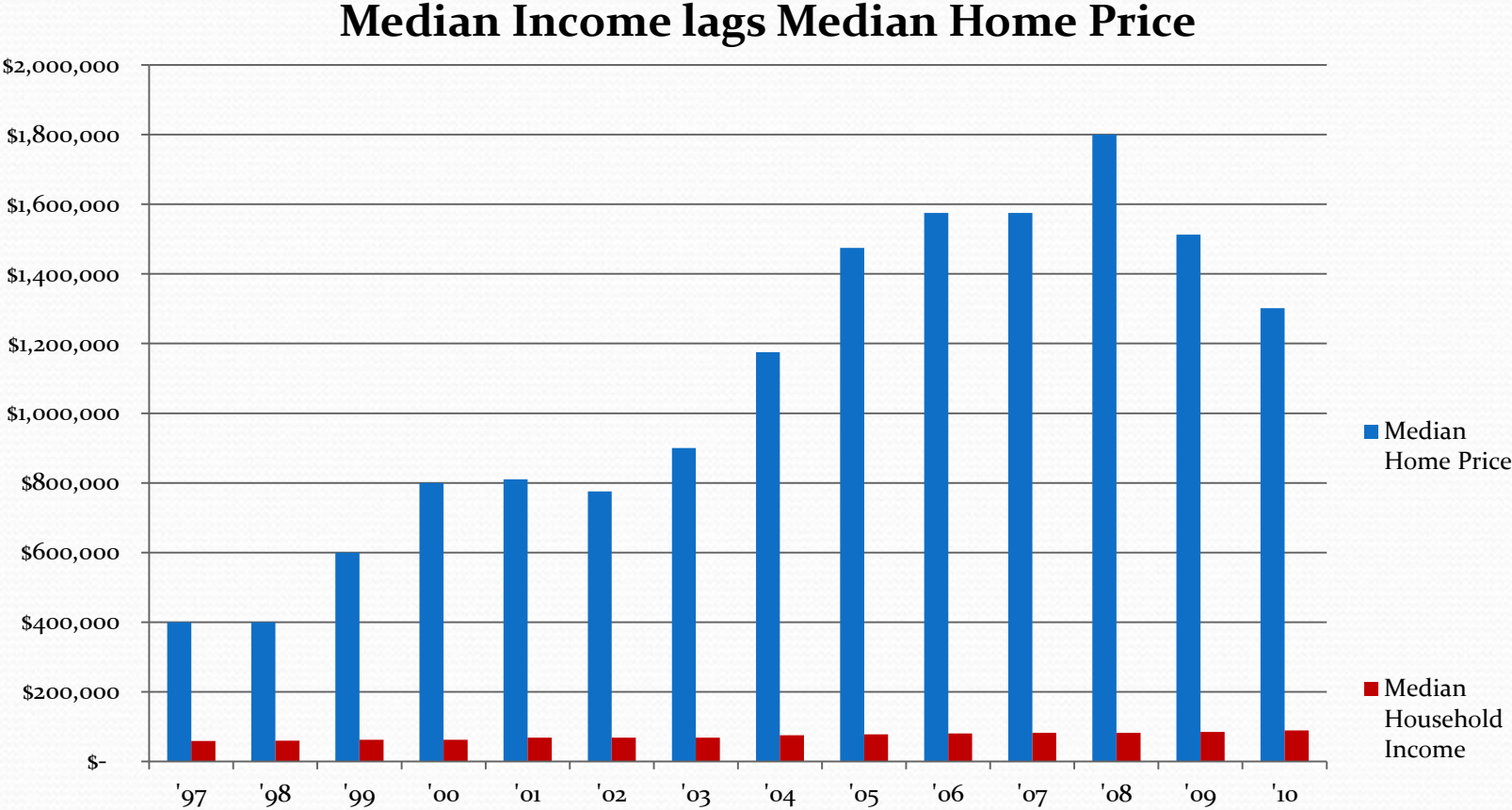




**Nantucket Housing Needs  
Covenant Program**

2018

# The Nantucket Challenge:



# The Covenant Program: A Solution

Stemming from Article 36 passed by Nantucket voters at the 2001 Annual Town Meeting, the purpose of the Covenant Program is:

- to create a **stable housing option** for year-round islanders earning less than 150% of the Nantucket median household income
- maintain Nantucket's **diverse community**
- generate a supply of housing that will remain **permanently affordable**



# The Concept:

The Covenant Market is a sub-market of Nantucket's residential real estate market.

