Shared Equity Housing:

Designed to Last

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by John Emmeus Davis

Burlington Associates in Community Development LLC

Most efforts to boost lower-income households into the ranks of first-time homeowners are designed for the sunny middle of the business cycle, not for the harsher conditions at either extreme. Neither the supply-side programs that subsidize production of affordably priced housing nor demand-side programs that provide grants and low-interest loans for the purchase of market-priced homes do much to preserve affordability, promote upkeep, or prevent foreclosure, especially when the economy is very hot—or very cold. No provision is made for stewardship.

Engineers would describe such a system as lacking the capacity for graceful failure. Engineers do not assume the sun will always shine; nor do they set themselves the impossible goal of designing a building, electrical grid, or computer program that will never fail. They strive, instead, to design systems that are robust and resilient. Such a system fails only in extreme conditions—and then fails gracefully. It bends, but doesn't break. It dims and flickers, but doesn't crash. It collapses, but with enough warning and backup to protect its most valuable components.

Resilience is omitted from the private tenures and public programs typically used to expand homeownership because little attention is paid to what can happen to publicly subsidized, privately owned homes after they are sold. That is a serious flaw of policy and design. Whenever public resources are lavished on owner-occupied homes, more must be done to preserve affordability. More must be done to ensure that the public's investment is neither removed at resale nor gradually depleted through deferred maintenance. More must be done to ensure that lower-income families can stay in their homes, neither nudged out by rising costs nor forced out by foreclosure. Stewardship is the way to create homes that last.

Shared Equity Homeownership

Stewardship is not a part of conventional homeownership models. It is a standard feature, however, of community land trusts (CLTs), limited equity cooperatives (LECs), and houses and condominiums with affordability covenants lasting many years. Together, these models are increasingly known as "shared equity homeownership."

The individuals occupying this housing are homeowners. They possess many of the rights any other homeowner enjoys: a property interest secured by a deed, a ground lease, or corporate shares that are transferable and inheritable. The occupants are also placed beyond the pale of tenancy by the responsibilities they assume, the rewards they earn, and the risks they bear.

Unlike their counterparts in market-rate housing, however, some of these rights, responsibilities, risks, and rewards are shared with a public agency or nonprofit organization that remains in the picture long after the homes are sold. Part of what is shared is the financial gain from homeownership. Homeowners recoup at resale whatever investment they have made in providing a down payment, paying off their mortgage (or share loan), and paying for later improvements—plus a modest return. They do not walk away with all the value embedded in their property, however, since much of it is a product of the community's investment: equity invested at the time of purchase if a public grant or a municipally mandated concession from a private developer was used to reduce the home's price; and equity accumulated during the homeowner's tenure if public investments in infrastructure and general improvements in the regional economy have boosted the price. This socially created value is retained in the home. When resold, the home is transferred to another income-eligible buyer for a formula-determined price that allows a fair return for the seller, while preserving affordability for the next buyer of limited means.

Shared equity homeownership is not the same as a shared appreciation mortgage. In the latter, any subsidies are removed by the investor at resale—augmented by a share of the home's appreciated value—and the home resells at market rate. With CLTs, LECs, and deed-restricted houses and condominiums, any outside subsidies (and much of the property's appreciated value) remain in the home, reducing its price across multiple resales. Subsidies are neither pocketed by the departing homeowner, nor recaptured by a public or private investor.

Note that what is shared in these unconventional models of tenure is more than investment and appreciation, more than money. It is the "owner's interest"—the total package of rights, responsibilities, risks, and rewards that accompany the ownership of residential property. In market-rate housing, this package belongs to the homeowner alone. In shared equity housing, someone other than the homeowner retains an interest in the property, continuing to exercise a degree of control over how it is used, maintained, and conveyed. Someone other than the homeowner stands behind the property, helping the occupants to shoulder the responsibilities and manage the risks of homeownership.

