a number of homeless housing initiatives during this period.



During *LTWI* (2000-2003), the City expanded its supply of housing affordable to the homeless by carrying through with its pledge to renovate and reoccupy its vacant public housing units. 937 units were renovated, including 611 long-vacant units. 500 of those units went to homeless-priority households. The other 326 units had become vacant more recently, but were at-risk of remaining so for the indefinite future. The BHA’s homeless preference policy ensured that more than 80% of the reclaimed units would be made available to the homeless and those most at-risk of becoming so.

In *LTW II* (2003-2007), the City undertook several additional new homeless initiatives. The booming real estate market was making conversion of lodging houses into condominiums an increasingly attractive business opportunity. The *Single Person Occupancy Initiative* was launched in response to this problem, creating new housing suitable for homeless individuals. By the end of 2007, 174 units were permitted, and an additional 294 units were in planning.



GATEHOUSE: 14 UNITS OF SINGLE PERSON OCCUPANCY HOUSING, COMPLETED 2007

In 2005, the City launched the *Street Seniors Initiative*, and focused on moving seniors (55+ years) that were living on the streets to permanent housing directly. The initiative enabled eligible homeless seniors to bypass the shelter system, which many perceived as dangerous. By the end of 2006, the number of seniors living on the streets had been reduced from 77 to 28, a 63% drop.

Seeing the wisdom in such direct placement strategies, the City launched *Boston Outreach To Housing*, and introduced the *Common Ground Initiative* in the spring of 2006. *Common Ground* was tailored to non-senior homeless, and further targeted those who were living on the Boston Common. In total, 176 people living on the streets were

moved to permanent affordable housing; only 7 individuals were unable to retain their new housing over the longer term.

Recognizing that a number of strategies to combat homelessness must be employed and the prevention is ultimately the best of these, the City joined the Paul & Phyllis Fireman Foundation in opening the Boston Homelessness Prevention Clearinghouse in 2006. The Clearinghouse, since renamed The Front Door Collaborative, provides a one-stop location for families and individuals on the verge of homelessness. The Collaborative not only offers homeless prevention, but also helps people gain access to programs

BOSTON OUTREACH TO HOUSING CAMPAIGN: PLACEMENTS & RETENTION RATES SINCE 2006				
Initiative	Target Population	Housed Since 2006	Lost Housing	Housing Retention Rate (Feb 09)
Street Seniors	Seniors aged 55+	86	0	100%
Boston Common Ground Initiative	Unsheltered adults on Boston Common and vicinity	90	7	92%
Total	Unsheltered seniors, near-seniors & long-term street homeless	176	7	96%

operating throughout Boston. To do so, The Collaborative has partnered with nine core agencies to create a streamlined and coordinated service delivery system. Since opening in 2006, the Collaborative has helped 509 families and individuals avert homelessness. The average cost of such prevention services is \$1,691, which represents a fraction of the cost of providing emergency shelter.

The net result of all of these interlocking strategies regarding homelessness is that from 1999-2004 while house prices soared by 109%, homelessness actually declined very slightly. Changing economic circumstances, however, brought new pressures to bear on the problem of homelessness.

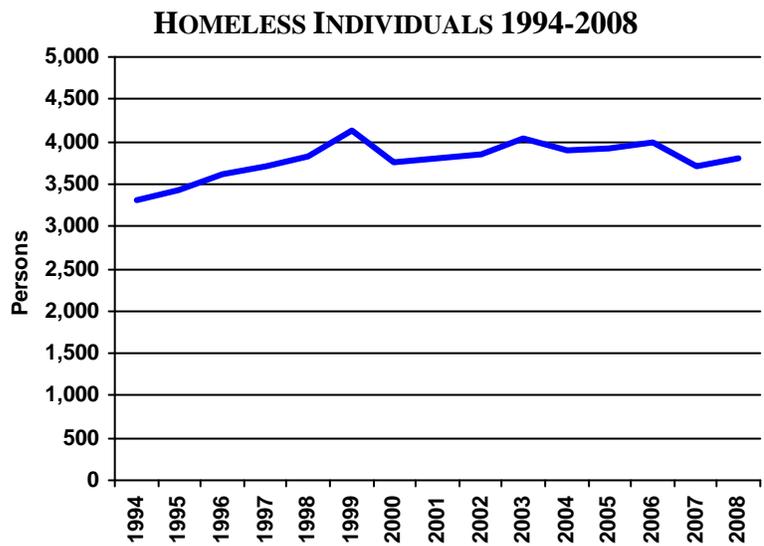
KEY FACTS & ISSUES: HOMELESSNESS TODAY

FAMILY HOMELESSNESS. By 2006, family homelessness, which had remained relatively unchanged since 1994, began to increase significantly. This disturbing trend is not unique to Boston; it is also being experienced in other major cities across the nation. For the first time ever since Boston began taking a Census of its homeless more than 25 years ago, in 2008, families made up the majority of the homeless population. Most unsettling is the growth in the number of homeless children. In 2004, there were 1,181 homeless children. By the end 2008, there were 2,288 homeless children – almost doubling the number in just four years. In fact, while homeless children represent just over 20% of the homeless population in 2004, they represented 60% of the growth from 2004-2008.

Some of this growth may be due to changed State eligibility standards. Since 2006, these new standards have enabled more families to participate in State-funded programs for the homeless. Whatever the reason, the stark fact remains that there are now more homeless families than ever before, a total of 3,870 people who require housing solutions. The emergency shelter system for families is overloaded; the State has been forced to turn to hotels and motels for emergency shelter. In addition, the length of stay continues to extend once families enter the shelter system. As of the writing of this report, the average stay in congregate shelter is 235 days – almost a full school year.

HOMELESS INDIVIDUALS. The number of homeless individuals has been much more stable; varying between 3,700 and 4,000 people for most of the last fifteen years. Part of this relative stability in numbers of homeless individuals as compared to rising family homelessness is the redirection of some of Boston’s homeless resources to long-term housing solutions. In the last several years, the City has targeted an increasing share of its McKinney-Vento funding toward housing the chronically homeless in permanent housing situations rather than in emergency shelter.

