

Long-term affordable homeownership: Program design and research findings

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AN INTRO TO LONG-TERM AFFORDABLE HOMEOWNERSHIP



Shared Equity Homeownership: A Quick Intro

- Allows income-eligible families to purchase homes at below-market prices
- In return for subsidized purchase, the owner's capital gains from resale are limited, creating a lasting stock of affordable owner-occupied units
- 3 programmatic models:
 - Community land trusts
 - Resale-restricted, owner-occupied houses or condominiums with affordability covenants (e.g. inclusionary zoning programs)
 - Limited equity cooperatives



5 resale formula examples

- San Francisco: set with a formula that indexes sales price to the area median income
- King County: based on changes to the average of the Seattle metropolitan area's median income and a local real estate index
- Atlanta (Wildwood): a fixed maximum annual increase in share price for each year
- Davis CA (Dos Pinos): share prices to increase annually by the prime rate at the beginning of the year
- Duluth (One Roof Community Housing): sellers retain 30 percent of the market appreciation of the property



AFFORDABILITY PRESERVATION VS. WEALTH CREATION



Importance of wealth creation

- Homeownership critical to wealth creation for low and moderate-income families
- Home equity represents fully 60% of low-income households' wealth, dwarfing the value of retirement accounts and financial assets
- The most important way that households gain equity is by paying down their mortgage
- Appreciation also plays a role, but in most markets, in most time periods, it is secondary to paying down principal



Importance of preserving affordability

- Era of federal fiscal constraints: e.g. HUD's CDBG and HOME programs have been cut in real terms by 2/3 and 1/2, respectively, since their peak
- Even for local programs like DC's Inclusionary Zoning program or public lands dispositions (which rely on "density bonuses" or discounted land prices in exchange for building low-income units), units produced are still a scarce resource
- Many more families qualify for, and demand affordable ownership units than the city creates



URBAN INSTITUTE 2010 SHARED EQUITY STUDY



Urban Institute 2010 Study

First cross-site shared equity completed by UI in 2010

A Regional Coalition for Housing
King County, WA

Champlain Housing Trust
Burlington, VT

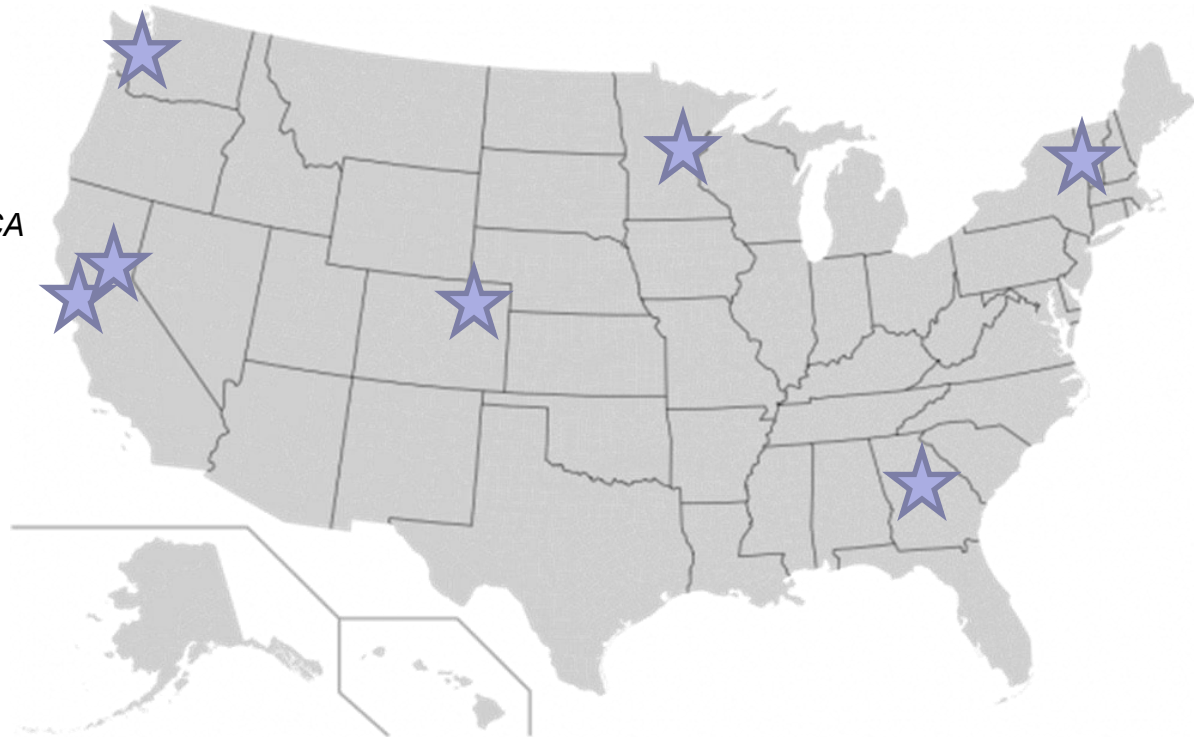
Citywide Inclusionary Affordable
Housing Program *San Francisco, CA*

