Community land trust homes in Boulder County, Colorado, provide affordable homeownership opportunities over the long-term.

A Promising Way Forward for Homeownership:

Assessing the Benefits of Shared Equity Programs

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Introduction

Owning a home, traditionally, has been one of the most important ways for American families to accumulate wealth, especially for lower income households.[1] Yet in the wake of the foreclosure crisis, policy-makers are revisiting government subsidies for homeownership, and important questions are emerging about how to create homeownership programs that are sustainable over the long-term. In addition, in an environment of fiscal constraints, there is an increasing need for programs to demonstrate stronger returns on investment, and ensure that public subsidies are spent wisely.

As a result of these twin pressures, interest in shared equity homeownership programs has been increasing. Although there are different types of these programs, the three most common models of shared equity homeownership initiatives are community land trusts, limited equity cooperatives and resale-restricted, owner-occupied houses or condominiums with affordability covenants (i.e., deed restrictions) lasting 30 years or longer.[2] Common across all these programs is a commitment to helping income-eligible families to purchase homes at below-market prices, and in return for the subsidized purchase price, restricting the owner's potential capital gains from the resale of the home.[3] The resale restrictions

Box 1: Description of Shared Equity Homeownership Programs in Study

The seven shared equity homeownership programs described in the report vary considerably with respect to the markets they serve, the homebuyers they target, and the formulas and methods they use in maintaining the affordability of their homes. This box briefly summarizes the programs and their clients.

A Regional Coalition for Housing (ARCH) was created in 1992 through an agreement of several municipalities in eastern King County, Washington to create and preserve the supply of housing for low- and moderate-income households. Through December 2009, ARCH had sold homes to 722 families, including 186 resales. Each of the 15 cities in east King County is a voluntary member of ARCH.

The Champlain Housing Trust (CHT), a non-profit organization located in Burlington, Vermont, was created in 2006 in a merger between the Burlington Community Land Trust and Lake Champlain Housing Development Corporation, both of which were founded by the City of Burlington in 1984. By the end of 2009, CHT had acquired a total of 450 resale-restricted, owner-occupied houses and condominiums. Because some of these homes have been resold one or more times without leaving CHT's portfolio, a total of 683 families have been helped to buy a home through Champlain Housing Trust's CLT program.

All homes in the Dos Pinos Housing Cooperative (Dos Pinos) were constructed on a 4-acre parcel of land in Davis, California between 1985 and 1986. The smallest shared equity program in the study, this 60-unit limited-equity cooperative had provided homeownership opportunities to 276 families through 2009.

The Northern Communities Land Trust (NCLT) in Duluth, Minnesota, started providing homeownership opportunities in the Duluth area to low-and moderate-income families in 1994. A non-profit organization, NCLT had sold homes to 232 families through 2009, including 47 resales, where the same price-restricted home was successively purchased by more than one income-eligible family.

The San Francisco Citywide Inclusionary Affordable Housing Program (San Francisco), administered by the Mayor's Office of Housing, is an inclusionary zoning program that requires developers to sell or rent 15 to 20 percent of units in new residential developments at a "below-market-rate" price that is affordable to low- or middle-income households. The program, begun in 1992, currently generates approximately 100 resale-restricted, owner-occupied homes a year. Largest among the sites in this study, the program administers a total homeownership portfolio of over 800 units.

Thistle Community Housing's community land trust (Thistle), began offering homeownership opportunities to low-and moderate-income families in Boulder County, Colorado in 1996. Through December 2009, Thistle had sold homes to 172 families. Included in this total were 69 resales.

Wildwood Park Towne Houses (Wildwood), located in Atlanta, Georgia, was constructed in five phases from 1968 through 1971. This limited equity housing cooperative, serving low-income households, was developed with federal assistance under HUD's Section 236 Interest Reduction Program. The manager for this 268-unit cooperative has information on 140 resales that took place since 1972.

in shared equity homeownership programs create a stock of permanently affordable owner-occupied housing by retaining the public subsidies in the home itself, rather than providing the full subsidy to only one household, such as in a downpayment assistance program. By limiting appreciation, the homes remain affordable over time, eliminating (or minimizing) the need for additional subsidies to assist subsequent homebuyers.