However, within this population are 651 individuals that have been in Boston’s shelter system for more than a year. Emergency shelter is both costly and ill-suited as a long-term housing option for Boston’s homeless. Additionally, because these long-term homeless take up approximately half of the bed-day capacity in our shelters, moving them more quickly into permanent housing can significantly reduce the need for shelters. For *LTWIII*, it will be a priority to help our long-term homeless move into affordable and supportive housing situations that will provide a better living environment and reduce the pressure on the shelter system.



The City’s priorities for the next 4 years are to make measurable progress on both of these issues: 1) to reverse the rise in family homelessness, and 2) to substantially reduce the number of long-term homeless individuals living in the shelter system.

REVERSING THE RISE IN HOMELESSNESS: BOSTON'S STRATEGY FOR 2012

For Boston to reduce homelessness, action must be taken on two fronts: to reduce the inflow into the shelter system via prevention; and to significantly decrease the length of time in shelter before homeless individuals and families are permanently housed. The City has adopted a four-tier to reverse the rise in homelessness, and it will focus on two critical components of the homeless population:

FAMILY HOMELESSNESS. There were 1,378 homeless families in Boston's shelter and transitional housing system as of the December 2008 Census. 1,110 of those families, or 81%, are from Boston. It will be this category of Boston families that the City will target for its family homeless prevention and permanent housing efforts over the coming four years.

LONG-TERM INDIVIDUAL HOMELESSNESS: Of the 3,911 homeless individuals counted in the 2008 Census, 1,535 were living in shelters or on the streets, with the remainder generally living in more stable housing situations such as recovery homes and transitional housing facilities. Of those in the shelters or on the streets, it is estimated¹ that about 651 are from Boston and have been homeless for a year or more. It is these individuals -- people who come from Boston, they have no home other than an emergency bed at night, and they have been living like this for more than a year -- these are the people that must be City's top priority for housing over the next four years.

With these priorities in mind, the City has established the following two targets to be achieved by the end of 2012.

2012 TARGET: REDUCE BOSTON FAMILY HOMELESSNESS BY 50%.

2012 TARGET: END LONG-TERM HOMELESSNESS FOR BOSTONIANS IN SHELTER OR ON THE STREETS. REDUCE LONG-TERM HOMELESSNESS FROM 651 PEOPLE TO ZERO.

The City recognizes that these are extraordinarily ambitious goals that will be very hard to achieve, especially in an economy where people are losing their jobs and their housing at an ever-increasing pace. The City believes however, that it is in these times, more than ever, that the City must make its strongest stand against homelessness. On the following pages, the rationale behind the four-tier approach is outlined in more detail.

¹ A more comprehensive census of long-term homeless Bostonians in the shelters or on the streets is planned for 2009 to more accurately pinpoint this number.

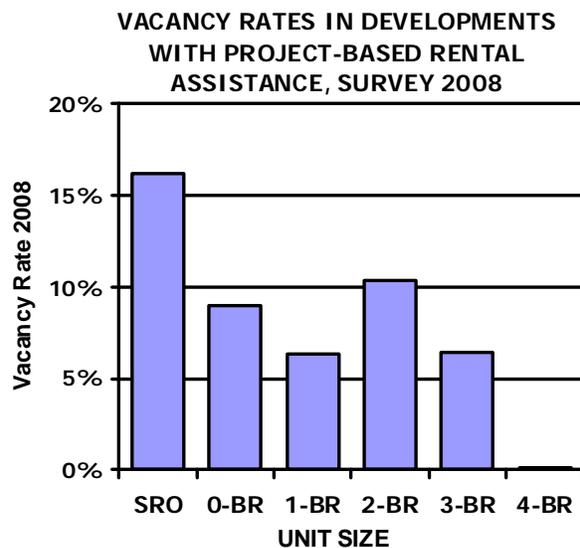
PREVENTION. For some that enter the shelter system, homelessness was not inevitable. The City's prevention/diversion strategy seeks to find those people before they become homeless and stabilize their housing situation, thereby averting the need to ever enter shelter. This will take some rethinking of the deployment of social service resources because emergency assistance services are available *after* the client has entered the shelter, not before. However, expenditure of a small amount of resources to stabilize a family at-risk could prevent much larger resource outlays after they become homeless. In addition to its existing homelessness prevention programs and services, the City will expand its efforts in the following areas:

- **EARLY WARNING SYSTEM.** This neighborhood-based homelessness prevention strategy will identify and map all of the social service access points in the city. By linking homelessness prevention services to these access points, the City is hoping to identify at-risk families and individuals so that it can provide the needed assistance at an earlier point through stabilizing existing housing situations or facilitating a move to a more stable housing situation. For example, many of families that are at-risk of homelessness have children in the Boston Public Schools. By linking information known to the School system, such as families living doubled-up with relatives, intervention can take place before one or both families become homeless. Setting up such early-warning systems in lower-income housing developments may also be able to prevent unnecessary evictions.
- **STABILIZATION STRATEGY.** Where homelessness is a result of a temporary life event (e.g. job loss, adverse health event) the City will provide short-term assistance to stabilize the family's housing situation until the family can get back on their feet.
- **SHELTER DIVERSION PROGRAM.** For families that cannot be reached earlier and end up at the front door of the shelter system, this program will work with families to identify and potentially address the immediate crisis that brought them to this point. This program assists and incents these families to find housing solutions outside the shelter system. This program is based on the demonstration project conducted with the Dudley Square DTA office that yielded strong results: 42% of the 69 participating families were diverted from shelter.

These initiatives will get a significant boost from the federal stimulus legislation (ARRA). At the time of this writing, there is a \$1.5 billion allocation specifically targeted to homelessness prevention efforts and Boston is due to receive \$8.2 million.

