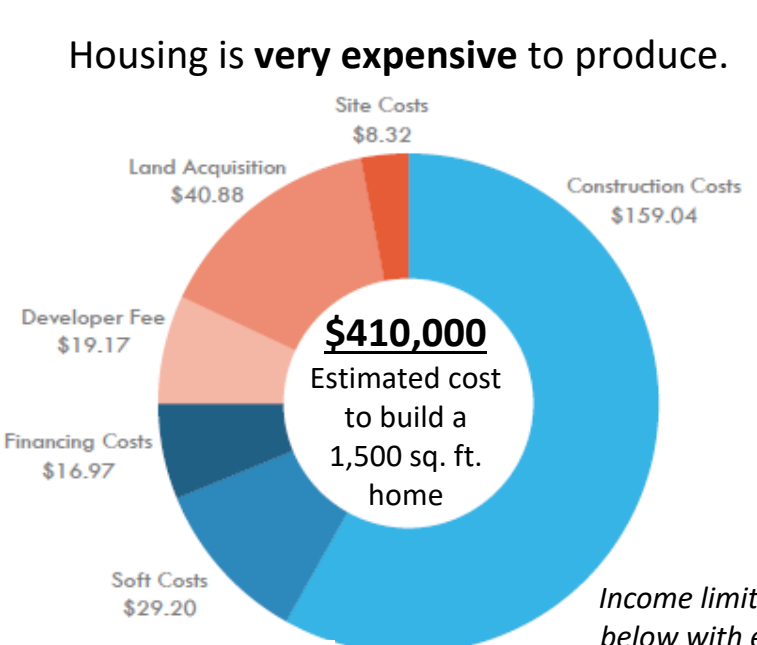


Affordable Housing Information

Housing is considered “affordable” when it costs 30% or less of a household’s income. Affordable housing comes in several forms such as subsidized housing, income restricted housing, and naturally occurring affordable housing.

<p>Subsidized Housing Rent is based on a percentage of the household’s income. <i>Examples: Publicly built housing managed by a Housing Authority and Housing Vouchers.</i></p> <p>Housing Vouchers are a government subsidy that covers a set portion of a household’s rental cost. <i>Example: Section 8 Housing Choice Vouchers, managed by the Salem Housing Authority.</i></p>	<p>Income Restricted Housing To be qualified, a household cannot earn over a set income limit. Maximum sales price or rental cost is linked to the unit, based on a percentage of the area median income. <i>Example: A privately built housing unit created to comply with inclusionary zoning.</i></p>	<p>Naturally Occurring Affordable Housing Housing units that maintain low rents without a subsidy or income restriction. <i>Example: A privately owned carriage house rented below typical market rent.</i></p>
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Source of Estimate Building Cost: Dukakis Center Housing, 2011-2015.





The cost to build an affordable home exceeds the cost the developer is allowed to rent or sell it for.

Area Median Income (AMI): To determine housing eligibility for income-restricted Affordable Housing, government programs use AMI. The 2019 AMI for Salem and surrounding communities is \$113,300.

Local Median Household Income: Unlike AMI, the City of Salem’s local median household income doesn’t reflect the incomes of surrounding communities. Salem’s 2019 Median Household Income is \$65,528, approximately 60% of the AMI.

Income Limits: Each year HUD publishes “income limits” that define income levels used in several housing and community development programs. The income limits are determined by household size and the area median income (AMI). See below.

Income limits for households at 80% AMI and 60% AMI are shown below with estimated maximum rental and sales prices at various household sizes for illustrative purposes.

	 Studio	 1 bedroom	 2 bedroom	 3 bedroom
Income Limit at 80% AMI	\$64,250	\$71,400	\$80,300	\$89,200
Maximum Rent	\$1,561	\$1,673	\$2,007	\$2,319
Maximum Sale Price	\$167,200	\$196,700	\$226,200	\$255,400
Income Limit at 60% AMI	\$49,800	\$56,880	\$64,020	\$71,100
Maximum Rent	\$1,245	\$1,333	\$1,600	\$1,848
Maximum Sale Price	\$108,000	\$129,100	\$150,200	\$171,100

*Maximum sales price estimate is for a condominium unit with an HOA fee assuming 3% down payment and 30 yr. amortization at a 5% interest rate. The number of household members are assumed to be the number of bedrooms in a unit plus one.

Inclusionary Zoning Information



Salem is proposing an Inclusionary Zoning Ordinance that will require 10% of new units to be affordable at 60% AMI. The ordinance does not include “opt-out” options for the developer. That means the developer **must build affordable units on the same site as the market rate project**, rather than paying a fee in lieu of building or building the units in another location.

Why are we not requiring a greater percentage? Because the affordable units come at a cost. If we require too much affordability, we risk the developer raising the rents for the market rate units to make the project financially feasible or cancelling the project altogether. Both scenarios undermine affordability. It’s a balancing act.

Why do we need to provide incentives given that the difference between 60% AMI and 80% AMI is only a few hundred dollars per unit? Even modest rent reductions significantly reduce the financing a property can secure. A \$100 per month rent reduction for a single unit translates into approximately \$20,000 less per unit in financing*.

IMPACT OF RENT REDUCTION ON FINANCING

-\$100 = -\$20K

Reduction in Monthly Rent for 1 Unit Financing Gap

Source: National Multifamily Housing Council

The “cost” of an inclusionary policy to developers depend on the number of affordable units and the level of affordability. MAPC developed a financial model specific to Salem to understand how different inclusionary requirements might impact development feasibility. Through that model we found with the proposed incentives we could require:

- 15% of the units to be affordable at 80% AMI OR
- 10% of the units to be affordable at 60% AMI.

The comparison below illustrates the burden of a policy that requires 15% of the units to be at 80% AMI to a policy that requires 10% of the units to be at 60% AMI.

Why not offer more incentives to obtain deeper affordability and or more units? That is an option. Keep in mind, inclusionary zoning – or any other tool for that matter – can’t solve the housing crisis on its own. The city will need to use a range of tools to address housing such as developing public land to increase the supply of affordable homes. Inclusionary zoning is just one of those tools. Check out www.imaginesalem.com to learn more.

Level of Affordability	# of units	Rent Reduction	Financing Gap
A -\$200 (80% AMI)	X 30	= -\$6K	= -\$1.2M
B -\$400 (60% AMI)	X 20	= -\$8K	= -\$1.6M

Source: National Multifamily Housing Council

*\$100 reduction in monthly rent supports \$20,000 in debt, assuming a 30-year amortizing mortgage with an interest rate of 5%.