Northern Communities Land Trust
Duluth, MN

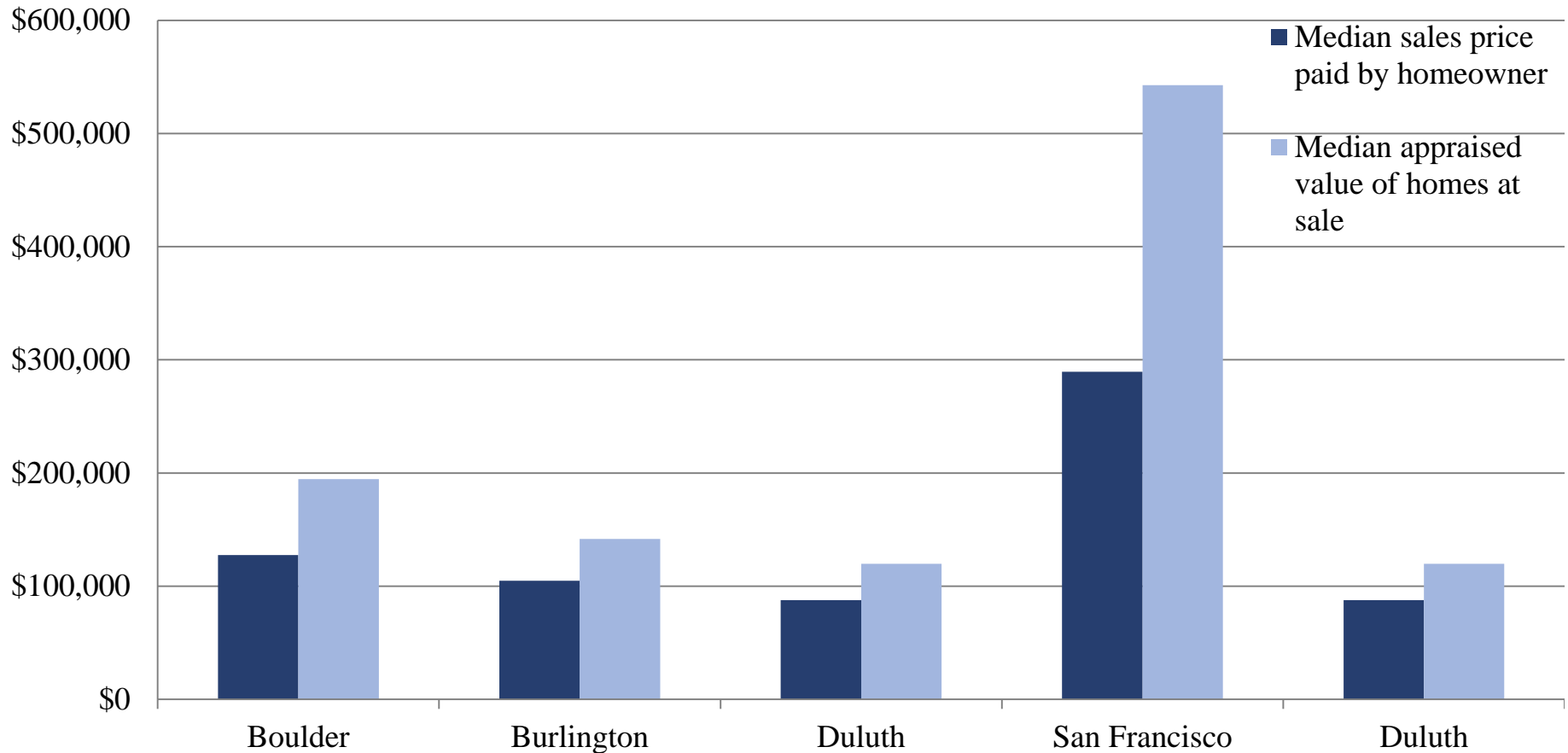
Thistle Community Housing
Boulder, CO

Dos Pinos Housing Cooperative
Davis, CA