PLACEMENT. With almost 50,000 units of subsidized rental housing in Boston, increasing the placement rate for the homeless into existing units can be an efficient way to reduce homelessness. Optimizing the occupancy rate for existing low-income housing can also effectively increase the number of people housed in the current inventory of affordable housing. Yet many of the homeless are disadvantaged when it comes to gaining access to these units because they have unstable addresses, CORI issues and difficulty completing and following up on all the necessary documents to get into affordable housing. To increase the placement rate of Boston’s homeless into the existing stock of affordable housing, the City is planning the following, along with its partners in public and private housing industries:

- **BOSTON OUTREACH TO HOUSING CAMPAIGN.** One of the City’s most successful homeless strategies of the last few years has been its street homeless initiatives (Street Seniors Initiative and Common Ground Initiative). In both of these initiatives, most participants were placed directly from the streets into permanent housing with very good results: the 2008 street count was 28% below the peak in 2006. Maintaining and improving these initiatives through 2012 will be necessary to keep the number of people living on the streets down to the minimum possible.
- **HOUSING MATCH PILOT.** Boston will look to streamline the process of matching up available subsidized units with families that need them. The City is investigating the feasibility of creating a web-based vacancy clearinghouse where shelter providers can see real-time apartment availability and property owners can find out about families looking for housing.
- **OCCUPANCY STRATEGY.** This strategy involves increasing occupancy rates in subsidized housing by streamlining placement systems. A 2008 survey of developments with project-based rental assistance showed that there were often extended vacancies, particularly in the SRO units. These vacancies are due primarily to difficulties getting appropriate referrals. Additionally, 57% of these vacancies were for extended periods of 5 months or more. By streamlining the referral and placement systems, we can achieve higher occupancy rates, effectively increasing the supply of affordable housing for the homeless, especially homeless individuals.
- **RAPID REHOUSING ASSISTANCE.** This will be targeted to homeless families that can be rehoused quickly (optimally within 30 days of entering shelter) because their situation is not yet so severe (i.e., they are still working but fell too far behind on the rent). A shallow and declining rent subsidy can be made available to stabilize their housing situation.



Resources from the Governor’s \$8 million homeless initiative will be used to support these activities. Of the \$1.7 million received by the City of Boston, \$750,000 will be used for Rapid Rehousing and the remainder will be used for support services for homeless families and individuals placed in BHA supported housing.

An important issue that affects the placement rate of the homeless into housing assistance programs is the preference policies of the agencies that administer the Section 8 and Public Housing programs. According to a recent survey of the 12 largest Section 8 Housing Choice Voucher program administrators in Massachusetts, Boston alone ranks homelessness as a first-level preference. Four of these administrators have a homeless preference as a second-level of preference. However, since there are generally long waiting lists for every program, administrators rarely get to their second-level preferences. Essentially, this means that many fewer homeless households are being housed in these communities, which makes Boston a more promising housing option for those who are homeless. While Boston would like to be able to house all who need assistance, resource constraints require the City to prioritize rehousing its own homeless. Boston has now added a new resident preference policy to its homeless priority listing. Targets for the next four years will reflect that policy.

FIRST LEVEL PREFERENCES OF THE 12 LARGEST SECTION 8 HOUSING CHOICE ADMINISTRATORS IN MASSACHUSETTS

Agency	Units	First Level Preference
DHCD	18,930	Residency (by region)
Boston	12,238	Homeless/Fire/Gov't Action
Springfield	2,527	Residency
Fall River	2,431	Residents paying >40% income on rent, Non residents paying >50%
Worcester	1,798	Residency
New Bedford	1,655	Residency
Lowell	1,246	Residency
Lynn	1,242	Residency
Holyoke	1,180	Residency
Salem	1,088	Residency
Somerville	1,043	Residency
Lawrence	1,023	Residency

PRODUCTION. Even with enhanced homelessness prevention strategies and better placement of the homeless into existing stock, there will have to be new homeless housing units created to increase the rate of outflow from the shelter system. The City intends to increase its production of homeless housing in the following ways:

- **SUPPORTIVE HOUSING PRODUCTION PARTNERSHIP.** Establish a new DND-BHA partnership to support increased production of supportive housing for homeless individuals and families. In this partnership, DND will raise the capital dollars to underwrite the development costs, and the BHA will provide project-based rental assistance to support the ongoing operating costs. State resources will also be sought for capital and service costs. Developing systems that better coordinate capital, operating and services resources would greatly enhance the City’s capacity to produce more of these units in a more timely and cost-effective manner.
- **REALLOCATE MCKINNEY RESOURCES.** Convert service dollars currently being received from the McKinney Grants into rental assistance dollars so that more homeless can be permanently housed in the private rental stock.
- **HOMELESS SET-ASIDE.** Double the homeless set-aside from 10% to 20% of all units in subsidized rental developments of 10 units or more. This will be achieved in part by using Project Based Rental Vouchers for some of the set-aside units.
- **REO REDEVELOPMENT.** Fund the redevelopment of bank-owned homes (“REOs”) into supportive housing for homeless families, using both City and State allocations of the new Federal Neighborhood Stabilization Program grant.

These efforts are expected to double the rate at which the City produces new homeless housing units from the rate 62 units per year during *LTW II*, to 125 units per year for *LTW III*.



50 BRADSHAW ST: A 5-UNIT REO BEING PURCHASED BY THE CITY AS POTENTIAL SUPPORTIVE HOUSING

PERFORMANCE EVALUATION. Many of these strategies and initiatives are new or experimental in nature. Some may prove to be extraordinarily effective, while others may be less effective or have unintended adverse consequences. The City will be monitoring and evaluating each of these activities to determine exactly where its resources are generating the most benefit. Resources will be reallocated as necessary well before 2012 to ensure the best results.

This is the most ambitious and comprehensive campaign that the City of Boston has ever mounted to address the issue of homelessness. It includes a very broad range of actions that must be delivered correctly and coordinated effectively if it is to achieve the results the City desires. It will require the full and complete cooperation of many City, State, private, philanthropic and non-profit actors. To this end, two coordinating committees have been established to facilitate delivery of the City's homeless agenda:

- *THE CITY OF BOSTON INTERAGENCY COUNCIL ON HOUSING & HOMELESSNESS* includes leaders from DND, BHA, Emergency Shelter, BRA, BPHC and other City departments has been established to coordinate the City's actions and hold itself accountable for results. Already tangible benefits are resulting from this, including the BHA-DND partnership to produce new supportive housing units. In addition, the functions of the Emergency Shelter Commission will be combined with the homeless housing functions of DND to better coordinate and prioritize how Boston's emergency shelter resources are deployed.
- *THE BOSTON REGIONAL NETWORK LEADERSHIP COUNCIL* includes leaders from City and State government, the business and philanthropic communities and the homeless provider community will help formulate Boston's response to homelessness. This Council will help the City better coordinate and target actions with regional and State entities to better ensure all participants are making the most of their resources to achieve a common set of goals.

