



Klein Hornig ^{LLP}

COUNSELORS AT LAW

THE ECONOMICS OF HOMEOWNERSHIP: STRATEGIES FOR SUSTAINABLE HOMEOWNERSHIP

**Benita N. Jones
Klein Hornig LLP
Washington, DC**

**Governor's Housing Conference
November 13, 2008**



KEY POINTS: SUSTAINABLE HOMEOWNERSHIP MODELS

- 1. Historical inequalities and current housing needs**
- 2. Competing policy goals: assets vs. affordability**
- 3. Shared equity housing as a sustainable solution**
- 4. Practical considerations**

“And we have decided to move into our house because my father—my father—he earned it for us brick by brick.”

Lorraine Hansberry, A Raisin in the Sun (1959)

Minority families embraced the “American Dream” of homeownership as key to social and economic mobility

Generations of legal and economic inequality have resulted in current trends in minority homeownership

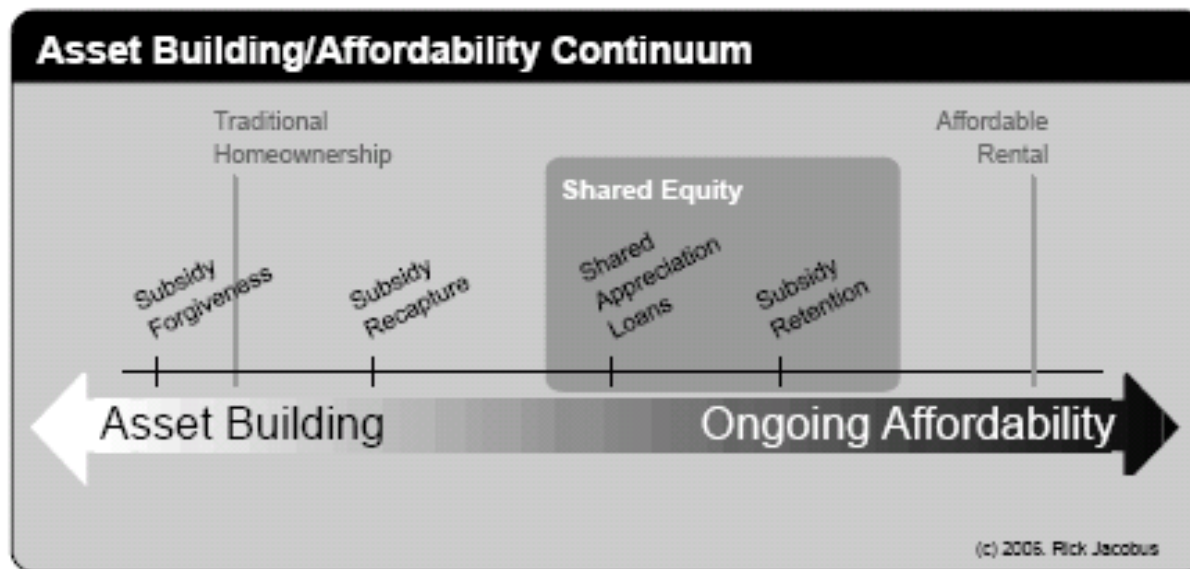


TRADITIONAL SUBSIDY MODELS: ASSETS VS. AFFORDABILITY

Owner-based: direct subsidy to buyer reducing initial purchase price of unit; builds owner wealth

Property-based: ongoing subsidy to unit permanently reducing purchase price; preserves affordability

Sustainable strategies balance competing policy goals



What is Shared Equity Housing (SEH)?

- Property-based subsidy makes purchase price affordable
- Buyer limits profit on resale
- Present and future buyers “share” equity

Goals of SEH

- Stretch subsidy while owner builds modest wealth
- Preserve affordable units in mixed-income communities
- Respond to needs and dynamics of local community

Models of SEH

- Deed restrictions
- Limited equity cooperatives
- Community land trusts

Deed Restrictions	Limited Equity Cooperatives	Community Land Trusts
<ul style="list-style-type: none"> • Contractual restrictions that run with the land • Subsidy directly reduces purchase price of unit • Buyer purchases unit subject to contractual restrictions • Resale and use restrictive covenants attach to title 	<ul style="list-style-type: none"> • Member-run corporation that owns property • Subsidy reduces formation costs and share price • Shareholders receive homeownership benefits/rights • Bylaws contain resale, use and income restrictions 	<ul style="list-style-type: none"> • Non-profit that purchases and owns land • Subsidy reduces purchase price by removing cost of land • Buyer purchases unit, ground leases land from CLT • Ground lease contains resale and use restrictions



IMPLEMENTING SEH: ADVANTAGES AND DISADVANTAGES

Advantages

Balances competing policy goals

Locality/nonprofit involvement provides buyer education, alleviates risks

Useful when housing prices outpace buyer wages

Disadvantages

Requires prioritizing policy goals

Programmatic challenges developing effective buyer education and stewardship

Requires adjustment in a weak housing market

Allow policy priorities to shape program details

- Prioritize wealth or preservation, income groups and community need

Resale restriction formulas

- AMI, CPI formulas result in small seller profits
- Appreciation percentage formulas approximate market returns

Time limits of restrictions

- 5 years or less: short term preservation, less restricted profit
- 10-15 years: moderate preservation, moderate profit restriction
- 30+ years: long-term preservation, deeply restricted profit

Different models for different needs

- LEC: useful for multifamily conversions, low-income buyers
- CLT: useful in high land value areas



IMPLEMENTING SEH: ADDRESSING PROGRAMMATIC CHALLENGES

Assemble program “team” (including legal)

- Consider ratio of subsidized units to funded positions

Secure sustainable and scalable funding sources

- Consider fees to create program revenue

Pre- and post-purchase homeownership counseling

- Buyers should fully understand restrictions and limitations of SEH

Identify long-term affordability steward

- All models require ongoing monitoring during ownership and on resale



IMPLEMENTING SEH: ADAPTING TO A WEAK MARKET

Refocus target populations

- Develop workforce housing near job centers, target low-income buyers

Shift focus towards asset accumulation

- Increase subsidy, decrease restrictions; consider subsidy forgiveness

Incorporate foreclosure response

- Neighborhood stabilization; restrictions surviving foreclosure

Strengthen education for current and future homeowners

- Focus on financial literacy, home maintenance skills

For more guidance, see “Scalable Business Models for Marketing and Preserving Shared Equity Homeownership” at

www.ncbcapitalimpact.org

Combining Models: Shared Appreciation Loans

- Soft second loan, buyer repays principal and interest plus percentage of appreciation at resale
- Subsidizes owner and preserves owner choice, but maintains buying power of subsidy

New Populations: Manufactured Housing Residents

- New Hampshire, Massachusetts—ROFR for residents to organize and purchase housing park land to self-govern as cooperative
- Georgia—CLT owns housing park, buyer ground leases land from CLT and purchases home using real property financing

Private Investment: DC Community Land Trust

- No ground lease—CLT provides soft second loans to buyers with appraisal-based resale restrictions
- Funded by public subsidy and New Market Tax Credit investment with goal of building assets among workforce families



CONCLUSION: SEH AS A SUSTAINABLE HOUSING MODEL

- 1. Balances competing goals of wealth accumulation and preservation of affordable units**
- 2. NOT traditional homeownership—buyers and administrators must understand restrictions**
- 3. Implementation should respond to dynamics and needs of local community**
- 4. “Success” should be enabling buyer to move on to an unsubsidized ownership unit**