Although shared equity homeownership programs have been in place for many years, there are relatively few empirical studies that document their benefits.[4] A major reason for the lack of information about these programs is the difficulty of collecting client-level information about families who purchase homes under such programs, particularly across multiple sites. Our research study helps to fill this gap by analyzing data from seven programs to quantify the effects of shared equity homeownership initiatives across different market contexts and varied types of programmatic alternatives (See Box 1: Description of Shared Equity Homeownership Programs in Study). Our hope is that the results of the study will provide practitioners, funders, and policymakers with a much-needed empirical foundation for making decisions about designing, managing, and expanding shared equity homeownership programs. The following sections summarize our findings related to the programs' outcomes for preserving the units' affordability, the returns earned by homeowners, and the performance of mortgages originated on these properties. The full report as well as additional research materials and case studies on each of the program sites can be found at http://www.urban.org/sharedequity/.

Are the programs effective in creating and preserving long-term affordability for low- and moderate-income homebuyers?

Given that a central tenet of shared equity strategies is the long-term preservation of affordable homeownership units, an important question driving our research was whether or not they actually succeeded in doing so. We found that across all the programs we studied, the shared equity model was able to not only help families with low-incomes buy homes, but also to preserve affordability of that home after resale.

As Figure 1 shows, the median incomes of the households purchasing a shared equity home in all seven programs were well below the median family income (MFI) of the surrounding areas in which the programs operated. At the median, the programs sold homes to families between 35 and 73 percent of the HUD-determined area median family income. In addition to serving families earning well below the median income, these programs served a very high share of first-time homebuyers. One site (San Francisco) is limited to first-time homebuyers. Three other programs—NCLT, CHT, and Thistle also served primarily first-time homeowners.

But do these properties remain affordable for a second generation of families? To answer this question, we calculated the minimum income that was necessary to initially purchase a shared equity home and the minimum income that was necessary when that same home subsequently resold, and then estimated the average annual increase in the required minimum income at resale.[5] For example, assume that a home, at its initial sale requires a minimum income of $20,000, and, at a resale that takes place 2 years later, requires a minimum income of $24,200. In this scenario, the required minimum income increased by 10 percent per year. To the extent that real incomes increased by the same amount for households earning $20,000 at the time of the initial sale, the unit remains affordable to such households.

Based on this estimation technique, we found that the average required minimum income increased by about no more than 1.0 percent per year in four of the seven sites (Table 1). Because monthly co-op fees declined in real terms, the required real minimum income declined for Wildwood and Dos Pinos buyers. The average annual increase in required minimum income was less than 1 percent for Thistle and San Francisco resale buyers. The required minimum income increased by an average of 1.1 percent per year for Burlington, and by 1.9 percent per year for NCLT and 4.0 percent per year for ARCH homebuyers. Indeed, we found that with the exception of ARCH in Bellevue, the largest share of resold units had no more than a 10 percent increase in the minimum income re-

Figure 1. *Shared Equity Homebuyer Incomes Compared to Area Median Family Income*

