

# Balancing

Shared equity home ownership  
addresses affordable housing needs

By Judy Newman



# the Cost

Nancy Rowand and her 18-month-old twin daughter and son were welcoming the holidays in their tiny Washington, D.C. apartment on Christmas Eve, 1977.

But their joy faded quickly when Rowand received a startling, hand-delivered “gift:” an eviction notice.

New owners of the eight-building, 96-unit complex—built in the 1940s to house military or military support staff—wanted to tear down the 600-square-foot, one-bedroom apartments between Georgetown and American universities or convert them to condominiums.

Rowand and her neighbors, a diverse group of moderate-income people, were not about to let that happen without a fight. They formed a committee, hired lawyers and appealed to the city for help. “We had a rally and chanted, ‘we shall not be moved,’” Rowand said.

And they won. In 1979, the Beecher Cooperative was created, 63 units in six buildings, for an initial buy-in cost of \$1,000 per household plus a co-op fee to cover a blanket mortgage on the property.

Nearly 30 years later, the Beecher Cooperative is still going strong. In 1986, members bought out the limited partnership that co-owned their buildings, raising \$2.5 million through individual share loans averaging \$30,000 from the National Cooperative Bank. Today, households pay \$550 to \$800 a month in mortgage and co-op fees, Rowand said, a lot less than the area’s market-rate, one-bedroom rents of about \$1,400.

“We’re very much of an anomaly,” Rowand said. “We really have a beautiful situation in an area of Washington, D.C. that’s very pricey, wooded and very desirable.”

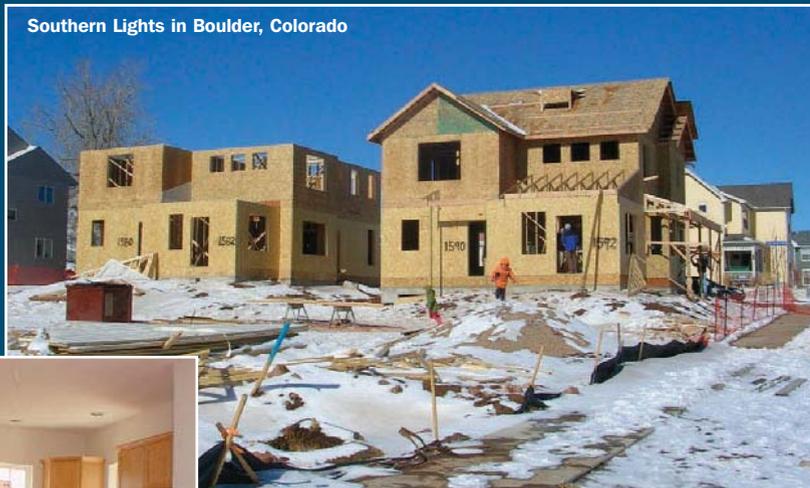
The Beecher bunch might not have foreseen it at the time, but it was part of what has become a growing trend toward shared

equity housing, a trend that, in the past few years, has taken on the momentum of a bullet train.

Though their numbers still make up only a small percentage nationwide, more and more people are embracing shared equity arrangements to become homeowners.

Shared equity, also called permanently affordable home ownership or third sector housing, is a step between the traditional American housing alternatives of either buying or renting; of private home ownership or ownership by a government agency or nonprofit organization.

In shared equity arrangements, a homeowner generally receives some type of subsidy from a government agency or nonprofit group, reducing the purchase and payment costs. In return, the homeowner shares the rise in the home’s value with



Southern Lights in Boulder, Colorado



Three types of shared equity housing are gaining ground.

that organization. There are income guidelines for purchasers and often, rules on use of the property, shared governance, and caps on appreciation.

A study on shared equity home ownership by John Emmeus Davis for the National Housing Institute (NHI) in 2006 concluded that "after waiting in the wings for many years, third sector housing is now reaching a broader audience and winning wider support." Davis estimated there could be anywhere between 500,000 and 800,000 shared equity units around the country. But that number will likely explode over the next decade. As housing costs have soared, more and more cities have adopted inclusionary housing requirements and set up housing trust funds.

Meanwhile, an expanding range of alternatives is being explored as the call for affordable home ownership grows louder. Shared equity mortgages, in which homeowners share the increased value of their property with investors, are touted in an April 2007 report co-authored by New York University economics professor Andrew Caplin in partnership with the Fannie Mae Foundation. Homeowners would gain a new source of financing

and reduce their home-buying costs while investors could participate in "a new asset class," the report suggested.

Also in April, a *Business Week* article said one type of shared equity mortgage already is becoming more prevalent: parents contributing to their child's home downpayment and claiming a comparable share of the appreciation when the home is sold.