4. PRESERVING & STABILIZING BOSTON'S RENTAL HOUSING MARKET

BACKGROUND & HISTORY: PRESERVATION IN THE 1980s AND 1990s

Boston's preservation agenda dates back to the 1980s, when the first affordable housing developments built under the Federal housing programs of the late 1960s and early 1970s began to reach their 15-year "opt out" dates. Under their loan terms, developers had the option to prepay their Federal mortgages and end their obligations to provide affordable housing. This was a serious issue for the City since the Federal government had largely gotten out of the affordable housing production business in the late 1970s, making any existing affordable housing extremely precious. Fortunately, in the mid 1980s, the State began to fill the void left by the Federal government, so the affordable housing supply continued to increase despite the lack of Federal leadership. In 1987, Congress changed that with the enactment of the Emergency Low-Income Housing Preservation Act (ELIHPA), followed up with the Low Income Housing Preservation and Resident Homeownership Act (LIHPRHA) in 1990. These two pieces of legislation provided significant Federal resources to encourage owners to extend affordability for the duration of their mortgage. ELIHPA and LIHPRHA proved enormously effective, and curtailed much of the loss of the affordable housing supply that might have otherwise happened in cities across the country.

In 1986, Congress created the Low Income Housing Tax Credit (LIHTC) program that provided tax code-based resources, specifically targeted toward incenting the private sector to produce low-income rental housing. In 1990, Congress passed the Cranston-Gonzalez National Affordable Housing Act creating the HOME Investments Partnership Program. Together, these two acts created the resource base necessary to support the first significant new affordable housing production program from the Federal government in well over a decade. The timing couldn't have been better – in 1989, a new administration on Beacon Hill began to dismantle all of the State's housing production initiatives of the last eight years. When the Federal dollars began to flow in 1992 and 1993, Boston was back in the business of expanding the affordable housing supply. Having LIHPRHA meant the existing stock could be protected, and the addition of HOME/LIHTC meant new affordable housing could be created. To this day, almost all new affordable housing produced in Boston since the early 1990s owes its existence, at least in part, to the HOME and LIHTC programs. To prevent a future wave of expiring use problems with these projects, most of the units built through these programs had their affordability requirements greatly extended by the City from the 15-year Federal requirement to 50 years, and in some cases, perpetuity.

Everything changed on November 1, 1994. In a Statewide ballot question, voters approved a measure abolishing all forms of rent control in the Commonwealth. Although urban communities like Boston and Cambridge that actually had rent control voted to keep it, suburban voters that generally didn't have rent control in their community held sway and tenant protections of all kinds, including condominium conversion regulations, largely disappeared. Despite their vote to preserve rent control, the urban communities were left to deal with the aftermath. In implementing the phase out of rent control, the Legislature had the good sense to allow some time for communities and the most vulnerable tenants to adjust. Units occupied by lower-income (<60% AMI) tenants and low-to-moderate income (<80% AMI) elderly or disabled tenants would continue to be regulated for another year, until December 30, 1995, if they lived in an owner-occupied structure or in a condo or a 3-family property. Eligible tenants that lived in a larger property (4+ units, investor owned) were protected for another year, until December 31, 1996.

This extension proved critical to the City. For the most vulnerable tenants, the City had up to a 2-year window to mitigate a looming crisis. The City, greatly assisted by a relatively soft housing market still reeling from the market crash and foreclosure boom of the early 1990s, used its own money for emergency rent assistance, its Section 8 and other resources as rent subsidies and successfully negotiated more gradual rent increases with landlords. When it was over in 1997, much of the potential crisis was averted and the predicted explosion in the ranks of the homeless did not materialize. While there were an estimated 9,349 rent controlled units occupied by low-income and elderly/disabled tenants at the end of 1994, the number of homeless people in Boston actually *declined* by 283 people from 1994 to 1997. While many tenants were paying a far larger portion of their income toward rent and were dispersed across greater Boston wherever an affordable rent could be found, they were not, however, living on the streets. What cannot be measured is the disruption to lives and communities as people who had lived in one apartment for 10 or 20 years were forced to move from their homes and away from their long-standing community. To this day, Boston still provides a resident preference in most of its affordable housing production programs to anyone displaced from the City as a result of the abolition of rent control.

TENANTS PROTECTED BY RENT CONTROL EXTENSIONS

	Until 12/31/05		Until 12/31/06		TOTAL	
	COUNT	% TOTAL	COUNT	% TOTAL	COUNT	% TOTAL
ELDERLY/DISABLED	1,028	22%	1,211	26%	2,239	24%
ELDERLY ONLY	1,492	32%	2,492	53%	3,984	43%
DISABLED ONLY	521	11%	324	7%	845	9%
OTHER LOW INCOME	1,577	34%	704	15%	2,281	24%
TOTAL	4,618	100%	4,731	100%	9,349	100%

LEADING THE WAY I & II: 2000-2007



**FORMER GIRLS LATIN SCHOOL:
16 AFFORDABLE SHARP UNITS PRESERVED AND 35
NEW AFFORDABLE UNITS CREATED FROM
GYMNASIUM CONVERSION**

When the first *LTW* plan was launched in 2000, the lessons of the rent control crisis were fresh in the minds of City officials. Preservation of the existing inventory of affordable housing would have to be a top priority. Too many affordable units had been lost already, and the City could afford no further erosion.

The City's preservation agenda was therefore greatly expanded over the seven years of the two *LTW* initiatives. Preservation included not only long-standing goals of retaining units built with Federal funds that were at-risk from either owner opt-outs or financial or physical distress, but also included the preservation of the public housing stock that was slowly being lost to years of chronic under-funding from the Federal government. State-assisted SHARP units (State Housing Assistance For Rental Production from the 1980s) were also added to the preservation agenda. These units were at-risk because the original underwriting assumptions underlying the program were that rising rents in the market-rate units would offset the declining State subsidies for the affordable units. However, in the soft housing markets of the 1990s, these assumptions were not being realized. By 2000, many SHARP developments had already or would shortly

reach the end of their 15 year subsidy terms; most developments were in need of significant financial restructuring to remain solvent. In addition, the City set out to preserve affordable units in unregulated housing by facilitating buyouts of the for-profit owners by owners that would commit to long-term affordability.



