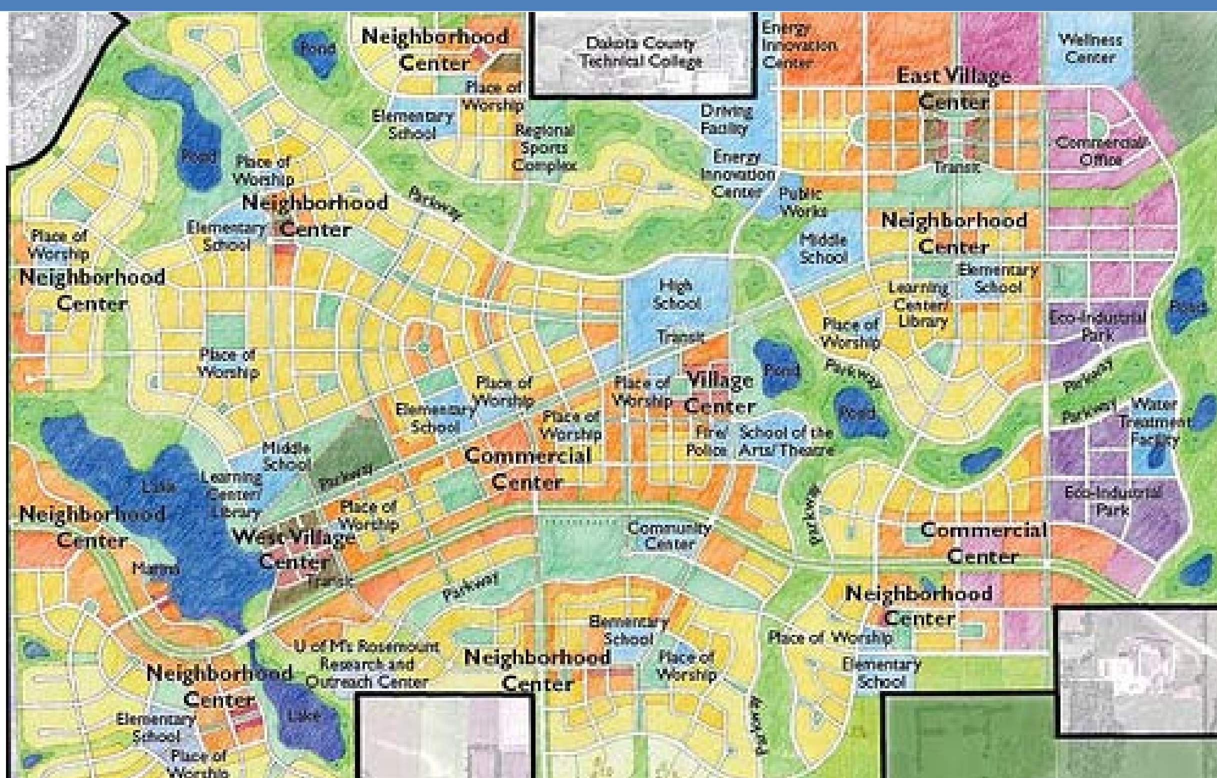
Summer Internship 2010

Financing Models for Affordable Housing at UMore Park



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The Importance of Integrating Affordable Housing at UMore Park

When it comes to the health and vitality of our communities, affordable housing is the key (11). The need for quality, affordable homes will be an important part of the vision at UMore Park as it seeks to evolve into a sustainable community. With the economic issues our state is facing the demand for affordability is greater than ever before. Families whose homes have been foreclosed on, seniors whose retirement savings have dropped with the markets, and people with disabilities affected by budget cuts to essential services are all in need of a safe and affordable place to call home (11). There continues to be a substantial gap between workers salaries and the income needed for homeownership. The Center for Housing Policy has conducted a nationwide analysis which compares the cost of buying a home with area salaries. In the Minneapolis – St. Paul region the median home price was at $170,000 which translates to a minimum salary of $50,000 needed to afford the home. Various occupations in the region were shown to be under this minimum salary, including administrative assistants, child care workers, nurses, teachers and retail workers. The 2007 State of the Nation's Housing report shows how increasing housing prices are hurting existing homeowners and excluding low-income individuals. It stated that nearly half of low-income households' 8.2 million renters and 5 million homeowners have severe cost burdens relating to their housing (5).When beginning the development at UMore Park it will be incredibly essential to ensure that the people who provide the community with vital services are able to live in the same community they serve. They should be able to do this without paying an excessive portion of their income for housing. Having a stable living environment that is affordable has many advantages. The Center for Housing Policy has identified some of these advantages in their report on the Positive Impacts of Affordable Housing and Health. They note that affordable housing improves a family's health as it frees up funds necessary to afford other essential needs such as healthy food, medical insurance, and healthcare. Providing stability for low income families reduces stress and depression and lowers mental health risks for children. Well constructed and managed housing reduces health problems related to poor air and housing quality such as asthma and respiratory illnesses.