Covenant Homes are created when a property owner puts an affordability Covenant on a lot, allowing for separate ownership of two dwellings on that lot. Usually, the primary dwelling is the market rate unit, and the secondary dwelling is the covenant unit.

The sale of the covenant unit is restricted to income qualified applicants and the price must be below the Maximum Sales/Resale Price.

# Ownership Restrictions

- Covenant homeowners must occupy the Covenant home 10 out of 12 months per year
  - documented annually by responding to a Housing Nantucket mailing
- Covenant homeowners may not rent out the unit as a whole
  - may rent rooms but unit must be owner-occupied
- No income or real estate restrictions once Covenant home is purchased
- Re-sale of Covenant home must follow program rules

Housing Nantucket may impose fines for non-compliance as stated in regulations.



# Two Types of Covenant:

## Condominium

- One lot with separate owners of primary and secondary dwellings.
- A condo association exists between the owners of the market rate and covenant rate units that addresses shared areas
- No Planning Board approval required

## Secondary Lot

- Lot is split resulting in two lots with separate owners
- Shared areas are addressed in a homeowners agreement.
- The minimum lot size for the smaller of the two lots shall be at least 40% of the minimum lot size for the district in which the lot is located.
  - Except in the LUG-2 and LUG-3 Districts, where the secondary lot may be reduced to 20,000 sqft.
  - For pre-existing nonconforming lots, the Planning Board may issue a special permit defining the lot areas.
- Zoning, setback and Planning Board restrictions and approvals apply.

# Qualified Buyers

To qualify, buyers must **earn below 150%** of the median income on Nantucket.

2018 Qualifying Income is \$149,250

Buyers must be a **Nantucket resident** or intend to become one.

Buyer's unrestricted **assets must total less than \$345,980** (50% of the current Maximum Sales Price.)

Buyers may not own **residential real estate** on Nantucket at the time they purchase a covenant home.



# Sales Price of the Covenant House

The sales price is capped by the Maximum Sales Price, which is designed to be affordable to moderate income islanders.

2018 Max Sales Price is \$691,961

Covenant sellers pay 1/2% of Max Sales Price as an administrative transfer fee to Housing Nantucket.

2018 Transfer Fee is \$3,460



# Maximum Resale Price

The Maximum Resale Price is the greater of the Max Sales Price or the price the current Covenant House Owner paid for that Covenant House.

## Example:

In 2011, a buyer paid \$570K for a Covenant Home. In 2021, she decides she wants to sell. The Max Sales Price in 2021 is \$500K. She may price her home at \$570K and can sell it there. However, it is also possible that market conditions may mean there are no willing buyers at that price.

# The Process: Buyers

1. Complete and return Qualified Purchasers Application to Housing Nantucket
2. Meet with Housing Nantucket staff to complete application process and gain approval
3. Work with a bank to determine loan qualification
4. Find and negotiate for a desired covenant home
5. Work with attorney and Housing Nantucket to transact

Housing Nantucket has 30 days from receipt of complete application to accept and issue a Qualified Purchaser's Certificate. Certificate is valid for a year from issue.



# The Process: Secondary Lot Sellers

For first time sale into the Covenant Program, a seller must:

1. Fill out and return Qualified Sellers Application to Housing Nantucket
2. Meet with Housing Nantucket staff to complete application process and gain approval
3. Obtain Planning Board and/or ZBA approval
4. Create Homeowners Agreement to address shared areas
5. Pay transfer fee to Housing Nantucket
6. Transact. Covenant deed restriction is recorded on the property at the time of transaction.
7. The market unit transaction must occur after the covenant transaction.

# The Process: Condo Sellers

For first time sale into the Covenant Program, a seller must:

1. Fill out and return Qualified Sellers Application to Housing Nantucket
2. Meet with Housing Nantucket staff to complete application process
3. Work with attorney to create Condo documents to address shared areas.
4. Pay transfer fee to Housing Nantucket
5. Transact
6. Covenant deed restriction is recorded on the property





# **Questions & Concerns**

# *How is the Maximum Sales Price calculated?*

The Max Sales Price is based on 10% down and annual debt service (30 yr fixed rate) equal to 30% of gross annual income of household earning 125% of Median Family income on Nantucket.