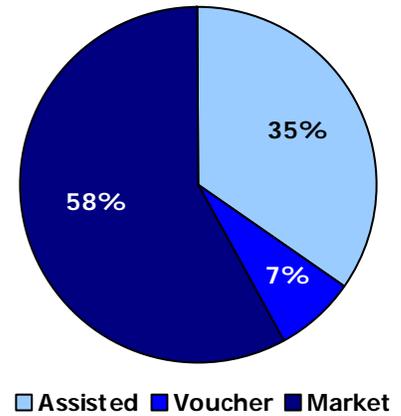
MAVERICK PUBLIC HOUSING: PRE- & POST-REDEVELOPMENT

By the time *LTW I & II* ended in 2007, 5,691 at-risk Federal units had been preserved, and 1,520 public housing units had been renovated including the reclamation of 626 units that had been long vacant, sometimes for years. 1,066 at-risk SHARP units had been retained through financial restructuring and through a strengthening in the rental market. Another 1,214 units of other affordable rental housing were preserved through rehabilitation and financial restructuring and conversion from market rate housing to assisted housing. In total, 9,491 units of affordable rental housing were preserved over the seven years of *Leading the Way*.

KEY FACTS & ISSUES: PRESERVING & STABILIZING BOSTON'S RENTAL HOUSING MARKET

There are a total of 141,253 rental units in Boston as of 2007. Of those, about 42% are subsidized either in the form of government-assisted housing developments or in the form of rent subsidies for tenants in market-rate apartments. In total, nearly 60,000 units of rental housing are assisted in one way or another, with the other 58% of renters living in the unassisted private stock.

RENTAL HOUSING IN BOSTON, 2007



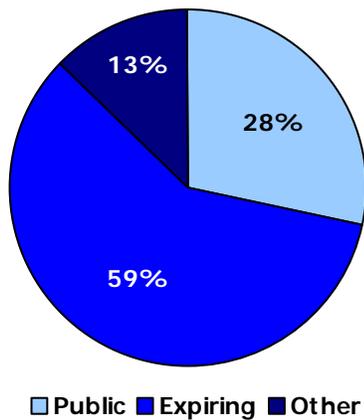
PUBLIC HOUSING.

Of nearly 50,000 affordable rental units in Boston 28% (13,969 units) are in its public housing stock. These units are not at-risk from being converted to market rate, but they are at-risk of being lost to chronic underfunding from State and Federal authorities. Currently the BHA estimates that its stock is in need of about \$500 million in capital investments over the next five years.

PRIVATE SUBSIDIZED HOUSING.

The largest part (59%) of Boston's affordable rental housing stock is the 29,043 privately-owned assisted units that have, at some point, expiring use or subsidy agreements that could put affordability at-risk. Of these, 5,583 have agreements that expire between 2009 and 2012. But not all of these units are equally at-risk. The Community Economic Development Assistance Corporation (CEDAC) that closely monitors the expiring portfolio has reviewed each of the 68 projects due to expire in the next four years and based on

PROFILE OF ASSISTED RENTAL HOUSING IN BOSTON, 2008



the characteristics of the owner and the development, they have determined that 930 units (17%) in eight developments are very highly at-risk because owners of these units have opted out before. Another 2,197 units (39%) in 25 projects are at moderately high risk because, while these owners have not opted out in the past, there is nothing to stop them from doing so now. 2,456 units (44%) have more limited risk because of non-profit or cooperative ownership or because there are other affordability restrictions in place on these properties.

The remaining 13% of the assisted rental stock is generally not at-risk from expiring mortgages or similar issues. They include projects such as supportive housing for the homeless, Inclusionary Development units and other non-traditional development models. Most of these projects also have been developed since the City implemented its 50-year affordability covenant policies. While these properties may not

be at-risk from expiring mortgages and subsidy agreements, there remains the possibility of financial and physical distress that could be a threat. For this reason, monitoring of these units will be needed.

PRIVATE MARKET RATE RENTAL HOUSING.

58% of Boston's renters (82,000 households) live in private market-rate rental housing without government assistance. Of these, many (32,669 households) have a very high rent burden, which is defined as those exceeding 50% of the renter's income. These heavily rent-burdened and generally lower-income tenants are most at-risk of becoming homeless if they have a short term interruption in their

income or unexpected expenses, as they can quickly fall too far behind on their rent to catch up. This risk is heightened by the current economic downturn in which Boston may lose 23,000 jobs in 2009 and 2010.

In addition to the risks from the economy, the foreclosure crisis has hit renters disproportionately hard. While often portrayed as primarily a problem for homeowners, in Boston, it is renters that are being displaced most often. In 2008, 63% of foreclosures were of investor-owned (i.e., rental income) properties. In addition, 45% of the foreclosures on owner occupants involve 2 and 3-family homes with one or two rental units. All in all, it is estimated that 77% of the people being displaced through foreclosure are renters – three times the number of homeowners. In 2008, with 1,215 foreclosures and 1,972 units of housing, that works out to an estimated 1,519 renter-occupied units.

REVERSING THE RISE IN HOMELESSNESS: BOSTON'S STRATEGY FOR 2012

Clearly, preserving and stabilizing Boston's rental housing stock is critical. For *Leading the Way III*, Boston has developed and will implement strategies to address the three major components of the rental housing supply in Boston.

CITY-OWNED HOUSING. This category accounts for 10% of Boston's rental housing stock. The Boston Housing Authority (BHA) is the single largest provider of affordable housing in Boston, but much of its stock is old, with outdated and inefficient systems, which makes it difficult and expensive to manage with the resources it has been given. Preserving and upgrading this critical housing resource will continue to be a top priority for the City, requiring investment not only from the Federal and State agencies responsible for creating these units, but also from City-controlled resources designated for affordable housing. The BHA has recently completed a comprehensive site-by-site asset management planning process. This review includes immediate and long-term capital needs, a long-range physical plan for every site based on available resources, and an assessment of how this plan will affect residents in the short and long term. The underlying intent in weighing various strategies to preserve the portfolio has been to ensure optimal benefits to residents and to stay aligned with the BHA mission to provide quality affordable housing. In considering difficult scenarios involving disposition, loss of public housing units or delayed capital investment, BHA has taken into account how these scenarios would impact current and future residents.