Promoting homeownership has consistently been a distinct piece in United States housing policy and we have recently seen homeownership rates inch upward. However, particularly for lower-income households, the downside is becoming increasingly apparent. The recent effort to expand ownership through unregulated sub-prime lending habits has resulted in a disaster for those who were supposed to benefit. Foreclosures are abundant and continue to rise across the nation and, as research has shown, disproportionately large shares of lower income homeowners lose their homes and find themselves back in the rental market (4). The growing gap between escalating housing costs and what people are able to pay is making it increasingly difficult for even moderate-income families to responsibly become homeowners (5). Traditionally, the two main housing options available have been renting or traditional homeownership, where the buyer reaps all the rewards but also bears all of the burdens. However, those burdens are often too great for low- to moderate-income individuals (5). Rental affordability also remains a challenge and tenants know that the rent payments will keep them living in asset poverty. For many working families, the chance to acquire greater control of their living environment, have stable housing costs, building equity, and take advantage of the mortgage interest deduction are all dominant motives to buy a home (11). Low and moderate income people are often unable to tap into these benefits, which are the key reasons for continuing interest in attaining homeownership. Offering affordable homeownership at UMore Park would follow the guiding principles of integrating academic mission into the new community by *ensuring that projects are relevant, addressing major issues of the day* (17). The shortage of affordable housing for working families across Minnesota remains a critical issue that needs to be addressed. Affordable homeownership at UMore Park will show the University's commitment to addressing this complex issue as well as provide a starting point for residents to create a better life for themselves and their families.

Research Method

The purpose of this research project is to provide the UMore Park team with various strategies for affordable homeownership financing. The generally accepted definition of affordable housing is for a household to pay no more than 30 percent of its annual income on housing. Families who pay more than 30 percent of their income for housing are considered cost burdened because they may find it difficult to afford other necessities such as food, clothing, transportation and medical expenses or saving for their future and that of their families (14). The selected models were recommended after reviewing many publications and reports on various financing options for affordable homeownership. Each section gives basic information about how the strategy works, examines its possible implementation, and evaluates it through advantages and disadvantages. Many sections also include a case study to complement the research findings.

Affordable Homeownership
Options for Residents of UMore Park

Shared Equity Homeownership

Purpose

Shared equity homeownership is a non-market model of ownership that will be one of the best new models for affordable homeownership to incorporate into the community at UMore Park. Increasingly, it has become a concern that the millions of dollars invested in ownership opportunities for first-time homebuyers may only provide temporary and limited relief because of the continuing rise in home prices. Homes that were once made affordable through subsidies and down-payment assistance have become out of reach for many new homeowners upon the resale of the property. These one-time assists are only able to be shared with one family at a time (10). Shared equity, also referred to as “resale-restricted, owner-occupied housing” seeks to increase the number of families that can be assisted over time through a single grant (4). Shared equity balances asset accumulation by homebuyers with ongoing affordability. It is used to preserve the affordability of ownership through restricting the appreciation that the owner can retain while also recycling the resources for affordable housing to expand homeownership in a sustainable way. At the same time, by placing the owner within a community-based support system, such as a community land trust, shared-equity can mitigate the risks of homeownership, potentially increasing the benefits of homeownership for both the owner and the neighborhood in which they live (4). Well-designed shared equity models allow working families to purchase a home and generate a healthy return on their investment (10). The current recession is the perfect time to capitalize on the opportunity to create stable, mixed-income communities that will ensure generations of families the opportunity to become owners and build real wealth.

Implementation

Under shared equity, a lower income family buys a home at a below-market price with the understanding that when the family is ready to sell, the resale price is set at a level that allows the original family to have a fair return on investment, but the home remains affordable to the next family. The subsidy is therefore permanently retained in the property, sustaining an affordable housing option for the community (12). A public, philanthropic, or non-profit entity provides funding to help a family purchase a home. In return, the entity shares in any home price appreciation that occurs while the family lives there, preserving the buying power of the subsidy in the face of rising home prices, and allowing an initial investment in homeownership to help one generation of homeowners after another (7). The entity that shares the appreciation and monitors the resale typically remains in contact with the homeowner, guarding against property deterioration and mortgage delinquency (12). These close ties are important for new homeowners to feel secure and assure the community that these homes will fit in to their neighborhood. In some forms of shared equity, such as a community land trusts, the public's share of appreciation stays in the home, enabling it to be sold for an affordable price. In other forms, such as shared appreciation mortgages, the public's share of appreciation is used to give a larger loan to the next homebuyer to make a home of their choice affordable (7).

Advantages

- Owner-occupancy of the residential property (4)
- Government and Housing Agencies get greater value for what they spend on homeownership, leveraging today's funding into a renewable affordable housing resource (12)
- Safe investment that offers more rights than typically provided in rental housing (4)
- Making homeownership possible for many more Americans in a suitable way that does not require risky or complicated mortgage loan products such as interest-only or adjustable rate mortgages (12)
- Creates permanent stock of affordable housing for communities that would help to stabilize property values and the local property tax base instead of the devastating impacts of the rapid rise and falls of the private market (12)
- Existing shared-equity models have demonstrated far better performance in mortgage repayment than other multifamily affordable products (5)

- Fair allocation of equity between one generation of lower-income homeowners and another (4)
- Allow communities to create a stock of permanently affordable ownership housing (5)
- Sharing of rights, responsibilities, and benefits of residential property between individual homeowners and another party representing the interests of a larger community (4)
- Balances ongoing housing affordability and individual asset accumulation (7)

Lender Incentives

The local affordability stewards who oversee the shared equity properties will prepare a ready stock of creditworthy home buyers. Well-crafted shared equity also has built in safeguards against predatory loans, because it ensures that borrowers and reputable lenders are protected from unscrupulous lenders. Shared equity ownership is often a more compelling use of a public subsidy because it ensures long-term affordability and wealth generation. Lenders can feel at ease working with shared equity models because of their long-term commitment and high performance (5).

