

By Jerin Raj and James Brooks

## Rebuilding Neighborhoods Through Shared Equity Housing

The traditional model of home purchasing and ownership uses market rate financing and is supported by federal structures, such as the Federal Housing Administration, Freddie Mac and Fannie Mae. For much of recent history, this model worked successfully for the majority of Americans. However, as a result of the collapse of the financial sector and the massive number of mortgage foreclosures in the last several years, the percentage of American households that own their residences has declined; reversing the increasing trend in ownership during the last decade. One unintended consequence of this retrenchment is cities and towns are faced with an increasing inventory of foreclosed and vacant homes.

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### WHY SHARED EQUITY HOUSING?

- Maintain affordability of housing stock
- Grow household wealth
- Promote residential stability

Even with a surplus of real property available in many markets across the country, home purchasing conditions have changed for most prospective buyers as a result of tighter conditions for consumer credit. Securing a prime rate mortgage will demand higher credit scores, larger down payments and a favorable debt-to-income ratio,

leaving fewer households eligible. The goals of bringing homeownership to households that desire this option requires innovative pathways which transcend the current model. A potential solution to both increase homeownership and reduce the stock of vacant property is a housing model based on shared equity.

### WHAT IS SHARED EQUITY HOUSING?

Shared equity housing (SEH) consists of a variety of programs in which a public entity, such as a development corporation or a nonprofit, manages long-term affordable housing for low and moderate income households. SEH uses subsidies to reduce home sale prices, paired with profit limitations upon resale, ensuring homes continue to be affordable beyond the initial sale. Shared equity programs are similar to other strategies in use at the local level, such as community land trusts, limited equity cooperatives and affordability covenants, and can help to bring community revitalization and stability to neighborhoods. Tangible benefits include:

“...foreclosure rates for homes in shared equity housing programs are lower than those for market rate homes, and many former SEH homeowners proceed to purchase market rate homes.”



- Maintaining the affordability of homes across generations of owners;
- Preserving community investment;
- Growing household wealth;
- Promoting residential stability by expanding homeownership to low to moderate households; and
- Renewing the pool of subsidy funds at the time of each resale.

Research on SEH indicates that foreclosure rates for homes in shared equity housing programs are lower than those for market rate homes, and many former SEH homeowners proceed to purchase market rate homes.

SEH functions by allowing the buyer to purchase a home and lease the land, dramatically reducing the home purchase price. Buyers qualify based on income (normally ranging between 55 and 65 percent of area median income) and secure market rate home financing following participation in a home buyer education program. SEH contracts outline small monthly lease payments for the land, usually for 99 years, and are renewable. At the time of resale, the owner agrees to receive a portion of the home's appreciation (on average 15 to 25 percent). This agreement, plus a formula based price structure, reduces the sale price for the next buyer. This process enables the home to continue to be affordable to each succeeding generation of owners. Identical to market rate owners, SEH owners are expected to maintain upkeep of their homes. Well-structured SEH programs are one tool for building wealth through homeownership.

## WHAT IS THE ROLE OF MUNICIPALITIES?

The role of municipalities in SEH comes in many forms and may range from direct financing to general administrative coordination. The following tasks can help to make SEH programs a reality in any community.

- Explore and research municipal property laws such as zoning, use of land banks and foreclosure procedure laws.
- Collaborate with local and state elected officials to adopt SEH-friendly policies and promote their use. Questions to consider include:
  - Are land banks allowed in your area?
  - Can long-term provisions be placed on private property?
  - What are the local and state foreclosure laws?
- Survey current properties to determine which can be immediately utilized for SEH and which may need to be rehabilitated for future use.
- Determine eligibility qualifications for potential buyers based on your area median income.
- Decide who will govern and provide strategic direction for the organization and how it may be structured. Many SEH programs follow the rule of thirds: one third of the board members are residents (homeowners); one third are citizens of the local area; and one third are public officials nominated by the other members of the board.
- Identify sources to raise capital for shared equity housing options. It is not uncommon for SEH programs to have multiple funding streams, such as federal community development programs, community development financial institutions, foundations, private sector sources, local housing agencies and local and state governments. Having myriad funding sources helps to ensure a steady flow of funding and allows for involvement from community partners. Funds collected are directed toward the purchase of current homes, construction

### CHECKLIST FOR MUNICIPALITIES

- Examine city/county/state laws on land banks and real property.
- Collaborate with elected officials to adopt SEH-friendly policies.
- Survey housing partners for expertise and support.
- Determine eligibility qualifications.
- Identify sources for capital.
- Determine program structure, management and process of accountability.



of new homes, buying of property, subsidizing sale and resale costs and program overhead. The implementation of SEH programs requires funding for a variety of administrative and programmatic costs. Revenue for SEH use can be generated from:

- Document recording fees and documents added to public records;
- Surcharges to utility bills;
- Real estate transfer taxes on sale of property;
- Interest on title company escrow accounts and unclaimed property funds;
- Sales taxes;
- Property taxes;
- Developer fees;
- Hospitality taxes; or
- Tax increment financing.