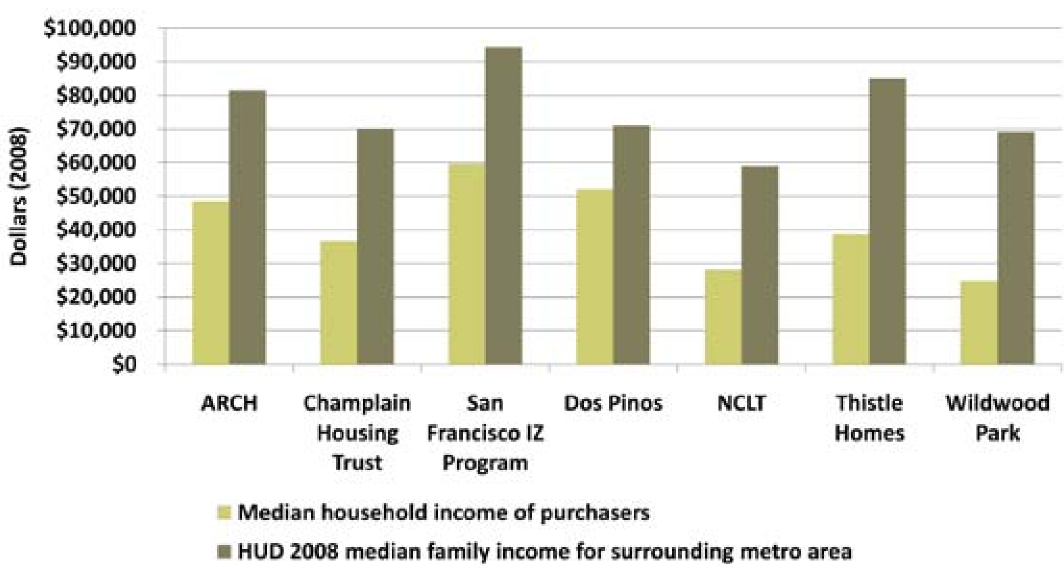

Table 1. *Summary of Absolute Changes to Affordability for Shared Equity Homes*

	ARCH*	CHT	Dos Pinos	NCLT	San Francisco IZ Program	Thistle	Wildwood
Required minimum income (in 2008 $) for initial buyers	$35,548	$29,676	$39,464	$22,436	$83,836	$34,172	$21,011
Mean annual change in real income needed to purchase a home at resale	4.0%	1.1%	-1.6%	1.9%	0.3%	0.5%	-0.7%
Percent of units in which the required real minimum income was within 10% of the initial required real minimum income	31	52	58	67	60	83	61

** ARCH did not provide complete information on mortgages. Therefore, reported changes to the required minimum income of ARCH units are based on estimates where a buyer places a 5 percent downpayment and finances the remaining purchase with a 30-year, fixed-rate mortgage with a 6.0 percent interest rate.*

Sources: Authors' calculations of client-level data.

quired to purchase resold homes, when compared to the minimum income required to purchase the home initially. The relatively large decline in affordability in the ARCH program likely resulted from the program's design in which resellers retain a large share of a unit's appreciation.

However, even accounting for this variation across programs, it is important to note that in all of these programs, the minimum real income required to purchase a shared equity home stayed well below the area median. Therefore, even for programs in which resold units lost some of their affordability, resold homes still remained within the reach of low-income households.

Are the programs effective in building wealth for individual households, providing opportunities for financial gains that are unavailable to renters?

Any shared equity program has two competing objectives: keeping the units affordable for subsequent homebuyers while at the same time providing homebuyers with a means to accumulate wealth. As a result, shared equity programs need to balance the affordability goal with asset building goal. Our second question was whether or not these programs still helped lower-income families build assets, given the preservation of affordability that we found in the previous section.

Homebuyers in shared equity programs can accumulate assets in four key ways: first, the share of any market appreciation that they are allowed to retain, given the program's restrictions; second, the recovery of their original downpayment; third, the"forced savings" they realize on resale, resulting from principal payments they have made on all the mortgages used to finance the purchase of the property; and fourth, recouping costs from capital improvements. We found that these components generated substantial amounts of proceeds for shared equity program participants.

Not surprisingly, we found that the appreciation (in 2008 $) realized by sellers ranged considerably across the sites. At the low end, the median owner in the Wildwood co-op realized just over $2,000 upon resale. In four more sites—CHT, Dos Pinos, NCLT and Thistle—the median reseller realized roughly between $4,000 and $8,000 in appreciation. In San Francisco, where housing prices are considerably higher, the median reseller realized $17,501 in appreciation. The median reseller in the ARCH program—which has more generous resale formulas—realized $43,000 in appreciation (Table 2).