Challenges

Shared-equity ownership often sparks the debate over asset-building. Is it fair to ask homeowners to limit their profits on the sale of their home? Although offering more freedoms than rental housing, shared-equity does impose more restrictions than typically found in market rate cooperatives and condominiums (5). The concept of restricting the home value appreciation for the homeowner on resale can be controversial. Some economists object to any limitation on appreciation as an infringement of private property rights. It is also viewed as hindering the ability of lower-income households to build wealth (4). Too often, policy makers fall into the trap of thinking that limiting appreciation means that homebuyers are offered no real wealth creation. However, all shared-equity models, excluding zero-equity cooperatives, generate assets and real equity for the homeowners (11). Overall, sharing equity is more often seen as a reasonable exchange for the considerable shelter value the homebuyer has gained and the public policy value of preserving affordable housing for future generations (4).

Types of Shared Equity Models

- Cooperatives
- Limited-Equity Cooperatives
- Zero-Equity Cooperatives
- Deed-Restricted Housing
- Community Land Trusts

Case Study: Montgomery County, MD – The mistake of single unit subsidies

"Montgomery County's Moderately Priced Dwelling Units program is famous as one of the nation's most productive local affordable housing programs. Over 30 years the program produced over 12,000 affordable housing units which helped not only the county but throughout the entire region as well. However, by 2005 only 1/4th or 3,000 of these units remained as affordable housing. The program was producing homes with a market value of over $500,000 and selling them to low or moderate income buyers for as little as $150,000. Buyers were required to resell at affordable prices for a period of only five to 10 years, after which they were free to keep the full market sales price. Overall the program recognized it was making a big difference to those few families who were served, though they just did not have the resources to serve a fraction of all those who could benefit. The County inevitably had to extend the period of resale control to 30 years and added a provision that required the 30-year clock to be reset every time a unit resold" (11).

Case Study: Burlington, VT – A successful shared-equity program

"The Champlain Housing Trust creates homeownership opportunities that remain permanently affordable to working families. The Trust uses a shared equity model in which a family receives a grant to reduce the cost of purchasing a home. In exchange for the grant, the family agrees to share any home price appreciation with the Trust, which the Trust uses to keep the home affordable to the next qualifying home purchaser. An evaluation of this model found that the Trust was successful in preserving long-term affordability, while still providing home purchasers with an annualized return of 17 percent on their initial investment. A majority of families that resold homes originally purchased through the Trust went on to purchase homes at market rate (10).

Cooperative Housing

Characteristics

A housing cooperative is formed when people join together to own the buildings in which they live. Residents form a corporation in which shareholders are drawn exclusively from those occupying the housing. Residents buy shares or membership in the co–op which entitles them to a “proprietary lease” or the right to occupy a specific unit (3). The occupants of a co-op's housing are the owners of share in the same corporation from which they lease their homes (4). The cooperative owns the building, land, any common areas, holds the deed, the mortgage, and pays all municipal taxes and fees on the real estate. Shareholders pay a fixed monthly amount – called a maintenance or carrying charge – that covers operating expenses and the buildings mortgage. They do not hold title to their individual homes, but they do own shares in the corporation that owns their home. They are also voting members of that same corporation, with ultimate control over its assets, its operations, and its enforcement of any restrictions on the use of individual apartments and the resale of individual shares. Each member has a single vote in the co–ops governance which contrasts from other corporations where votes are proportionate to the amount of investment controlled by the stockholders (1). The occupant is simultaneously a shareholder, a member, and a lease-holder (4). The shares can be transferred to new co–op members more simply than in other home ownership sales where new mortgages must be initiated. The increase in value of the shares can be restricted to insure affordability to new members in the future. Co–ops are often built like condominiums as multi-family attached buildings on a single site, although they can also consist of separate buildings at scattered locations (1).

Rochdale Principles of Cooperation

All Cooperatives share a common set of principles, set by the Rochdale Society of Equitable Pioneers registered under the Friendly Societies Act of 1829. The Societies were formed to provide members with financial benefits. The Act of 1846 contained a new statement including “the frugal investment of the savings of the members for better enabling them to purchase food, firing, clothes, and other necessaries" (9). The societies went on to address seven points that would be followed under the Rochdale Principles of Cooperation. These include open membership, democratic decision-making, dividend on purchase, limited interest on capital, political and religious neutrality, cash trading, and promotion of education (9).

Ownership Structure

Cooperative members do not have a direct interest in the real property itself but instead have a committed interest in shares of stock through the corporation that owns the property. Members pay monthly maintenance charges that include their portion of the cooperative's management and operating costs. These costs include real estate taxes, insurance, principle and interest of the blanket mortgage loan that the cooperative corporation obtained to pay for acquisition of the property. Members hold a proprietary lease, called an occupancy agreement, under which they occupy a specific unit in the project. They are responsible for their individual utilities and for the costs of any loan they may have taken out for the purchase of their shares in the corporation (18). Members participate in the governance of the cooperative through the election of a board of directors. Each member has one vote. The board of directors has the responsibility of screening potential members. The cooperative can be self managed or rely on a management company to oversee the maintenance, rent collection, and other fiscal activities; however, the board of directors is the highest responsible group for overall management (18).

Limited Equity Cooperatives

Within the cooperative ownership structure there are differences in the initial entry investment or how member equity can increase in value over time. This factor plays an important role in long-term affordability since it determines the cost to future households of gaining entry into the co-op when a member leaves (1). The fundamental difference in limited equity cooperatives compared to market rate is that they restrict the resale prices to maintain affordability. This emphasis on sustaining affordability provides shareholders with residential control that is accessible to a broad range of incomes, although most are limited to households with moderate or low incomes. In limited equity cooperatives, share prices are restricted to levels well below the typical down payment required for the acquisition of a single-family dwelling (18). As a result, prospective limited equity co–op members can avoid some frequent obstacles to homeownership. When lower income buyers do not need extra financing, certain bank underwriting debt ratios are no longer impediments to homeownership, although the cooperative's board of directors should perform adequate financial screening of all prospective members to make sure they can and will make monthly maintenance payments. The primary purpose of limited equity cooperatives is to develop as permanent stock of affordable housing (18).