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## WHAT MAKES A SUCCESSFUL SHARED EQUITY HOUSING PROGRAM?

Successful shared equity housing programs have these qualities in common:

- Collaboration with local land bank authorities having power to acquire, hold and sell property;
- Flexible, coordinated and expedited processing of foreclosed property;
- A property management system with geographic data down to specific land parcels; and
- A community and citywide shared strategic vision and commitment to broad based housing opportunity.

Addressing these issues will help ensure SEH is a quality tool for supporting homeownership while stabilizing neighborhoods and providing accountability to funders and the community-at-large.

## EXAMPLES

All of these local initiatives, whether city or county based, provide a shared equity housing program in addition to the other forms of assistance and support listed in each entry.

### **Burlington, Vt. - Champlain Housing Trust** (pop. 39,000)

The Champlain Housing Trust serves a three-county area providing technical support services to housing cooperatives and resident associations and funding for low-interest loans for home repairs, weatherization, septic systems and wells for residents. For more information, contact Emily Higgins at (802) 862-5054 or visit [www.champlainhousingtrust.org](http://www.champlainhousingtrust.org).

### **Dover, Del. - Diamond State Community Land Trust** (pop. 36,000)

Diamond State Community Land Trust works to create a large inventory of permanently affordable homes across the state through projects with collaborative organizations and for-profit builders through mixed-income developments. For more information, contact Jo Ann Zorb at (800) 282-0477 or [www.diamondstateclt.org](http://www.diamondstateclt.org).

### **Genessee County, Mich. - Land Bank** (pop. 436,141)

The Genessee County Land Bank, incorporating the cities of Flint, Grand Blanc and Burton, has become the most extensive land bank authority in the United States. The broad-ranging powers allow disposition of portfolios of vacant properties in a single judicial proceeding. For more information, contact Christina Kelly at [clkelly@umich.edu](mailto:clkelly@umich.edu) or (810) 257-3088 or by visiting the website [www.thelandbank.org](http://www.thelandbank.org).

### **Bellingham, Wash. - Kulshan Community Land Trust** (pop. 196,529)

The Kulshan Community Land Trust addresses barriers to homeownership, from a lack of capital and information, to home



buyer programs offering down payment assistance and home buyer education. For more information, contact Christina Olson at (360) 671-5600 or visit [www.kclt.org](http://www.kclt.org).

**Clackamas County, Ore. - Community Land Trust** (pop. 338,391)

Clackamas County Community Land Trust, incorporating the cities of Oregon City and West Linn manages a Homeownership Resource Center providing home buyer education. For more information, contact Loretta Kelly at (503) 659-1618 or visit [www.clackamasclt.org](http://www.clackamasclt.org).

## RESOURCES

These national organizations provide information and resources to promote the establishment of shared equity housing programs.

**National Community Land Trust Network**

The umbrella organization supporting the work of community land trusts across the United States. Visit [www.clnetwork.org](http://www.clnetwork.org).

**Local Initiatives Support Corporation**

Supports the neighborhood revitalization efforts of community groups by providing them with financing technical and management assistance, training opportunities and policy support. Visit [www.lisc.org](http://www.lisc.org).

**National Housing Institute**

Focuses housing and community development policies and practices through the lens of social and economic equity, racism, poverty, health, the environment, education and sustainability. NHI conducts research on shared-equity homeownership, managing neighborhood change, preserving subsidized housing, homelessness prevention and creating jobs as a component of affordable-housing construction. Visit [www.nhi.org](http://www.nhi.org).

**Center for Housing Policy**

Works to understand the nation's housing challenges and examine the impact of policies and programs developed to address housing disparities. Visit [www.nhc.org](http://www.nhc.org).

**National Housing Trust**

A national nonprofit engaged in housing preservation through public policy advocacy, real estate development, and lending. NHT collaborates with local partners and investors to raise the capital necessary to buy and renovate affordable apartments that are at risk of being converted to market rate or that are deteriorating. Visit [www.nhtinc.org](http://www.nhtinc.org).

## ABOUT THIS PUBLICATION

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The National League of Cities is the nation's oldest and largest organization devoted to strengthening and promoting cities as centers of opportunity, leadership and governance. NLC is a resource and advocate for more 1,600 member cities and the 49 state municipal leagues, representing 19,000 cities and towns and more than 218 million Americans. Through its **Center for Research and Innovation**, NLC provides research and analysis on key topics and trends important to cities, creative solutions to improve the quality of life in communities, inspiration and ideas for local officials to use in tackling tough issues and opportunities for city leaders to connect with peers, share experiences and learn about innovative approaches in cities.