- **CAPITAL FUND FINANCING PROGRAM.** HUD allows housing authorities to issue bonds for capital improvements that are serviced through future HUD allocations of Capital Fund Program (CFP) dollars. This allows authorities to undertake larger projects than could be funded from the annual allocations alone. The BHA will use this program to make major capital improvements to its largest sites. By making major improvements now, the BHA can pre-empt cost increases resulting from continuing deterioration and can achieve operating cost efficiencies. These benefits will more than offset any interest and carrying expenses associated with the program. In April 2007, BHA issued an \$82 million bond that will enable it to fund capital improvements over the next four years. A new allocation of \$3 billion in the ARRA (Stimulus) for the Public Housing Capital Fund formula grants will bring \$33 million to the BHA to help accelerate its capital improvements efforts. An additional \$1 billion has been allocated to a national competitive pool and the BHA intends to compete strongly for those dollars as well.
- **ENERGY PERFORMANCE CONTRACTING.** Much of the BHA stock is older and utilizes outdated energy systems. At some sites, energy costs are as much as 50% of total operating expenses. Energy Performance Contracting allows the Authority to contract for energy efficiency improvements that are then paid for out of a portion of the resulting energy cost savings. In this way, key energy improvements can be financed without using scarce capital dollars. Already 9 developments have had \$17 million worth of improvements through this program. For *LTW III*, the BHA is planning on another \$45-\$50 million in these contracts in 14 Federally-assisted properties. These improvements will greatly improve financial solvency at individual sites, and which will be a critical benchmark in HUD's new site-by-site funding system.

- REDEVELOPMENT THROUGH PUBLIC-PRIVATE PARTNERSHIPS.** The mixed-finance redevelopments that the BHA has completed have been recognized nationally for their innovation. For *LTW III*, the BHA will complete the final 152 units of the 266-unit Franklin Hill development, and will redevelop the existing 266-unit Washington Beech site. The plan will replace the existing buildings and units with 191 onsite affordable rental units, 15 onsite affordable homeownership units, 80 offsite project-based voucher rental units, and 56 offsite affordable homeownership opportunities. BHA also continues to consider redevelopment opportunities at its three largest sites: Charlestown, Mary Ellen McCormack, and Old Colony. These sites combined represent over \$150 million in capital needs, and comprise over 40% of the Federal family units. Redevelopment at any one of these three sites would take years of planning and resource accrual. However, BHA is committed to developing blueprints for revitalization of one or more of these sites over time. In the meantime, these sites will benefit significantly from the Energy Performance Contracting and Capital Fund Financing Programs.



PLANNED REDEVELOPMENT OF WASHINGTON-BEECH PUBLIC HOUSING

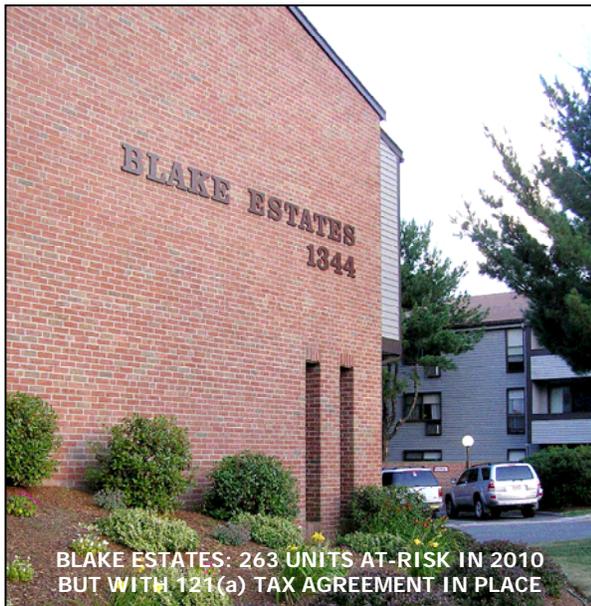
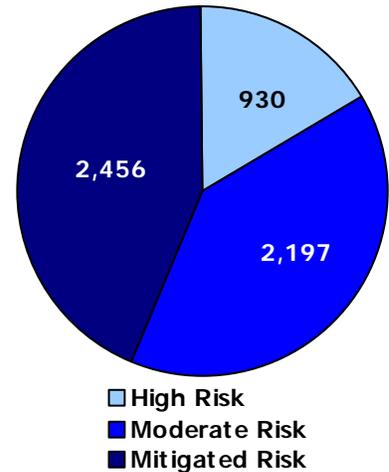
- ELDERLY/DISABLED DEVELOPMENT FUNDING VIA PROJECT-BASED VOUCHERS.** For this initiative, BHA is exploring the possibility of removing some of its existing housing units from the public housing program and then applying Project-Based Voucher subsidies to those units. The advantage of vouchers is that they provide more cash for repairs to the owner of the property than operating subsidy used in conventional public housing. Project-basing a portion of the BHA's elderly portfolio over time will secure these properties as affordable housing available to the lowest-income population in the City, while providing far greater resources for capital investments. To ensure that this strategy does not have the net effect of reducing the total amount of rental vouchers available to Boston, the BHA will request a replacement voucher for each unit converted from public housing to private project-based assistance. Residents of properties that are repositioned in this way would be protected in many ways. Rents would stay comparable at 30% of adjusted gross income. Residents of these properties can choose to remain in their unit, move to another elderly BHA unit or take a mobile voucher to rent in the private market. Also, as a means to benefit residents in our elderly/disabled portfolio, BHA is developing a plan to enhance resident services so that more services will be delivered directly to residents at these sites.

2012 TARGET: REPAIR, RENOVATE OR REDEVELOP UP TO 5,000 UNITS OF PUBLIC HOUSING USING EXISTING AND STIMULUS RESOURCES.

STATE & FEDERALLY-ASSISTED HOUSING. This category of 5,583 units accounts for 32% of Boston's rental housing stock. These developments, some of which are as old as 40 years, are increasingly at-risk not just from the expiration of affordability protections, but are in need of significant capital investment. Below, some of the strategies that will be employed to address this category of rental housing.