Implementation

Cooperative ownership requires members to have high participation in their cooperative corporation. They must also have the skills and knowledge to participate in such a setting. Sponsoring organizations should anticipate the need to train prospective residents in the rights and responsibilities of cooperative ownership, particularly in communities where limited equity cooperatives are not a common form of ownership (18). A limited equity co–op will require some source of subsidy in order to bring units within the reach of low and moderate income households. Most limited equity cooperatives are non-profit public benefit organizations which allow them to look to foundations or local and national intermediaries for grants and low-interest loans. Alternatively, some states have statutes under which housing cooperatives enjoy tax exemptions and other benefits. The National

Cooperative Bank (NCB) has had substantial experience financing cooperative housing projects. NCB is a valuable resource for permanent financing and its staff may provide technical assistance for certain projects. Some limited equity cooperatives have used Low Income Housing Tax Credit equity as a vital part of their overall financing. Other sources of construction and permanent financing for cooperatives include commercial banks, savings and loans, and pension funds. In order to maintain affordability limited equity cooperatives have resale restrictions incorporated into the cooperatives' by-laws and into individual occupancy agreements (18). When the unit is resold its transfer value cannot exceed the original membership payment plus the value of any authorized improvements to the unit and an annual appreciation in the initial equity that cannot exceed ten percent (1). There are normally income guidelines for prospective members and the restricted sale price can be calculated by the initial purchase price plus an inflation factor based on a common index, usually the Consumer Price Index (18).

Advantages

Limited equity cooperatives provide access homeownership, the nation's most powerful engine for wealth creation, and members are able to realize the benefits that come with it, including property tax and mortgage deductions (13). There is a higher level of control since the members is able to elect a board of directors to oversee management and at the same time have almost complete control over their individual units (18). Participating in a cooperative promotes strengthened communities since residents operate the cooperative corporation, while the democratic decision making and building oversight create increased residential interaction and sense of community (13). The maintenance costs are typically lower than in rental housing because there is a shared risk, and costs are spread among all cooperative members (8). Limited equity provides affordability since share purchase prices are typically significantly less than down payment costs for single-family homes. Cooperatives provide leadership development for its members with the ability to participate in overall management. Members are able to take advantage of training that is often provided by the nonprofit sponsor such as homeownership skills, credit counseling, and economic literacy which equips them with tools to become effective members and also to prepare them for single-family homeownership in the future (18). Even with the permanent restrictions on resale, limited equity cooperatives provide a modest build-up of equity, the security of long-term affordability, and the fundamental right to pass on the unit to heirs (1).

Challenges

Limited Equity Cooperatives or any form of joint ownership does not typically match the traditional notion that many Americans have of homeownership. This would convey to the owner absolute autonomy within the confines of his or her home and acquire all the benefits (18). Limited equity members cannot look to their homes as sources of substantial equity or as opportunities for capital appreciation. However, almost all limited-equity cooperatives have both low initial purchase prices and low maintenance payments, making them the prime vehicle for building conventional savings accounts (18). Starting any business is risky but establishing and operating a cooperative may require more training and technical assistance than a traditional business would. Running a democratically organized business is time-consuming because of the need to keep members informed and educated regarding cooperative practices (13).

Case Study: Hermitage Manor Cooperative, Chicago, Illinois

Hermitage Manor was the third limited equity housing cooperative built in Chicago using a federally insured below-market interest rate mortgage provided under Section 221(d)(3) of the National Housing Act. The construction of the community's 17 buildings, containing 108 townhouses, was completed in 1969. The resident-controlled cooperative that took title to the property two years later has successfully owned and operated Hermitage Manor ever since (4). There is a five-person board elected my residents that oversee the building operations. To purchase shares in the Hermitage Manor Cooperative, prospective homebuyers must earn less than 95 percent of the area median income. They also must have a minimum income of four times the monthly carrying charge for the unit they wish to occupy. Current incomes for the cooperative's 108 members range from $10,000 to $102,000 with the majority earning between $24,000 and $46,000 per year (4). The board holds a number of hearings every year and organizes the cleaning, planting, and landscaping of the cooperative's grounds. This brings residents together frequently and instills a sense of community to the residents.

Zero Equity Cooperatives

New members join by paying a fixed member fee which is reimbursed when the member leaves, similar to a security deposit for renters. It is generally very low and its value remains unchanged during the member's tenure (1). There is no growth in the homeowner's investment; they resell the shares for essentially at the same price they paid when purchasing them (4). The owner is able to have secure tenure and can actively participate in the project which is what differs the most from traditional renting practices. Zero equity works best when the term of occupancy is shorter, and it is often used as an alternative form of housing for college students.

Case Study: Berkley Student Cooperative, California

USCA at Berkley in CA has 17 scattered site co-ops. Each house is self governed with an executive board presiding over the entire group. The cost to students is paid per semester and is approximately 50% less than comparable dorm housing. In return, the student co-op members commit to 5 hours of work per week and an initial $60 application fee of which $50 is refundable when they leave (1). The houses are managed and operated through the efforts of members. The student style co–op is beneficial because there is no need for every member to have their own pots and pans, shop for supplies, do all the cleaning, and cook everyday (2). Members work together to save money, conserve resources, and save time on chores. Budgets are collectively set by the members every spring. Students can take advantage the experience by gaining maintenance and communication skills as well as a sense of living in cooperation with a variety of other people (2).