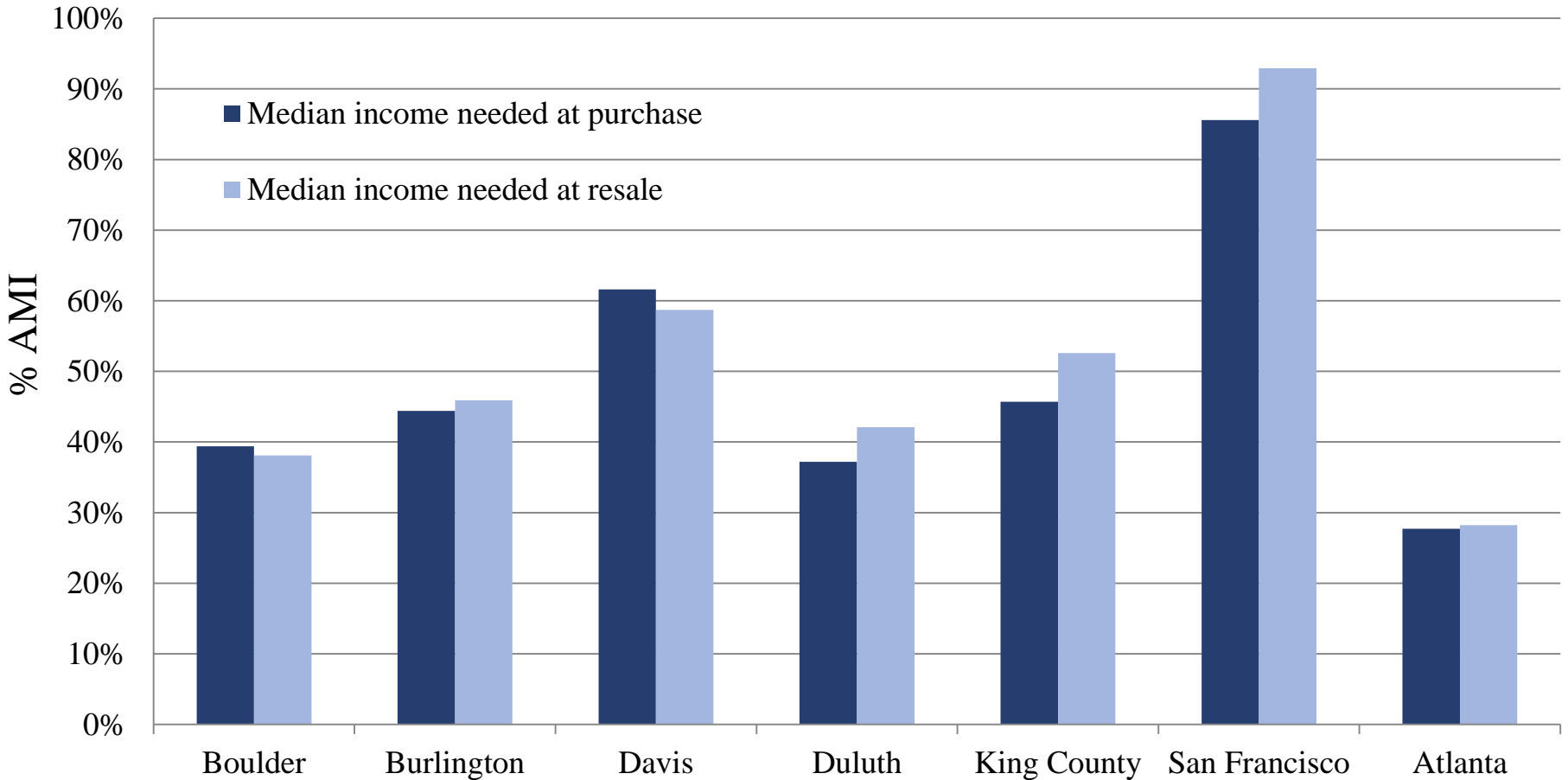
Wildwood Park Towne Houses
Atlanta, GA



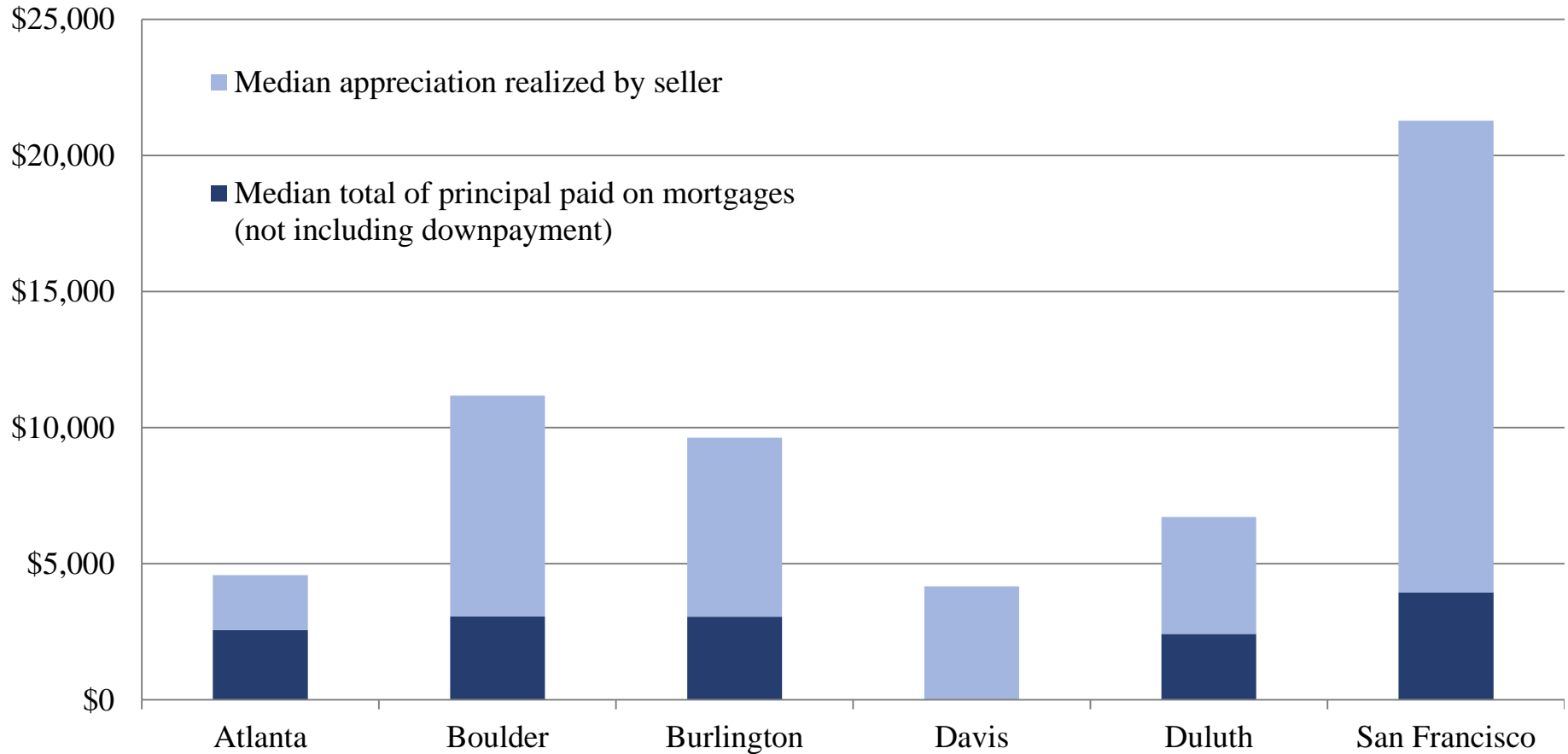
Findings: Initial Affordability



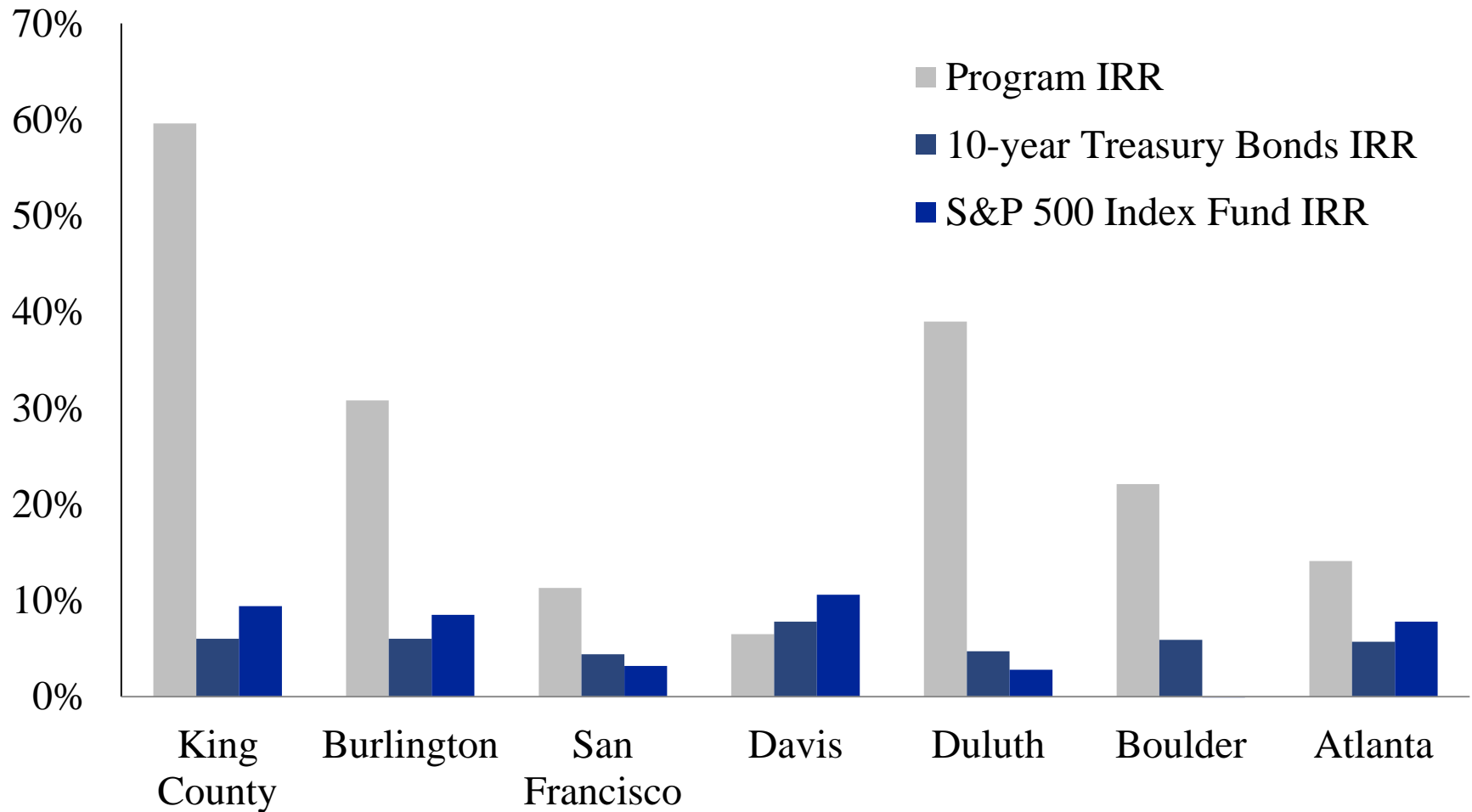