In addition to the homeowners' share of appreciation, the proceeds realized from the payment of a homeowner's mortgage or share loan accounted for one-third and two-thirds of the total proceeds pocketed by resellers. The principal payments made by resellers during their tenure act as a forced savings program with owners recouping these savings at resale. Given average tenures of 3 to 6 years in most sites, these savings were relatively modest (although not insubstantial) because fixed-rate mortgages have relatively small principal payments in their first few years. Forced savings in the programs fell within a narrow band, ranging from $2,420 at the median in NCLT to $3,951 in San Francisco. Alone among the seven sites, the homebuyers at Dos Pinos did not receive share loans, so they did not accumulate wealth through amortization over the course of their occupancy in this limited equity cooperative.

Table 2. *Summary of Appreciation and Rates of Return Realized at Resale by Shared Equity Program Homeowners*

	ARCH*	CHT	Dos Pinos	NCLT	San Francisco IZ Program	Thistle	Wildwood
Median total proceeds	n/av	$17,501	$19,585	$7,989	$70,495	$13,043	$6,277
Median appreciation realized by seller	$42,524	$6,578	$4,171	$4,297	$17,321	$8,107	$2,015
Median total of principal paid on mortgages (forced savings) and recovery of downpayment plus closing costs	n/av	$6,027	$18,363	$4,523	$45,706	$8,567	$3,700
Median downpayment and closing costs	n/av	$2,749	$18,363	$1,075	$40,533	$6,080	$1,249
Median amount of principal paid on mortgages (forced savings) reseller's tenure	n/av	$3,051	n/ap	$2,420	$3,951	$3,065	$2,564
Program IRR	59.6%	30.8%	6.5%	39.0%	11.3%	22.1%	14.1%
S&P 500 Index Fund IRR	9.4%	8.5%	10.6%	2.8%	3.2%	-0.1%	7.8%
10-year Treasury Bonds IRR	6.0%	6.0%	7.8%	4.7%	4.4%	5.9%	5.7%

** ARCH did not provide information on mortgages. Therefore, reported IRR for ARCH units is based on estimates where a buyer places a 5 percent downpayment and finances the remaining purchase with a 30-year, fixed-rate mortgage with a 6.0 percent interest rate.*
Note: All dollar amounts are in 2008 $.
Sources: Authors' calculations of client-level data, Treasury data from the U.S. Department of the Treasury and S&P 500 data from irrationalexuberance.com, both calculated for the median time period of the program.

Rate of return realized by shared equity resellers

In all programs the median internal rate of return (IRR) realized by resellers was at least 6.5 percent, and was as high as 60.0 percent (Table 2). The rate of return is, in part, affected by the appreciation realized by the seller, and this appreciation is a function of the method used by each program to calculate allowable appreciation and the changes in the housing market or index used to calculate allowable appreciation. ARCH has the highest IRR across all of the programs because there was significant appreciation in the local market and because homebuyers under the program are permitted to retain much of the appreciation that is calculated. CHT in Burlington, NCLT in Duluth and Thistle in Boulder allow resellers to retain a portion (either 25 percent or 30 percent) of their homes' appreciation, which is calculated by changes to the appraised value of homes during the time the reseller lived in the property. Because these programs allow resellers to retain a much smaller share of the appreciation, when compared to ARCH, resellers under these programs have a lower IRR.

The median rate of return for resellers in all programs except for Dos Pinos was greater than the return that sellers would have realized if they had rented a unit and invested their downpayment in either the stock market or purchased a 10-year Treasury bond at the time that they purchased their home (we assume that resellers would hold their 10-year Treasury bonds until maturity, and so did not calculate any gains or losses that would have resulted from selling their bonds at the time that the owners sold their homes). Had resellers invested their downpayment amount in an S&P 500 index fund, they would have earned a median return ranging from a low of -0.1 percent in Thistle to a high of 10.6 percent in Dos Pinos. A comparable investment in 10-year Treasury bonds would have yielded a return, at the median, between 4.4 percent (in San Francisco) and 7.8 percent (in Dos Pinos). This suggests that with the exception of Dos Pinos, homebuyers in shared equity programs across the sites accumulated more assets than they would have had they remained renters and invested their downpayment dollars in alternate investment vehicles.

Are the programs effective in maintaining homeownership by avoiding delinquency and foreclosure?

