

# Shared-Equity Homeownership: HAS ITS TIME COME?



*By Don Akchin*

Affordable housing providers typically have had two choices to offer low-income residents: rentals or fee-simple homeownership. But increasingly, more nonprofits and municipalities are turning their attention to shared-equity homeownership, an alternative that provides the benefits of homeownership but also maintains affordability for decades and provides more support to low-income buyers.

As the name suggests, homeowners share their equity with a nonprofit or a government entity. Homeowners generally get some of the appreciation on their home but not as much as they would by selling it on the open market. The remainder is retained by the nonprofit or municipality, which allows it to offer the home at an affordable price to another buyer. While homeowners give up potential gains, they also shed much of the financial risk and are able to afford homes they otherwise would not be able to.

Shared-equity homeownership generally follows one of three models.

- Deed-Restricted Homes – Homes are made affordable by regulation (such as inclusionary zoning) or by subsidy, and the homeowner and the subsidy provider split the equity. Some arrangements prorate equity based on the percentage of subsidy in the initial sale price, while others limit the homeowner's share to the percentage increase in the cost of living. These arrangements are appearing in all regions.
- Community Land Trusts (CLTs) – Homes are kept affordable by separating the land cost from the housing cost. A nonprofit trust purchases the land; residents purchase their homes and are given a long-term lease on the land. Residents have the opportunity to build equity, but it is limited by the terms of the lease to assure perpetual affordability. CLTs have been established in 38 states, with many municipalities creating their own.
- Limited-equity cooperatives (LECs) – Multifamily buildings are owned by a nonprofit corporation or association composed of its residents. Individual residents purchase shares in the corporation and sell those shares back when they leave. LECs are concentrated in New York, California, Massachusetts, Minnesota, and Washington, D.C. Recently, LECs also have been used successfully to convert manufactured housing communities on rented land to resident-owned parks, particularly in New Hampshire.

Several factors are fueling the growing interest in shared-equity homeownership, says John Emmeus Davis, a partner in Burlington Associates in Community Development, a research fellow at the National Housing Institute, and the author of the NHI report, *Shared Equity Homeownership: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing*. “The traditional models for boosting low-income renters to homeownership are becoming harder and extraordinarily expensive,” he says. “When we could help with \$5,000 of down-payment assistance, it seemed like a good use of public investment. Now in some cities it takes \$50,000 to \$100,000 per unit, and at that level you can no longer let the homeowner pocket that subsidy and walk away.”

Another driver, he says, is that “we have a new appreciation for how precarious first-time, low-income homeownership can be. Between predatory lending, unexpected major repairs, a shifting economy, lost jobs and family breakups, homeownership no longer looks as secure as it did. We understand there are other forms of homeownership that provide more security of tenure for people of limited means.”

All three models have enormous potential to be scaled up, Davis says. “One thing holding us back is the lack of standardization and cross-communication across political boundaries. Yet at both the macro level of public policy and the micro level of program design and performance, the distinctions between these individual models tend to disappear.”

Some questions remain: Will the financial sector accept shared-equity homeownership and develop appropriate mortgage products? And will low-income homebuyers be willing to sacrifice some of the return on their investment in exchange for an affordable entry into homeownership?

In partnership with NCB Capital Impact, NeighborWorks® is addressing these issues directly at a NeighborWorks® Training Institute Symposium in Portland, Oregon, on December 12. “A Safe Path to Homeownership: Taking Shared Equity to Scale” will present original research on four aspects of scaling up: financing, market characteristics, public policies and local business models.

“Our goal is to pick up the challenge laid down by the Ford Foundation’s George McCarthy: what would it look like if 10 to 25 percent of the housing in Austin, Seattle, Washington and other growth markets were sustainably affordable?” says Frances Ferguson, director of the NeighborWorks® Multi-Family Initiative.

Eventually, she says, shared-equity homeownership needs to become a mainstream option – something that is understood and accepted by home builders, lenders, title companies, real estate agents and, of course, home buyers. “Fifty years ago,” she notes, “Condominiums were not products that were widely accepted by the mainstream; today they are. So that’s our challenge.” ■