Findings: Initial Affordability



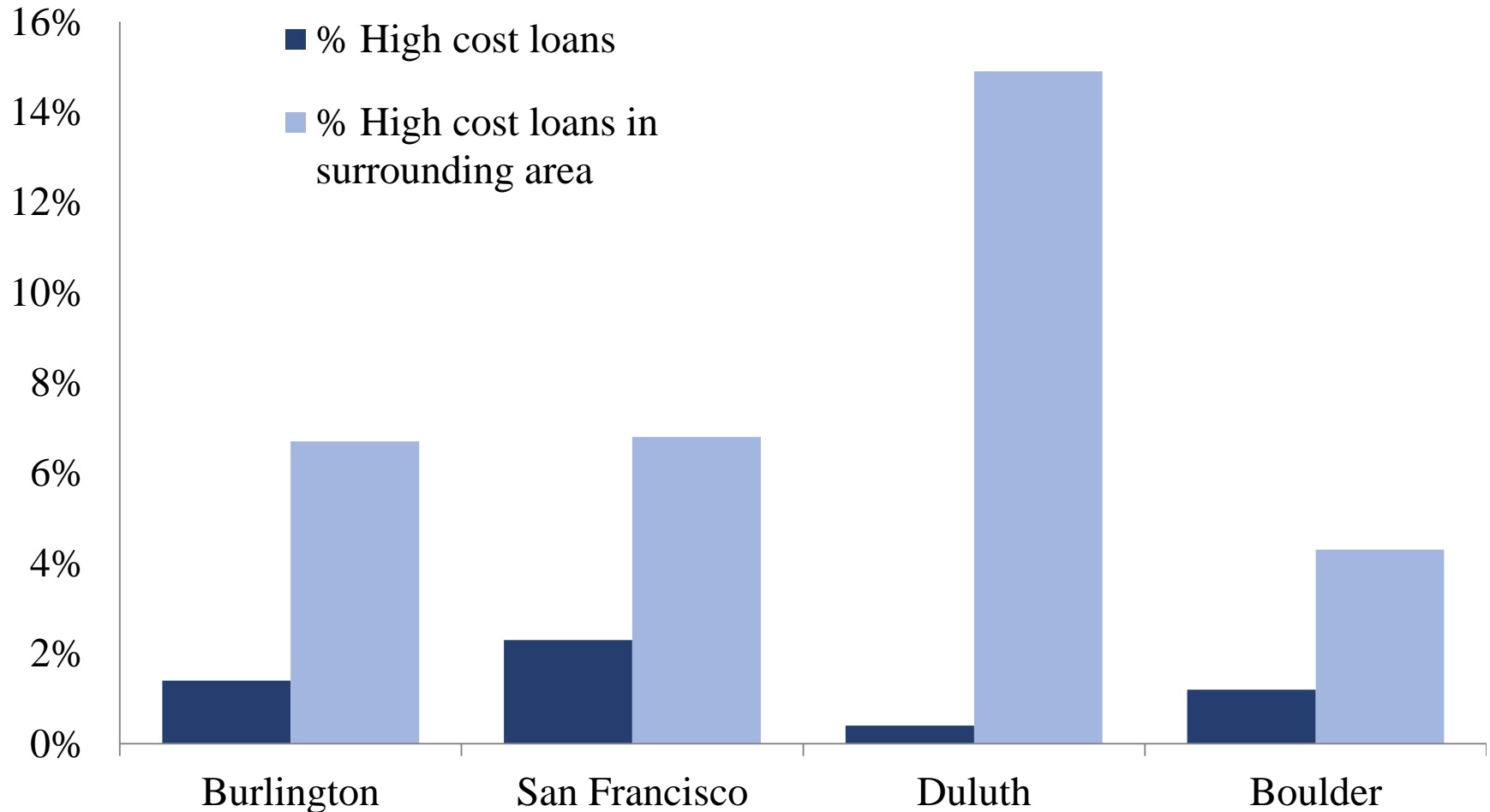
Findings: Wealth Creation



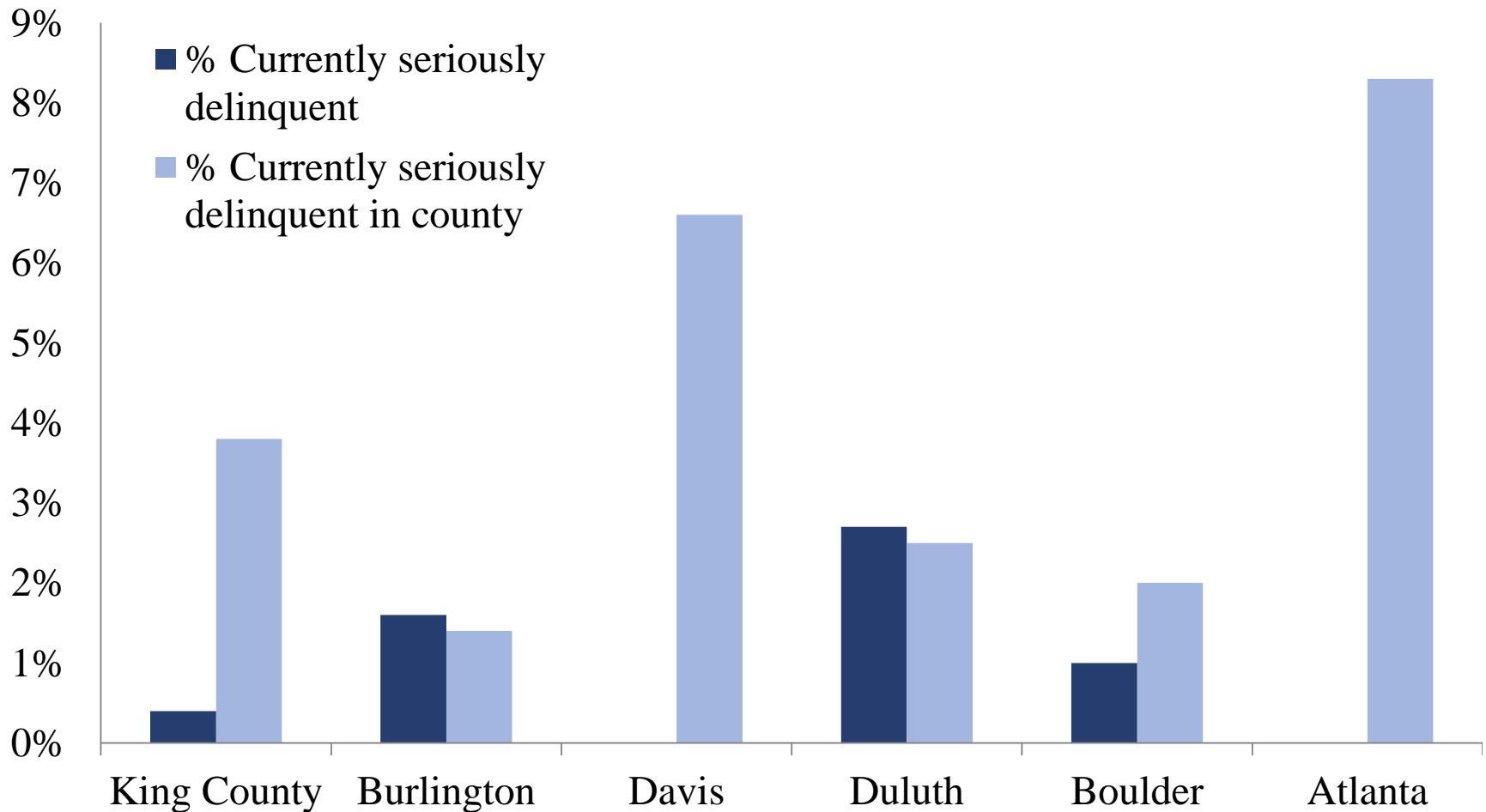
Findings: Wealth Creation