That someone may be the municipality whose dollars or powers made the home affordable in the first place. More often, stewardship is assumed by a nongovernmental organization like a CLT, LEC, or other nonprofit that performs important duties on the public's behalf: monitoring and enforcing resale controls that keep the housing affordable; promoting sound maintenance; and intervening, if necessary, to prevent foreclosures. These protections are not self-enforcing. They require a watchful steward to make them work—and to make them last.

Stewardship of Homeownership

Does stewardship make a difference? Reports from field, often anecdotal, indicate that CLTs and other models of shared equity homeownership are doing a superior job of preserving the affordability, quality, and security of their housing. Lately, however, as the proliferation of inclusionary programs requiring long-term affordability has boosted the number of shared equity homes, these tenures have begun to be subjected to some of the same data-driven scrutiny long afforded more conventional forms of housing.

Two recent evaluations deserve special notice. The Urban Institute is conducting a yearlong study, supported by NCB Capital Impact and the Ford Foundation, examining the performance of CLTs, LECs, and deed-restricted homeownership programs in eight communities. This evaluation is focused on the household-level benefits of these models—their effectiveness in preserving affordability, reducing foreclosures, building personal wealth, and enabling the sellers of shared equity homes to move into housing and neighborhoods of choice. The study will be completed in June 2010.

In the meantime, the nation's largest CLT, the Champlain Housing Trust (CHT) in Burlington, Vermont, has completed an evaluation of its own, "Lands in Trust, Homes That Last." Its study examined the performance of 410 resale-restricted, owner-occupied houses and condominiums developed by CHT between 1984 and 2008, focusing on the 205 homes that changed hands during that period. The study's highlights were as follows:

• Expanding homeownership. Access to homeownership for persons excluded from the market was expanded. All of the households CHT served earned less than 100 percent of area median income (AMI). Most earned considerably less.

• Preserving affordability. During years when prices for market-rate homes climbed sharply, CHT's homes remained affordable. On initial sale, the average CHT home was affordable to a household earning 56.6 percent of AMI. On resale, it was affordable to a household earning 53.4 percent of AMI.

• Creating personal wealth. Most homeowners departed CHT with more wealth than they had possessed when buying their home. The average homeowner, reselling after five-and-a-half years, recouped her down payment of $2,300 and received a net gain in equity of nearly $12,000.

• Retaining community wealth. Subsidies invested in CHT houses and condominiums stayed in the homes across multiple resales. Had these subsidies not been retained, the public investment necessary to serve the same number of households at the same level of income would have been five times greater.

• Enabling mobility. Two-thirds (67.4 percent) of the homeowners who resold a CHT home bought market-rate homes within six months of leaving; another 5.7 percent traded their first resale-restricted home for another, choosing to stay within CHT.

• Enhancing stability. All the land and 97 percent of the homes CHT developed between 1984 and 2008 remained securely under CHT's stewardship. Defaults were rare. When they happened, CHT acted swiftly to protect its investment and the lender's and homeowner's. There were only nine foreclosures in 25 years. No home has ever been lost from CHT's portfolio because of foreclosure.

The stewardship regime enforced by CHT has helped to safeguard the security, prosperity, and mobility of individuals buying one of its homes, while protecting the dollars invested and the affordability created by a community committed to expanding homeownership for persons of modest means. The same protections that have performed so well at CHT are common to nearly every form of shared equity housing. They make failure unlikely.

When failure does occur, these protections ensure that it is graceful, not catastrophic. Affordability sometimes erodes at the top of the business cycle, but even then, shared equity homes remain more affordable than their market-rate counterparts. The owners of shared equity housing sometimes default, especially at the bottom of the business cycle, but they are far less likely to lose their homes to foreclosure than the owners of conventional, market-rate housing. Garbed in stewardship, shared equity housing is better able to weather the harsh conditions of a fluctuating economy. These homes are designed to last.

John Emmeus Davis *is a partner in Burlington Associates in Community Development LLC, a national consulting cooperative specializing in shared equity homeownership. He is based in Burlington, Vermont.*

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