- MONITORING AND EARLY WARNING.** Through a contract with the Community Economic Development Corporation (CEDAC), the City keeps track of all assisted units with owners that have upcoming expiry dates. While most owners will renew as scheduled, there are cases where the owner is considering opting out, or where the physical conditions of the property as determined by HUD's REAC score are undermining the long-term sustainability of the development. By understanding these issues early, the City has the lead time to work out a solution that fulfills the needs of the developers, funders and tenants. This is key to preventing a crisis rather than responding to one.
- ENFORCING AGREEMENTS.** Diligent enforcement of 121(a) and Land Disposition Agreements by the BRA has been a very effective tool in bringing property owners to

UNITS OF AT-RISK AFFORDABLE HOUSING 2009-2012



the table to extend their affordability commitments beyond the Federally required term. 121(a) Agreements were property tax agreements from the 1960s and 1970s designed to lower the operating costs of affordable housing developments and often lasted for the full length of the mortgage, sometimes longer. While the property tax reforms of the early 1980s made these tax agreements relatively moot financially, the affordability commitment did not disappear with the tax benefit, and prepaying a mortgage would not relieve the owner of their agreement under 121(a). Unfortunately, as time passes, these agreements are reaching their expiration dates, meaning that fewer and fewer developments will have these protections in the future. Other preservation strategies will

be needed for these developments as more of these agreements expire. Land Disposition Agreements (LDAs) were tied to the real estate that the BRA provided, often at below market prices, to the developers building the housing. Affordability provisions in these agreements run with the real estate, and there is no way that developers can buy or opt out of these agreements without BRA approval.

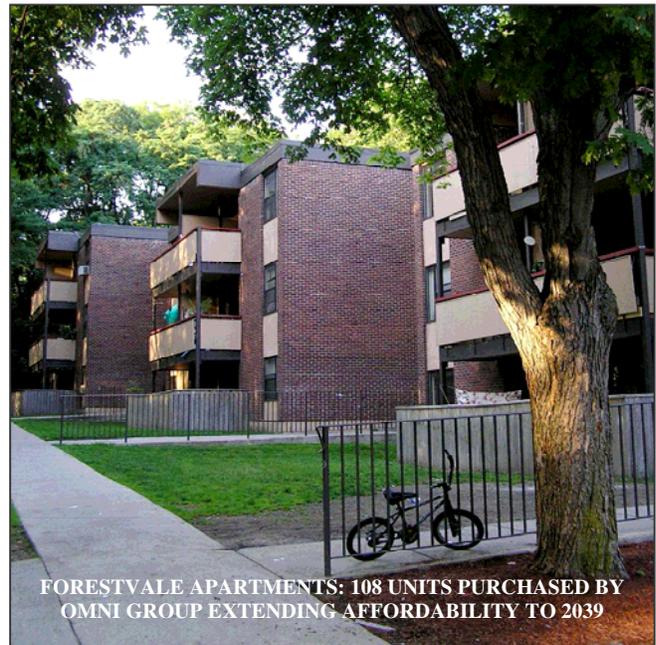
- FINANCIAL & PHYSICAL RESTRUCTURING.** As the State and Federal stock begins to age, there are increasing financial and physical difficulties in some properties. As with the public housing stock, some developments may have outdated and inefficient systems that are increasing operating costs and draining away resources needed for capital replacement investments. Some



developments were renovations of much older properties that now have much higher operating expenses due to the advancing age and historic nature of the property. Other properties are located in high-crime areas where security and repair costs have driven up both expenses and vacancy rates to the point of financial insolvency. Indeed, some of the Federal units in Boston's inventory are already on their second life, having been foreclosed on by HUD years ago and subsequently renovated and reoccupied primarily through the

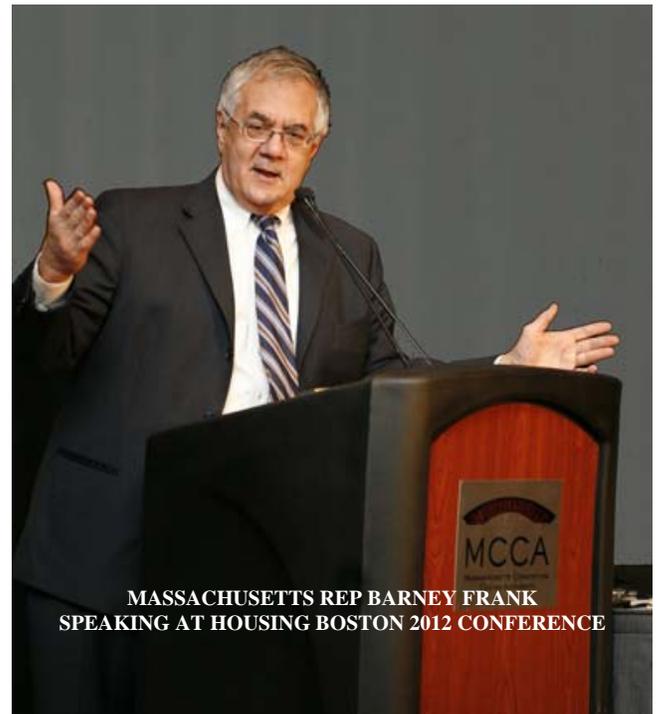
Massachusetts Housing Finance Agency's "Demo-Dispo Initiative". Where these circumstances have occurred, and where the owners are responsible landlords that have not brought on these circumstances through their own bad management, the City will arrange a financial restructuring and physical renovation in exchange for a substantial extension of affordability.

- BUYOUTS.** There are circumstances where the owner is unable or unwilling to manage their development properly, and may even be facing foreclosure from its mortgage-holder and there are serious health and safety issues developing in the property. In these cases, a financial or physical restructuring for the existing owner is no longer a reasonable solution and the City will support the buyout of the property by a responsible for-profit or non-profit owner in exchange for a substantial extension of the affordability requirements. In some cases, good, responsible owners may simply want to get out of the affordable housing business for any number of personal or financial reasons, and the City will facilitate the sale of the property to a new buyer that will retain affordability for the long term.



This set of strategies has proved very successful over the years, but no strategy is 100%. There are still circumstances where the owner does not want to cooperate with the City to preserve affordability in their development. Often these properties are located in higher-market areas of the city, and the financial reward for market rate conversion is so significant that owners cannot be convinced to stay in the affordable housing business, nor are they interested in selling to an owner who will. For these developments, the City is left with few options, and ultimately, affordable units are lost forever. There are, however, a number of legislative initiatives at both the Federal and State levels that may change this.