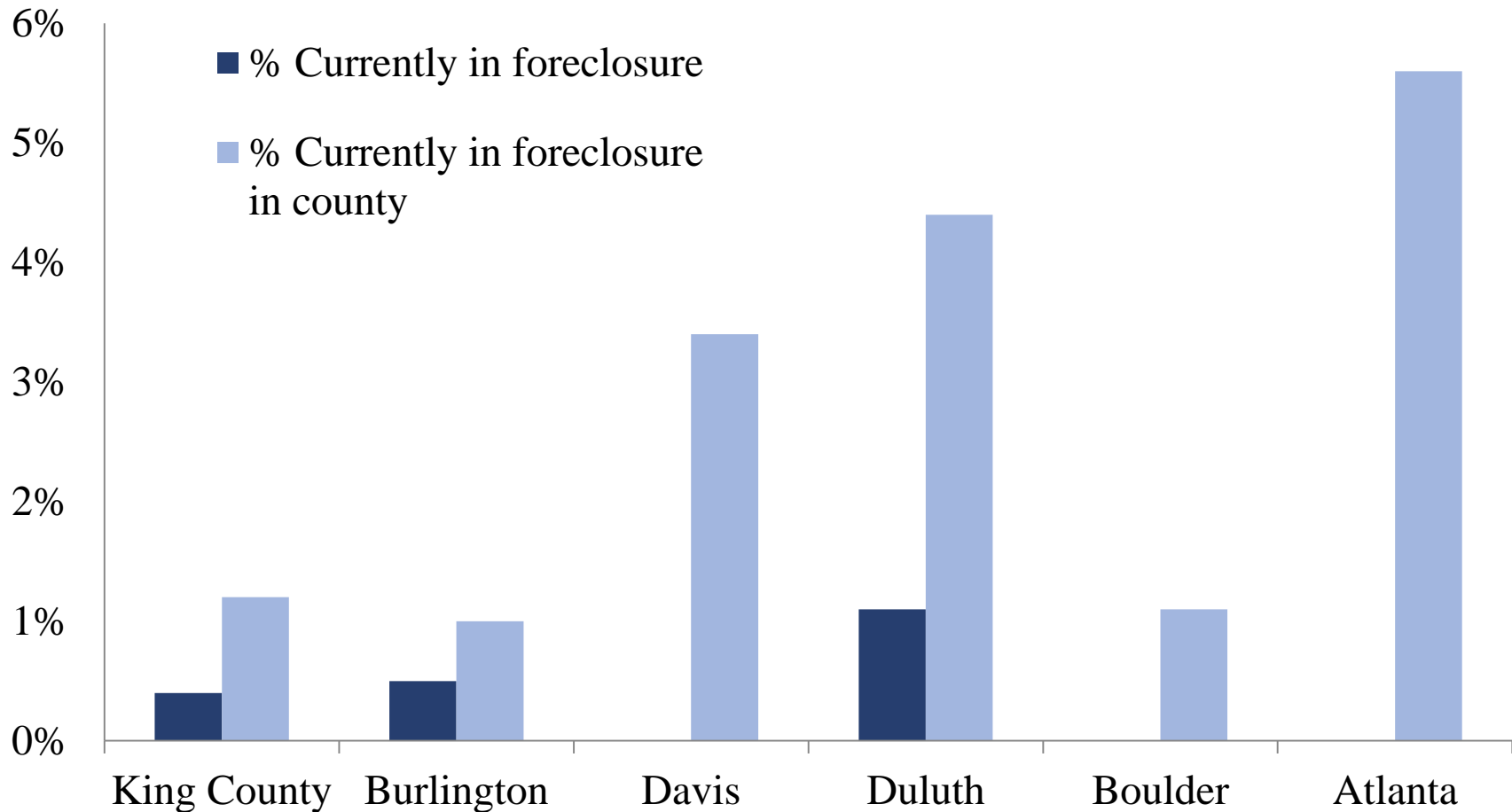
Findings: Security of Tenure



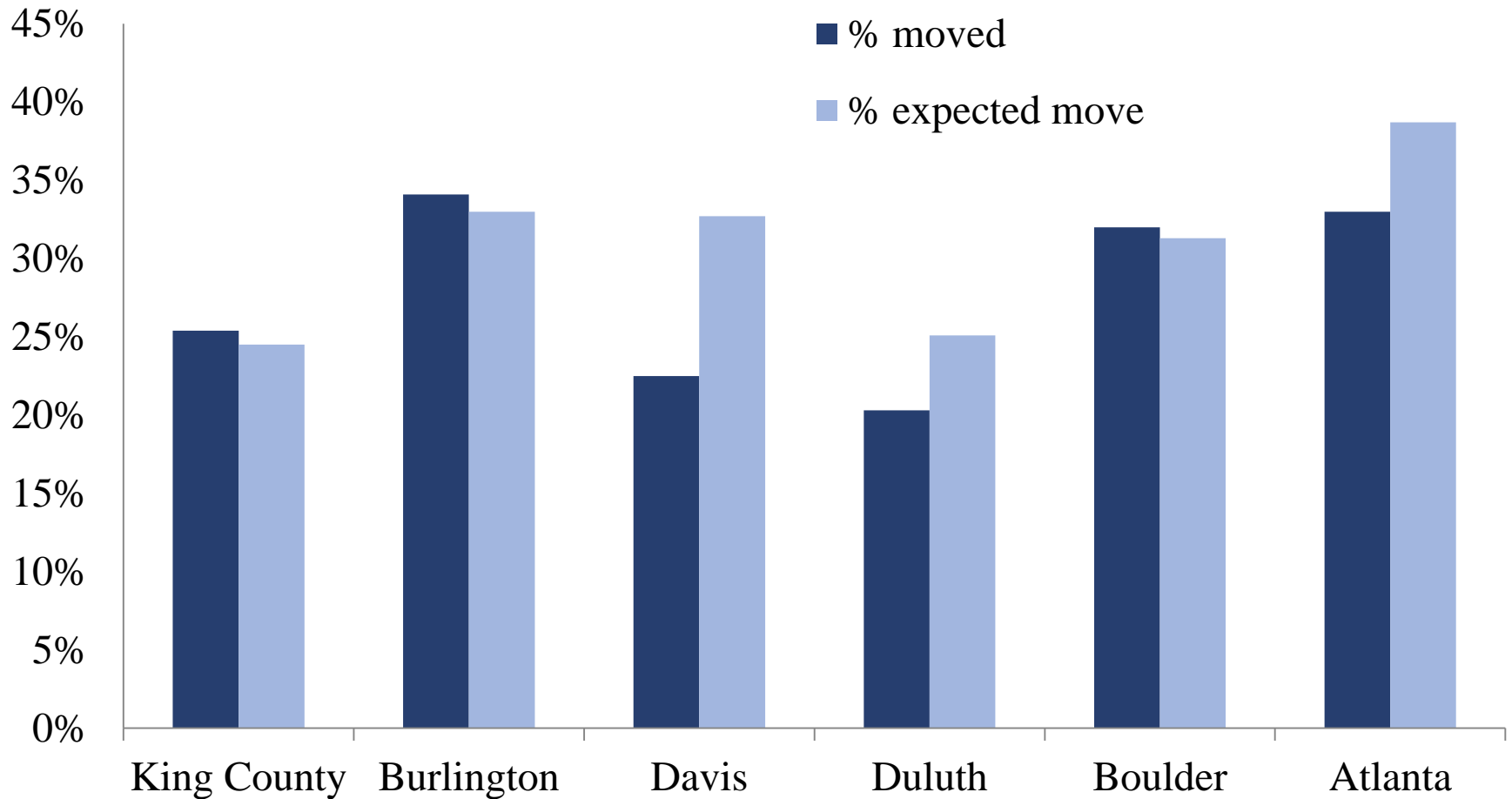
Findings: Security of Tenure



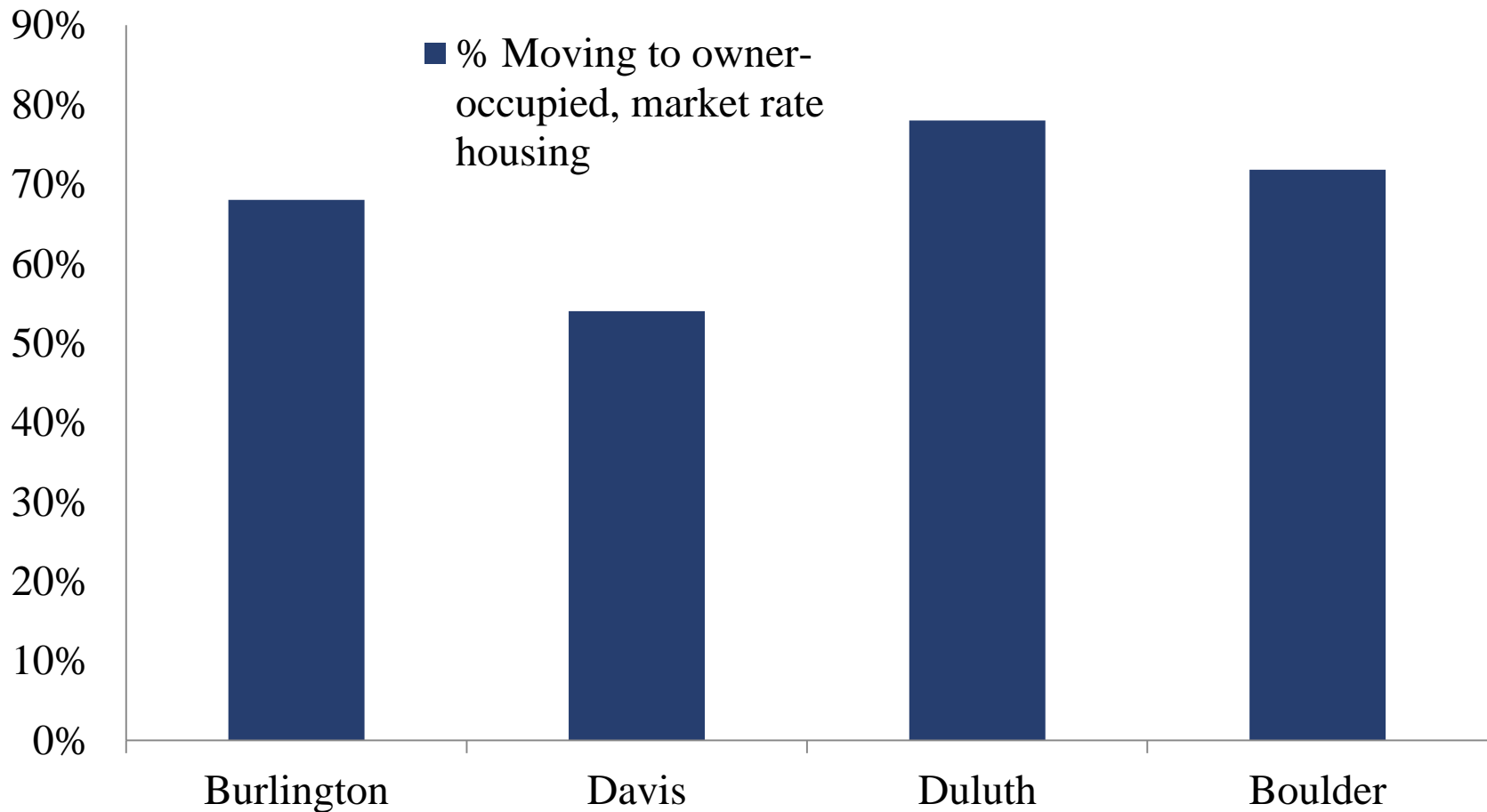
Findings: Security of Tenure



Findings: Mobility



Findings: Mobility



Key Implications

- Shared Equity homes largely retain affordability and create wealth, without limiting mobility or creating instability
- ...But they must balance competing objectives of affordability preservation and wealth creation while taking into account local dynamics