A third question we wanted to investigate was the sustainability of homeownership under shared equity arrangements. Would low-income families be able to sustain their monthly payments, and avoid delinquency or foreclosure? Or is homeownership unsuitable for low-income families?

In every program, the site's foreclosure rates were below HUD reported rates for their surrounding areas as of 2009.

Using client-level data from the programs, we calculated the share of current mortgage loans on homes that were seriously delinquent—that is, more than 90 days late on their mortgage payment. Very few homes were seriously delinquent as of the end of 2009. In the two cooperative programs—Dos Pinos and Wildwood—no owners were delinquent on their share loan (in the case of Wildwood) or their monthly coop fees (for both sites). The other programs ranged from a delinquency rate of 0.4 to 2.7 percent (Table 3). In four of the sites, the program's delinquency rate was below the similar rate for the county as a whole—including upper-income buyers—as reported by TransUnion: ARCH, Dos Pinos, Thistle, and Wildwood. Two sites, CHT and NCLT, saw slightly higher rates of delinquency; these rates were roughly equivalent to the delinquency rate in the surrounding area. In addition, we calculated the share of all mortgages on homes (current or not) that had ever been seriously delinquent. The programs ranged from a low of no homes ever seriously delinquent at Wildwood to a high of 5.2 percent at NCLT. By comparison, HUD data show that 15.0 percent of FHA-insured loans originated nationwide in 2004 had been delinquent at some point by 2008.

Three programs—Wildwood Park, Dos Pinos, and Thistle—had no homes in the foreclosure process as of the end of 2009 and the highest foreclosure rate was NCLT at 1.1 percent. In every program, the site's foreclosure rates were below HUD reported rates for their surrounding areas as of 2009.

We are not certain what accounts for the strong loan performance. Some of the sites required buyers to receive pre-purchase counseling, and offered post-purchase help if an owner was unable to pay his/her mortgage. However, with the data available, we were unable to measure what effect, if any, these services had. It could be that the types of loans originated to shared equity homebuyers played a role in producing the positive outcomes: across the four non-cooperative sites where buyers took out long-term mortgages and for which we have data, not a single borrower had a first mortgage with prepayment penalties and only a small share had adjustable interest rates. In addition, in these sites (CHT, San Francisco, NCLT, and Thistle), a very low share of loans were high cost, defined as having an interest rate more than 300 basis points above a comparable term yield.

A final measure of how effective the shared equity programs have been in not only helping low income families to attain homeownership but to sustain it is the percentage of buyers who remain homeowners five years after they purchase a home. We counted a buyer as a continued homeowner if, after five years, she remains in her original shared equity home, or has moved into another owner-occupied market-rate or shared-equity home. We only have data from three of the seven sites, but in all three, over 90 percent of buyers were still homeowners after five years. This is an impressive rate, considering that all were low-income and almost were all first-time homeowners. By comparison, previous studies have found that roughly half of all low-income homebuyers fail to remain homeowners five years after acquiring a home.[6]

Table 3. *Summary of Absolute Changes to Affordability for Shared Equity Homes*

	ARCH	CHT	Dos Pinos	NCLT	San Francisco IZ Program	Thistle	Wildwood
% Seriously delinquent	0.4%	1.6%	0.0%	2.7%	n/av	1.0%	0.0%
% Seriously delinquent in county	3.8%	1.4%	6.6%	2.5%	n/ap	2.0%	8.3%
% In foreclosure	0.4%	0.5%	0.0%	1.1%	n/av	0.0%	0.0%
% In foreclosure in county	1.2%	1.0%	3.4%	4.4%	n/ap	1.1%	5.6%
% Remain homeowners after five years	n/av	91.8	n/av	95.0%	n/av	91.2%	n/av

Sources: Authors' calculations of client-level data.

Conclusion

Shared equity programs have been promoted as a cost-effective method to help low-income families build wealth through sustainable homeownership, while at the same time providing a permanent supply of units that remain affordable over time. The shared equity programs analyzed in this study support these claims: these programs sold homes and cooperative units to families with incomes ranging from a low of 35 percent of MFI to 73 percent of MFI. Moreover, the income of buyers remained relatively low, when compared to MFI for all of the years in which programs sold their homes.