The Maximum Sales Price is dependent on the Prevailing Interest Rate and is recalculated in January every year. The Prevailing Interest Rate is based on the local bank rates for a 30 year fixed “jumbo” loan. If the rates differ between island banks, the higher rate is chosen (which will lead to a lower Maximum Sales Price).



# *2018 Maximum Sales Price*

In 2018, the median family income for Nantucket is \$99,500. The target fixed monthly payment is \$3,109, and a rate of 4.375% services a loan of \$622,725. Add a 10% down-payment to make the max sales price \$691,961 (or less).

The Maximum Sales Price does not take taxes and insurance into account. It may not be increased to cover Real Estate Broker or attorney fees.

*More on Covenant Market data:  
<http://www.housingnantucket.org/CovenantStatistics.html>*

# *Will Housing Nantucket help market a covenant home?*

Once a Seller is qualified, Housing Nantucket will send an email blast to its list of Qualified Buyers notifying them there is a new covenant home on the market. Housing Nantucket will relay the address and who to contact for more information, but will not represent any details on the home. Housing Nantucket will also post a picture and contact information on its website, if the seller chooses.

If you are interested in either buying or selling, you should proceed as you would with a standard real estate transaction on Nantucket-with a licensed real estate agent or on your own.



## *What are the types of concerns addressed in Condo Documents & Homeowners Agreement?*

- shared septic
- shared well
- shared driveway
- potential expansion

*If money is spent on necessary upgrades to the covenant home, can the Maximum Sale Price be increased to cover these costs?*

The Maximum Sale Price is keyed to an affordability formula. It cannot be increased.

## *If I later sell my Covenant Unit, can I get any appreciation?*

There are no increases for appreciation built into the program. However, it is possible to realize some appreciation on the sale of the home if it was purchased at less than the maximum sales prices, and/or if the maximum sale prices increase.

## *How does the Land Bank fee apply for Covenant Buyers?*

Covenant purchasers are eligible for the “O” exemption from the Land Bank fee, which means they do not pay the Land Bank tax because the property is subject to an affordability restriction. If the Covenant owner sells the property within five years, this fee will be due to the Land Bank with interest & penalties. Talk to your attorney for more details.



## *Who counts as part of the Household?*

Household is defined as one or more individuals, regardless of familial relationship, who possess the present intent to share residency in an NHNC Unit.

## *For how many years must an Applicant earn below the Qualifying Income?*

The average of the Applicant's income from the previous two years must be less than the qualifying income.

## *How do assets factor into purchaser qualification?*

The value of a purchaser's unrestricted assets (cash, investments, real estate, etc) must be below \$345,980. Yearly income derived from assets is determined by multiplying the asset value by HUD's passbook savings rate (currently 0.06%).



*How does inheritance work?*

A covenant home may be left to an unqualified individual, but the recipient must follow program rules regarding occupancy and resale.

*After the initial sale, is there any re-certification of income?*

There is no income verification or real estate ownership restrictions after the initial sale.





## *What is the relationship between Housing Nantucket and Nantucket Housing Authority?*

The Nantucket Housing Authority (NHA) is a public office with elected commissioners. The NHA is the authority who signs the covenants. This is done at their monthly board meetings.

Housing Nantucket is a nonprofit organization whose mission is to create community housing opportunities for Nantucket Residents. Housing Nantucket administers the Covenant Program for the NHA, qualifying buyers and sellers and overseeing transactions.

## *How do I prepare for home-ownership?*

Housing Nantucket offers a First Time Homebuyer Education course twice a year through the Nantucket Community School.

Local banks Hingham Savings Bank, Cape Cod 5, and Nantucket Bank are familiar with the covenant program and can answer specific questions about purchaser financing.

## *Where can I get more information?*

Applications, documents and transaction details may be found here:

<http://housingnantucket.org/covenant-homes/>

Program Regulations:

- Nantucket Zoning Sec 139-7 and 139-8: Town Code Ch 100
- Chapter 301 of the Acts of 2002 (State)

Nantucket Median Family is published by the U.S. Department of Housing and Urban Development.

<http://www.huduser.org>



# *Summary*

For buyers, the Covenant Market is a less volatile alternative to the open market. It is a home-ownership opportunity at an affordable price.

For sellers, the Covenant Program is an opportunity to sell a piece of their land which they would not otherwise be able to subdivide.

For Nantucket, owner-occupied homes scattered in various neighborhoods around the island promotes a more stable year-round community with greater vested interest.