Publications

- Urban Institute cross-site report and seven case-study reports: <http://urban.org/sharedequity/>
- Summary extract: San Fran Fed magazine: http://www.frbsf.org/community-development/files/CI_Temkin_et_al.pdf
- Journal article: *Housing Studies*: <http://www.tandfonline.com/doi/full/10.1080/02673037.2013.759541#.UmqlnVMYnKk>



WHAT ABOUT TRADITIONAL HOMEOWNERSHIP SUPPORT AND SUBSIDY RECAPTURE?



Traditional Homeownership Support and Subsidy recapture

- Traditional model is where an owner has no or minimal constraints on profiting, which maximizes wealth creation, but does so at the expense of affordability preservation, as typically all subsidies are lost after a short period (e.g. 5 or 10 years)
- Subsidy recapture requires that owners repay the subsidies they received to buy the home, but allows them to capture all the home's appreciation

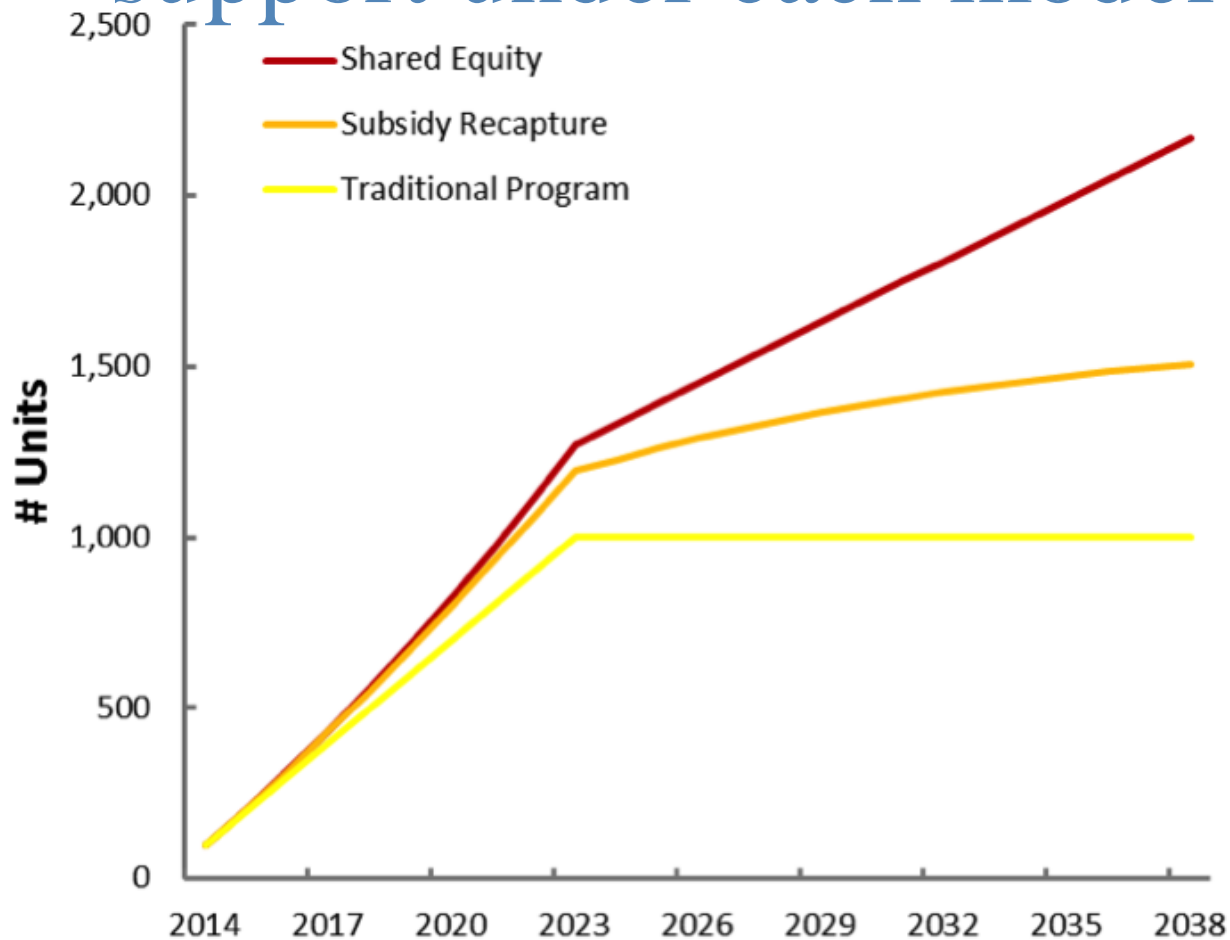


How many units could \$100M support under each model?

- Imagine \$100M for homeownership, e.g. from the Housing Production Trust Fund
- Assume each home requires \$100,000
- Assume it takes DC 10 years to deploy the \$100M
- Assuming a rate of moving of 6% (the national average for homeowners)
- Assume a 5% growth in home prices (reasonable for the District)



How many units could \$100M support under each model?



How much wealth would be created under each model?

- Assume buyers put 5 percent down on a \$200,000 home
- Assume home prices rise by 5% annually
- Assume median incomes increase by 3% annually
 - Annual rate of return for shared equity program would be 21 percent
 - Annual rate of return for subsidy recapture would be 29 percent
 - This calculation only measures return from appreciation, not savings gains through paying down a mortgage