The shared equity programs delivered on their goal of helping lower income families build wealth: families realized sizable proceeds when selling their homes. Moreover, because most homebuyers purchased their units with a relatively small downpayment, the internal rates of return across all programs but one outpaced the gains that resellers would have earned had they invested their downpayments in stocks or bonds. By accumulating wealth, many of the purchasers of shared equity homes are able to acquire market-rate owner-occupied homes. Moreover, shared equity programs, by recycling subsidies, offer a less expensive method of supporting homeownership than initiatives that provide grants to families to purchase market-rate homes.

Given the current foreclosure crisis, which has reduced homeownership rates, shared equity programs stand out for the extent to which buyers are able to stay current on their mortgages and remain in their homes until they wish to sell. Although homeowners earn well below median incomes, very few had their loan go into foreclosure. In large part, the low foreclosure rate reflects the type of loans received by homebuyers: most purchase loans are 30-year, fixed-rate mortgages. Rather than use high-cost loans, homebuyers finance their purchases with mortgages or share loans that are underwritten with standards that allow for sustainable homeownership over time. CI

Endnotes

Prize Linked Accounts for Youth (PLAY): A New Approach to Youth Financial Education and Savings

1. All names of youth participants have been changed to protect their identity.
2. Jump$tart Coalition for Personal Finance. *2008 Survey of Personal Financial Literacy among High School Seniors.*
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7. Bank on San Francisco, an initiative designed to help the unbanked access mainstream financial services, provides microgrants to nonprofits within the city to help cover the costs of providing financial education. Nonprofit partners can apply for these grants from the city.

A Promising Way Forward for Homeownership: Assessing the Benefits of Shared Equity Programs

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2. Davis, John Emmeus. 2006. *Shared Equity Homeownership: The Changing Landscape of Resale-restricted, Owner-occupied Housing.* Montclair, NJ: National Housing Institute.
3. Affordability can be preserved through a very wide range of different legal and financial mechanisms and, complicating matters, these mechanisms themselves are frequently known by different names in different regions of the country. "Subsidy recapture" programs require homebuyers to repay public subsidies when they sell their homes. Some recapture programs require repayment of only the initial principal at resale, while others require repayment of principal along with deferred interest. Others require sellers to repay principal along with a share of any home price appreciation. A different approach to the same problem involves retaining the subsidy in the assisted home and imposing a resale price restriction which enables future buyers to purchase the home at an affordable price. These price restriction programs are known by many names including: Permanently affordable, Long-term Affordable, Limited Equity, Below Market Rate, Moderately Priced Dwelling Units, Deed Restricted, etc. Davis used the term "Shared Equity Homeownership" to refer to the full range of these programs which offer "resale restricted, owner occupied housing", and we adopt that term here.
4. For existing studies, see, for example, Davis, John E. and Amy Demetrowitz. 2003. *Permanently Affordable Homeownership: Does the Community Land Trust Deliver on Its Promises.* Burlington, VT: Burlington Community Land Trust; Davis, John E. and Alice Stokes. 2009. *Lands in Trust, Homes that Last.* Burlington, VT: Champlain Housing Trust; and Gent, Cathleen Will Sawyer, John E. Davis, and Alison Weber. 2005. *Evaluating the Benefits of Living in the Burlington Community Land Trust's Rental Housing or Cooperative Housing.* Burlington, VT: Center for Regional Studies.
5. For a detailed description of the methodology and estimation assumptions, please read the full report, *Balancing Affordability and Opportunity: An Evaluation of Affordable Homeownership Programs with Long-term Affordability Controls,* by Kenneth Temkin, Brett Theodos, and David Price, available online at http://www.urban.org/sharedequity/.
6. Herbert, Chris and Belsky, Eric. "The Homeownership Experience of Low-income and Minority Households: A Review and Synthesis of the Literature." *Cityscape* 10 (2), 2008; and http://frpo.org/Document/Topics&Issues/Renting%20vs.%20Owning/Achieving%20American%20Dream%20Katz%20Reid.pdf.

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