HUD Programs

Section 203(n)

Single-Family Cooperative Mortgage Insurance or Section 203(n) issues loans for persons buying a unit in a cooperative housing project. The loan is made by a lending institution and is then insured by HUD's Federal Housing Administration. This encourages lenders to make mortgage credit available to borrowers who would not otherwise qualify for conventional loans on affordable terms, such as lower income families and first-time homebuyers. There are other mortgages insurance programs that HUD offers, however Section 203(n) has some special features specific to enabling persons to own a share of and live in a cooperative housing project. The financing is structured to buying a cooperative certificate and occupancy certificate which are both fundamental documents in cooperative housing (15).

Section 221(d)(3) and (4)

Section 221(d)(3) is a program specifically used by nonprofit sponsors to insure mortgage loans that facilitate construction of cooperative housing for low and moderate income families. Profit-motivated sponsors are able to access the same program under Section 221(d)(4). The main difference between the two is the insured mortgage amount. Nonprofits may receive up to 100 percent of HUD estimated replacement cost of the project while all other sponsors can receive a maximum of 90 percent (16).

Section 236

Section 236 of the National Housing Act is an FHA interest subsidy program which is generally for 40 year term mortgages. The program provides monthly interest reductions for payments. In exchange, borrowers are required to maintain the affordability of the project by restricting some tenant incomes to 80 percent of the area median income as well as having all rent or share levels approved by HUD. Under Section 236 loan subsidy program, HUD can place restrictions on the transfer value of the co-op member shares which remain in place through the life of the underlying 40-year mortgage. Restrictions prohibit the sale of member shares at market-rate value but permit the initial member equity to grow by a formula that includes the units' proportionate share of principle paid on the blanket mortgage plus an annual cost of living adjustment (1).

Community Land Trust

Characteristics

A Community Land Trust (CLT) is a nonprofit, community-based organization that owns real estate to provide benefits to the community, and particularly to provide secure, affordable access to housing for residents who cannot otherwise afford it. CLTs stabilize communities and preserve housing affordability by meeting the needs of those least served by the market. They do this by purchasing land within a designated geographic area with the intention of permanently owning that property, and then selling the homes that sit on the land to eligible homebuyers. In exchange for affordable, high-quality homes, residents agree to resell their homes to the land trust or to another low- to moderate-income household if they move, taking only a minimal profit (7). CLTs help communities to gain control over local land use and reduce absentee ownership to promote resident ownership and control of housing. It works to keep the housing affordable for future residents and current lower income community residents. CLT's are able to capture the value of public investment for the long-term community benefit which also builds a strong base for community action and involvement (13). The community land trust model is distinguished from other nonprofit housing organizations in two ways. First, on how it separates the ownership of land and housing and secondly, on how it is structured and controlled. Both of these features provide an effective approach to dealing with problems of gentrification (13).

Purpose and Control

Community Land Trusts are predominantly created to assist in developing permanently affordable owner-occupied housing in communities where the cost of housing is otherwise being driven beyond the means of local residents. CLT's are organized as “membership corporations” to include open membership involving both residents who occupy CLT housing and other local community members who have an interest in the CLT's activities. Each group is a voting member in the CLT and the board of directors is elected by its members. The CLT board usually includes those representing the resident members, non-CLT residents, and the broader community interests. As a result, the organization has balanced control to protect and support the residents and the community as a whole (13).

Ownership Structure

Under a traditional community land trust model, a nonprofit community land trust is established to own the land on which homes are situated. This distinctive approach involves permanent CLT ownership of the land which is leased to new households (13). The trust then sell the physical structures to home purchasers for an affordable price, along with a long-term lease on the land. When the home is sold, it must be sold at an affordable price to a qualifying homebuyer (7). CLTs are able to acquire vacant land and develop new housing for a community. Other times, CLTs acquire the land and buildings together. Either way, CLTs treat the land and building differently in that the land is help permanently by the land trust to benefit the community. The CLT helps people to own their own homes on CLT land. When a CLT sells homes, it leases the underlying land to the homeowners through a long-term, renewable lease. This gives the residents and their descendants the right to use the land for as long as they wish. CLTs work closely with their residents and often provide a variety of training opportunities and other services for first-time homeowners. They can provide crucial support if homeowners face unexpected home repairs of financial problems. In these cases the CLT can help to find a practical solution or assist in making necessary financial arrangements. The CLT makes a sustainable commitment to the community they serve. If a home is to be sold, it must either be sold back to the CLT or to another lower income household at an affordable price (13).

Implementation

The functions of a community land trust require active community involvement and supervision. The geographic scope of the CLT must be shaped by the interests of the founders as well as the location and nature of community housing needs. Some CLTs serve entire metropolitan areas while others serve just a particular neighborhood (13). There are differences between the two opposing models that should be noted. Large scale

CLTs create and preserve an adequate supply of affordable housing within the large areas they serve. The location of this housing is usually determined by the location of the best opportunities for affordable housing development within the large area. The primary approach emphasizes preserving affordable ownership and tends to operate on a macro level to address problems (13). Smaller, neighborhood-based community land trusts reflect grassroots concerns of particular communities. Naturally they have a more narrow focus, operating on a micro level, acquiring specific properties to preserve a certain number of units of affordable housing and preventing displacement of residents. However, these two approaches are not mutually exclusive, as some CLTs have combined strategies to improve specific neighborhoods while expanding permanently affordable housing citywide. The CLT model is favorable because it can be a flexible tool to manage long-term effects of development within a community. When a homeowner decides to move, they can sell their home. The land-lease agreement gives the CLT the right to buy each home back for an amount determined by the CLTs resale formula. Each CLT, given its own goals and local circumstances, designs its own resale formula to give each homeowner a fair return on investment while keeping the new price affordable. Many will use an appraisal-based formula which calculates the maximum price as the sum of what the seller paid for the home to begin with plus a certain percentage of any increase in market value (13). Federal funding is also available for CLTs to take advantage of. The 1992 Housing and Community Development Act has provisions for CLT funding under the federal HOME program. The Act defines CLTs as “community housing development organizations” under the HOME program, which qualifies them for additional project funding, operating support, and technical assistance (13).