- **STATE LEGISLATION.** There are two legislative tracks underway. On the first track is a Home Rule Petition by the City of Boston that would allow the City to regulate rents on properties that have opted out of government affordable housing programs. The second track is legislation that would give local communities or non-profit entities the first right to buy, at market value, any government-assisted property where the owner wants to convert to market-rate. While there has been no final action on either of these proposals, the legislation providing purchase rights has progressed significantly in recent years to the point that it is hoped that soon it may become law.
- **FEDERAL LEGISLATION.** Many of the units at greatest risk were constructed in the 1960s and early 1970s and are now nearing the end of their 40-year mortgages where all restrictions are removed. This was the circumstance that led to the largest loss of affordable units since *LTW* began – High Point Village in Roslindale where 270 of 540 affordable units are now being phased over to market-rate at turnover. This is a nationwide problem that will require a national solution. Representative Barney Frank has put forward an omnibus preservation bill that would go a long way toward achieving that national solution. The City recognizes that current events in Washington may overshadow that legislation in the near term. Hopefully, by 2012 conditions will have improved enough where passage of this, or similar legislation will have occurred. The City will work with the State, other cities around the country and national advocacy groups to keep this issue on the national agenda and seek passage of a national preservation law by 2012.



MASSACHUSETTS REP BARNEY FRANK
SPEAKING AT HOUSING BOSTON 2012 CONFERENCE

**2012 TARGET: PRESERVE 85% OF FEDERAL/STATE UNITS
SCHEDULED TO EXPIRE BETWEEN 2009 AND 2012.**

PRIVATE RENTAL HOUSING. This category accounts for 58% of Boston's rental housing stock. While the City lost most of its authority to protect this stock in 1994, many tenants are in a precarious position with their rent obligations, consuming a disproportionately large share of their income. Given this reality, the City believes it has an affirmative obligation to help these tenants retain their apartments however it can, and if that is not possible, help them transition to other housing without being forced into emergency shelter. While the City's ability to influence the activities in the private rental market are considerably more limited than its capacities with government-assisted stock, there are a number of strategies that can be employed to aid stabilization of this housing arena.

- **FORECLOSURES.** Displacement of tenants as a result of the foreclosure boom is a significant problem, and one that is expected to continue with worsening economy. However, the foreclosure problem is expected to evolve away from those caused by subprime lending toward those caused by unemployed property owners unable to maintain their payment schedule or sell their property because their mortgage exceeds their value. Lenders, as policy, empty out all buildings of former owners and tenants before they put the building on the market. The City will work with the servicers to develop better policies to retain tenants through the foreclosure process where possible. As of the writing of this report, the City is implementing a non-eviction policy with foreclosed properties that it is attempting to buy, telling the lenders to cease eviction actions while they are in negotiation with the City. A new "first-look" initiative that the National Community Stabilization Trust is negotiating nationwide with some of the largest lenders in the country will allow communities and non-profit entities to get a first look at REO properties at the earliest stages of the bank's ownership, sometimes before any eviction action has been taken against tenants. These entities are able to make an offer on the property before it ever goes on the market. This initiative could have a significant impact on preserving tenancies if the purchasing entities implement the same non-eviction conditions as the City of Boston in its purchase negotiations. Additionally, the City of Boston has allocated funding to the Inspectional Services Department for emergency repairs to REO properties in order to preserve tenancies in properties that are at-risk because the owner will not perform the necessary repairs to keep the units habitable. The City will ultimately recoup these costs at the time the property is resold through a City lien on the property. Finally, the City, through its Rental Housing Resource Center, is directly notifying tenants in recently-foreclosed properties about their rights, i.e., that only a judge can evict them and that they need not be hustled out of their home without due process.
- **TENANT EDUCATION.** Since rent control ended in 1994, a key function of the City has been to educate tenants about their rights and responsibilities under the law. Tenants who understand their rights are able to fight unjust evictions. The City will expand this effort with more training workshops.
- **ASSISTANCE TO LANDLORDS.** Helping property owners become better landlords has a number of benefits for both the owner and the tenants. Landlords learn the correct way to remove problem tenants, which ultimately benefit all residents of the property. Units that are damaged by unruly tenants and become unrentable shrink the available rental housing supply for all renters. Unrentable units can also be responsible for homeowners losing the income needed to make their mortgage, leading toward foreclosure. After foreclosure, the bank evicts all the remaining tenants in the building, although they did nothing wrong. Landlords can also get caught up in the issue of lead paint where they would like to rent to families. The City offers lead abatement financial assistance to these landlords so that they can provide a safe living environment without being forced to raise rents to cover the costs of deleading.

- **TENANT LANDLORD MEDIATION.** The City offers services to help mediate differences between tenants and landlords. These services can be very beneficial to both parties that otherwise might be caught up in the time and serious expense of a court case.
- **STABILIZING TENANCIES AT-RISK DUE TO JOB LOSS.** As part of its efforts to reduce homelessness in Boston, the City is significantly stepping up its homelessness prevention efforts. This is possible, in part, because of a significant one-time increase in resources through the Federal Stimulus initiative. For very low-income tenants facing eviction due to unemployment or other reasons, these funds may be able to provide a temporary rescue to keep them in their home until they get working again or can move to a more affordable long-term living situation, avoiding the shelter system altogether. The City is also encouraging property owners that rent to low-income tenants to become a part of an Early-Warning System and to reach out to the City where a tenant is at-risk of becoming homeless. With homelessness prevention assistance, the tenant averts homelessness and the landlord doesn't have an unwanted vacancy in their building.
- **RENTAL HOUSING CONVERSION.** Periodically, privately owned rental properties that house a lot of lower income people come on the market. These tenants may be at substantial risk of displacement from rising rents from the new owner that usually must support a lot more debt than the previous owner. Where such properties can be purchased by a new owner that will retain the affordability, the City will help provide resources to make this happen. This converts a market-rate development into a long-term affordable assisted development. Currently, the City is working on one such project where a privately-owned trailer park in West Roxbury will be converted into a cooperative housing development, protecting the existing low-income and elderly residents into the indefinite future.



ADAMS COURT APARTMENTS BEFORE PURCHASE AND RENOVATION BY NUESTRA COMUNIDAD CDC IN 2006-2007. 95 PRESERVED UNITS

To facilitate these initiatives, the City will be merging the Rental Housing Resource Center into the Department of Neighborhood Development. By having the technical assistance resources of the RHRC better integrated with the development and finance capacities of DND, it is expected that the City can deliver a much better, more comprehensive tenancy stabilization strategy than it has in years past. These benefits are already being realized in the foreclosure issue where development *and* tenant stabilization goals have been integrated into the City's REO acquisition policies.

2012 TARGET: PRESERVE 5,000 PRIVATELY-OWNED AFFORDABLE UNITS.