

## Covenant Program Opens Doors on Both Sides of the Market

Nantucket's high home prices and tight inventories have us all pondering how to maximize value. What if there was a way to sell off an unused portion of a lot? What if a cottage could be subdivided from the main house? The Covenant Program provides solutions for both buyers and sellers, blurring the line between the ones who serve and the ones who benefit.

In today's robust market, savvy island property owners use the Covenant Program in creative ways, all while generating homeownership opportunities for local people. Retirees, no longer interested in maintaining rental cottages, create covenant homes with separate driveway access on their property. Owners of large lots divest in the unused portions. Off-island owners retain the main house as a summer rental, but carve off the secondary cottage as a covenant home. Owners who have trouble selling a property as a whole have better luck selling two parcels, one as a covenant. Employers create covenant homes for their employees. Parents parcel off covenant lots for grown children. Divorcing couples utilize covenant capabilities within their settlements. And the list goes on.

Ultimately, the Covenant Program's purpose is to enable moderate-income people to live and work on Nantucket. A local zoning bylaw enacted in 2003, the Covenant Program allows two dwellings on one lot to have separate owners, when otherwise they would need to be sold together. A permanent affordability covenant is recorded on the lot, and the income-qualified covenant homeowner needs to abide by residency and resale restrictions.

The Covenant Program's functionality has expanded over the years. Covenant sellers can now create fee-simple lots, when initially only condominium covenants were available. Vacant lots may be carved out of an otherwise un-subdividable lot. Covenant homes may be created for family members (including oneself) regardless of purchaser income, as long as the covenant homeowner resides in the home year-round and follows all other program rules.

Covenant homes are available for purchase by year-round residents earning less than 150% of the Nantucket County median household income. In 2017, the income cap is \$142,350, hardly small change by any standard. But when the **median home price is \$1.5 million**, ownership is out of reach for 90% of the island's year-round population, including the middle-income professionals the community relies on for essential services.

Covenant buyers and sellers find each other through normal market means, which usually involves a real estate broker. The covenant market acts like a sub-market of the open market: a buyer and seller negotiate the transaction price, but it needs to be below the annual Maximum Sales Cap. There are no formulas for appreciation built into the sale price, but many covenant homeowners do realize gain upon resale.

The 2017 Maximum Sales Price is \$669,826, up from \$663,473 last year. The maximum sales price is tied to interest rates and median income. It has ranged from \$404,000 in 2003 when interest rates were high and median income was low, to \$707,000 in 2012 when interest rates were low and median income was high. Last year, ten covenant properties transacted ranging from \$280,000 for vacant land to \$663,473 for a four bedroom home in a desirable neighborhood.

Currently, there are many more qualified buyers than covenant homes for sale. But as in every market, covenant homes need to be priced appropriately in order to transact. Covenant purchasers obtain independent financing, so the purchase price of a covenant home needs to be affordable for the individual buyers. Most qualified covenant purchasers cannot afford the maximum sales price, and sellers will benefit from realistic pricing based on comparable sales.

Fourteen years and seventy-one covenant homes later, the Covenant Program has a proven track record of creating affordable homeownership amidst an ever-climbing market. Covenant homeowners are hospital employees, teachers, public safety officials, landscapers, restaurant workers, and elder caregivers. Many of them once faced a dismal choice: live in unsafe conditions, or relocate off-island.

Covenant homes preserve and protect workforce housing for present and future generations. To learn more about how you can use the covenant program to do good for the community while doing well for yourself, visit <http://housingnantucket.org> or call (508)228-4422 today.

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