Advantages

Community Land Trusts can restore communities that have gone through disinvestment or are dealing with gentrification through sustaining owner-occupancy and limiting resale prices to sustain affordability. It controls housing values and provides affordability protection through permanently limiting land costs and locking in subsidies so that they benefit one homeowner after another and do not need to be repeated each time a home is sold. CLTs can build community control because residents capture the value they create to benefit their own community. They can provide any type of housing for which there is a need in the local community and provide flexibility for community development options in the future (13).

Challenges

Land trusts are fairly new to the housing scene. It is difficult to get all player educated and on board with the premise. All specified city officials, organizations, and community members have to be educated on the structure and merits of the community land trust. The community must be well informed and the potential homebuyers assured that the CLT model is a viable option for them. It is important to have a strong working relationship with the city in order to overcome these obstacles. There is also the challenge of proving the equity tradeoff is beneficial to low income communities. Many are resistant to the idea of limiting resale on property. The cost of land for CLTs has occasionally been difficult when values become too high for the CLT to bear while still giving homebuyers an affordable price. Having strong organizational infrastructure is important to ensure that these challenges are overcome.

Case Study: City of Lakes Community Land Trust, Minneapolis, Minnesota

The City of Lakes Community Land Trust (CLCLT) offers three avenues into homeownership. CLCLT partners with builders and developers to create new homes and sell them to CLT homebuyers at below-market prices. Homes can be single family homes, townhouses, and condos and remain affordable for future limited income buyers.

The second way is the Project: Reclaim which is a partnership with Urban Homeworks and Lutheran Social Services. The partnership facilitates homeownership through a low-interest Contract for Deed program (3% for 24 months) including a credit enhancement plan. It is designed specifically for those denied a home mortgage as a result of credit challenges to affordably own a home. Project: Reclaim is a homeownership tool to equip and support households to successfully own quality revitalized homes. It minimizes the homebuyers' exposure to financial risks and real estate speculation. CLCLT works closely with their homebuyers and has one staff member specifically assigned to do outreach and work on the relationships with the people they serve. This tie is very important in ensuring the partnership is successful.

The final program through the CLCLT is the Homebuyer Initiation Program (HIP). HIP helps families and individuals purchase and fix-up homes that are for sale in Minneapolis by providing both an affordability grant and a rehab grant. There is up to $60,000 in grants towards the purchase of a home and up to $25,000 to rehab the house. HIP allows buyers to choose homes and neighborhoods that meet their needs. CLCLT homes are available to any household earning less than 80 percent of the Metro Median Income. Some homeownership opportunities are specifically for households earning less than 50 to 60 percent MMI. In exchange for the grants, the participating buyers agree to the Community Land Trust model of homeownership, which will limit the resale price and keep the homes affordable for future low- to moderate- income buyers. The Homebuyer Initiation Program is a unique way to bring homeownership within the reach of more families.

Deed Restricted Homeownership

Deed restrictions are the most commonly used form of shared equity homeownership. Deed restrictions are one mechanism for maintaining the long-term affordability of a home with a significant public subsidy. It can encompass owner-occupied housing of various housing types that are sold and resold for an affordable price to a target population. Affordability is achieved through the covenant that is added to the property's deed or mortgage. The covenant can be for a set time period or it may last forever, but for most shared equity housing the covenant must be at least 30 years (5). Under this approach, a subsidy is applied to reduce the purchase price of a new or existing home to a level affordable to homeowners at the target income level. Then, restrictions are put into place requiring that the units be sold to buyers meeting certain qualifications - for example, incomes below 80 percent of the area median- at an affordable price as defined according to a formula set in the deed restriction or covenant. While these agreements are sometimes assumed to be self-enforcing, experience suggests an entity with an interest in maintaining ongoing affordability actively monitors resale (7).

The title to both the land and the building may be held separately and exclusively by the individual homeowner. The homeowners possess almost all of the rights that a typical homeowner would expect to hold, but not all of them. Some are shared with an outside party who owns or controls some of the homeowners' rights. For instance, owners of deed-restricted housing have exclusive use of their property; however the covenant imposes the obligation to use the property as the owner's primary residence. They have the right to resell the property but are required to resell to a specified pool of income-eligible buyers for a specified, formula-determined price (4). The covenant may also give nonprofit corporations, public agencies, or some other party the first right to repurchase the property at the formula-based price. These requirements stay with the deed and the home, binding the present owner and any subsequent owners of the property, ensuring its long-term affordability (4).

The restrictions are typically placed on properties that were built, rehabilitated or purchased with government subsidy or were created in response to an inclusionary zoning regulation that requires private developers to build a certain percentage of affordably priced homes within their projects. The goal is to protect the affordability that government subsidy has created and extend it to future generations, rather than allowing price appreciation to quickly bring the price of the home out of the range that low- and moderate-income households can afford.

Deed-restricted homes can take a wide range of forms of owner-occupied housing, from detached houses to condominiums. The specific legal documents involved in restricting affordability are the covenant or agreement recorded with the homeowner's deed which details resale restrictions and various disclosures the buyer must sign as to the type of homeownership. Often there is a soft second or performance mortgage provided by the government, which asserts that as long as the owner adheres to resale restrictions, the second mortgage does not need to be paid. In addition, there may be a preemptive option for the government that is imposing restrictions to have the right to re-purchase the home at a defined price (13).

Case Study: Homes for Good Program, Springfield, Massachusetts

The Homes for Good Program is an initiative of the Massachusetts Nonprofit Housing Association (MNPHA). Through a contract with the Massachusetts Department of Housing and Community Development, the Association and its members monitor the sales of properties that were developed using resources from the Commonwealth. The goal of the Homes for Good Program is to ensure that the homes are kept affordable and available to moderate income, first-time homebuyers. The homes available through Homes for Good are designed to be affordable for first-time, moderate income buyers. Each home has a deed that provides information on the resale requirements that maintain their affordability. The deeds are merely linked to the title and purchase of the home and homeowners should be aware of this and what it means for them now and in the future when reselling the home (6).

Employer Assisted Housing

Employer-assisted housing refers to any housing program – rental or homeownership – that is financed or in some way assisted by an employer. There are a variety of housing benefits that employers can offer to help their workforce afford homes. EAH is a flexible tool that can be tailored to work in different community contexts and to support various equitable development goals. It can meet the employee housing needs and the company's budget. EAH programs help employees to purchase homes – often near their workplace. It can be referred to as a "double bottom line" strategy because it helps working families secure affordable housing near their workplaces – oftentimes helping them purchase their first home, a powerful step toward building equity and financial assets – while helping employers find and keep qualified workers. It can be a powerful tool for employers that are struggling with recruitment and retention. EAH programs are generally oriented towards households with incomes between 80 and 120 percent of the area median income. Employer programs are available to serve the community in various ways such as rental assistance, homeownership education, and counseling services (13). The overall function is for employers and employees to join together in building strong partnerships and healthy communities.

Types of Assistance

Demand-side programs help workers obtain affordable ownership or rental housing. Mortgage assistance is the most common benefit which can be in the form of down-payment and closing cost assistance or through a mortgage guarantee. In the initial form, employers offer workers loans or grants for the investment required to pay a down payment or closing cost. Loans are often low- or zero- interest and are structured to be forgivable over a period of time, often five years, encouraging the employee to remain with the employer while allowing the employer to amortize the cost of the loan. Loan amounts vary depending on the employer, but $5,000 is a typical figure. In the latter form, employers guarantee all or a portion of an employee's mortgage against default. This guarantee enables lenders to require lower down payments, use more flexible underwriting criteria, and reduce some closing costs. Homebuyer education and counseling is also an indispensable part of the EAH program (13).

Supply-side programs, while much less common, create the new affordable workforce housing through various strategies. They can provide gap financing loans to developers to cover the difference between existing financing and development costs or make direct cash or land contributions to housing development projects. Employers can also leverage credit by lending their borrowing power to developers to help secure higher loan amount or provide purchase guarantees to assist developers in obtaining financing by guaranteeing purchase of unsold units in new projects and encouraging development in areas where developers or lenders are reluctant to invest (13).

Implementation

Employer-assisted housing both can and should be combined with other tools. Their overall ability to assist low- and very low-income workers is limited because the level of assistance offered by EAH is relatively low. Their effectiveness can be higher when used in combination with other tools. Some EAH programs combine with community land trusts or have helped employees become owners of limited-equity cooperative housing. It is important to look at the housing needs of low-income residents and workers in the community. Employer characteristics should be assessed and taken into consideration when designing programs and promoting those to different employers. The effectiveness of EAH is dependent on the design of the program which will vary depending on the resources of the available partners, the size and demands of the program, and the type of assistance offered. Private and nonprofit employer programs often involve three-way partnerships between an employer or a group of employers, an administrative partner, and a technical assistance provider. An employer generally provides the funds, screens employees for eligibility, refers employees to the program administrator, and markets the program to employees. The most important source of financing is the employer contribution, in any form. Public and private funding sources can serve to incentivize and supplement employer contributions to the EAH program. Combining multiple strategies is the best factor for the success of employer-assisted housing.

Advantages

Employer-assisted housing can expand affordability in strong neighborhoods where job opportunities are abundant for low- and moderate-income workers but there is a shortage of housing options for them. EAH can promote balanced regional growth by promoting the clustering of jobs, housing, and transportation in ways that improve the environment, build healthy and livable neighborhoods, and improve the ability of employers to compete in the global marketplace. At regional, state, and even federal level, EAH is a key effort to promote more compact, sustainable, and equitable growth patterns. EAH provides homeownership and asset-building opportunities. There are lower housing and transportation burdens when workers are able to live near the workplace. This income can be saved and spent on other needs and freeing up time that would have been spent commuting. There are employer cost savings when there is reduced employee turnover and lower costs related to recruitment and retention. The cost of the program can be partially offset by savings from employee retention, higher morale, and reduced transportation time resulting in less tardiness and absenteeism as well as higher productivity. Improvements in community services have also been noted as a benefit to the program. By having public servants – first responders, teachers, healthcare providers – live near their work, it can increase safety, preparedness, and general quality of life in the community. Community relations are improved when there is a sense of partnership between businesses and residents (13).

Challenges

Evaluations of EAH programs attest that they are much more effective at meeting the housing needs of moderate-income workers than low-income ones. EAH cannot bridge the affordability gap faced by lower-income employees when median home prices are relatively high. For instance, $3,000 in down-payment assistance may be a significant bonus for a middle-income worker who would not have been able to afford the housing otherwise, but would do little to help low-income workers purchase their first home. This is where partnerships are important to include in the design of the program. Another issue that is faced is when increased homeownership rates and new housing increase gentrification pressures in a community. The designers of EAH programs must anticipate this and build in elements to ensure that existing residents are able to benefit as neighborhood conditions improve. Two ways to overcome this issue would be to offer assistance to existing non-employee residents and to restrict some employee assistance just to lower-income workers (13). Adequate planning and administration are important in the overall function of an employee-assisted housing program.

Inclusionary Zoning

Generally, inclusionary zoning is a land use regulation which involves a requirement or an incentive for developers to include a modest percentage, 15 to 20 percent, of affordable units within newly created developments. Inclusionary housing policies may be mandatory or voluntary, and either require or offer incentives for developers of market-rate projects to set aside a modest percentage of units for low- and moderate-income households (7). The developer can receive non-monetary compensation in the form of density bonuses, zoning variances, or expedited permits, which can all reduce the cost of construction (13). Well-designed inclusionary zoning policies can benefit the community, working families and developers alike. It creates diverse, mixed income neighborhoods and disperses affordable homes throughout the community (7). The community and families benefit through the production of a significant number of affordable homes. Developers and property owners benefit through incentives that allow them to build a higher density than otherwise permitted. Some inclusionary zoning policies provide other incentives such as the opportunity to access public subsidies for the development of affordable homes (10). By ensuring that a portion of newly created homes are affordable to working families, inclusionary policies allow workers to access opportunity- and amenity-rich neighborhoods and avoid long commutes from areas with lower housing costs. During a slowdown in local housing development, inclusionary zoning can help to ensure that affordable homes will continue to be a part of the local housing landscape when market-rate development resumes (7).

Implementing Policy

Most inclusionary zoning policies are implemented by cities and counties through a zoning ordinance or executive order, although some states have adopted fair share programs to achieve similar results on a larger scale (7). In designing inclusionary zoning policies, communities have found it useful to bring representatives from the development community together with advocates in favor of affordable homes to consider how to structure the policies to best meet the needs of the community. In particular, it is important to develop inclusionary zoning policies that include realistic affordability levels, and provide density bonuses and other incentives that are well-tailored to the specific conditions of the community. Developer compensation is an important aspect of inclusionary zoning. There are a range of cost offsets that can be provided such as a density bonus, unit size reduction, relaxed parking requirements, design flexibility, fee deferrals, and fast track permitting. Another important consideration is to ensure that the affordable homes developed through the policy remain affordable through long periods of time by using a shared equity mechanism (10). Most inclusionary zoning program require external comparability between affordable and market-rate units so that lower-income families can purchase homes indistinguishable from the rest of the development which helps to eliminate the harmful stigma that is often attached to affordable housing (13).

Advantages

Creating a diverse, mixed-income, integrated community is important and extremely beneficial for healthy, well-rounded neighborhoods. Lower income neighborhoods are typically isolated from access to livable wage jobs, quality education, adequate health services, and protection from criminal activities. Mixed income communities broaden access to well-funded schools, strong municipal services and emerging job centers. Asking private developers to share responsibility for creating affordable housing is both appropriate and crucial. A healthy community requires a diverse labor pool including professionals, service sector employees, and public servants. Inclusionary zoning ensures that these individuals can live in the community where they work. It can also help attract and retain businesses who can attract employees easier when they can afford to live within a reasonable commuting distance. Mixed income communities created through inclusionary zoning provide openings through which low-wage earning families can buy homes in appreciating housing markets, accumulate wealth, and share a part of the American dream (13).

End Notes

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Affordable Homeownership at UMore Park

Rosemount Planning Commission
October 26, 2010
Allie Klynderud

UNIVERSITY OF MINNESOTA
Driven to Discover℠

Objective

The objective of this project was to research various models for financing and implementing affordable homeownership in the development at UMore Park.

Affordability

- Affordability should be at the center of the conversation
- Can families afford to live and work in UMore Park?
- How can we reduce the negative connotations of affordable housing?
- This project focused on affordable homeownership options as a starting point

Shared Equity Ownership

- **Provides long-term affordability**
  - **A better model than a one-time, top-down subsidy or grant that can only be used by one household**
- **“Resale Restricted” ownership**
- **Value is in being a homeowner, having the potential to build more equity than just renting**
- **Types: Limited equity cooperatives, deed restricted housing, and community land trusts**

Shared Equity Ownership

The Community Land Trust Model

- **Separates the cost of the land and the cost of the housing, reducing the overall price of the unit to make it more affordable**
- **Potential for developers to collaborate with a non-profit, community-based organization to oversee the land provided for land trust homes**

Inclusionary Zoning

- Zoning codes and land use should allow or require a modest percent of land or units to be designated for affordable home sites [land or density]
- Mix zoning to prevent segregation
- Bring together representatives from development community, city, residents, affordable housing professionals, and advocates to consider how to structure the policy to fit the needs of the community
- Incentives for developers – cost offsets

Suggestions for the Future

- **The models are most effective when combined with other tools**
  - **Employer Assisted Housing + Land Trust + Inclusionary Zoning**
- **Effectiveness depends on their design, control, implementation, confidence and support**
- **Plan for affordability to be part of the discussion moving forward in zoning and housing types being considered for UMore Park**

Questions or Comments?