But the concept of shared equity is not without its bumps, ranging from how long covenants should stay in effect to how much equity the homeowner should receive. And it is not for everyone. Shared equity homeowners won't get rich on their real estate investment. At the Beecher Cooperative, units are now valued at \$90,000; condos in the two buildings that did not join the co-op were recently selling for \$250,000. But that's the crux of the program: to keep home ownership affordable.

Most commonly, three types of shared equity housing are gaining ground, the NHI study said: limited equity co-ops, such as the Beecher Cooperative, deed-restricted housing and community land trusts.

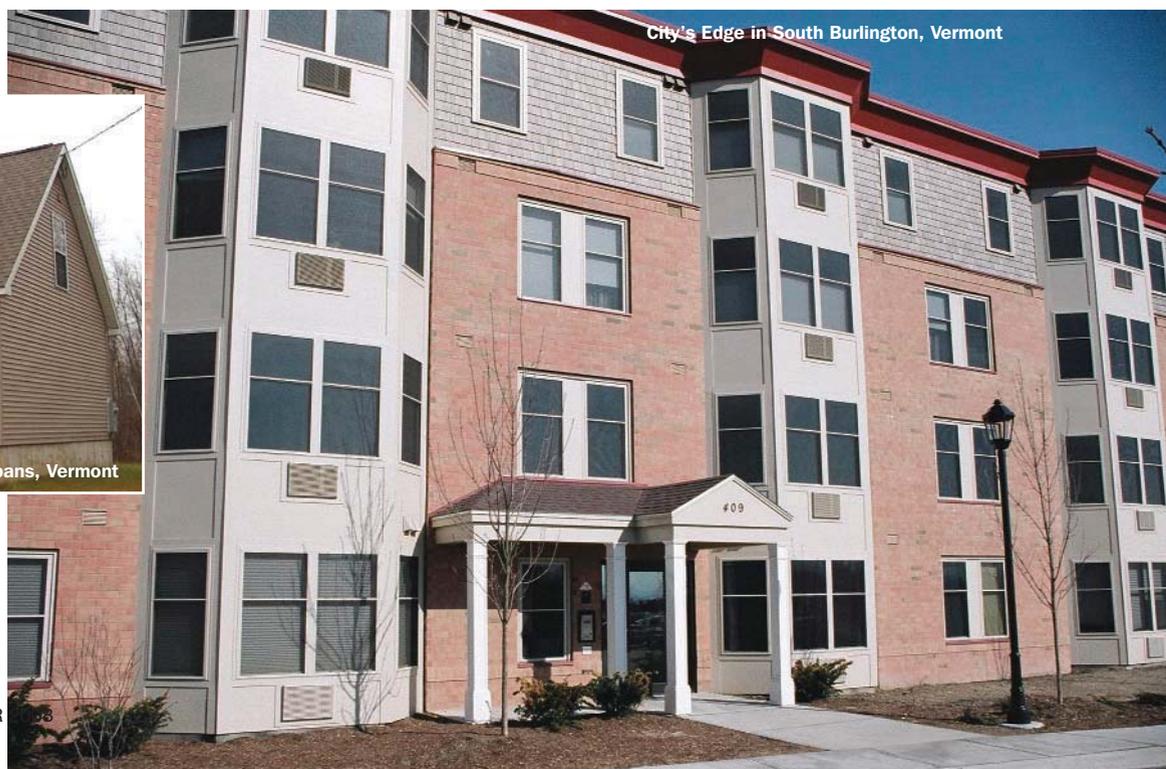
In Boulder, Colo., four families moved into two new duplexes in July in Southern Lights, a deed-restricted housing project initiated by the Boulder Area REALTOR® Association.

With the help of Boulder's Affordable Housing Alliance—a nonprofit group that already had built other deed-restricted units nearby—and the city's land contribution, the REALTORS® raised \$75,000 and worked side-by-side with the homeowners-to-be, hammering, painting and landscaping the property.

## Deed-restricted houses, town houses and condominiums are the fastest growing form of shared equity home ownership.



Elmwood in St. Albans, Vermont



City's Edge in South Burlington, Vermont



## REALTORS<sup>®</sup> worked side-by-side with the homeowners-to-be, hammering, painting and landscaping the property.

The Victorian-style duplexes were sold to families earning 80 percent of the median income or less, about \$57,000 for a three-person household. "Architecturally, they do not resemble affordable housing that you may be used to seeing," said Kenneth Hotard, senior vice president for public affairs with the Boulder Area REALTOR<sup>®</sup> Association (BARA).

Two of the units are 1,504 square feet, with four bedrooms and two baths; they sold for \$200,000. The other two, at 1,227 square feet, with three bedrooms and two baths, sold for \$175,000. "Market rate would be at least twice that much," Hotard said, noting that Boulder's median home sale price is \$560,000.

City rules specify that when the current homeowners sell their duplexes, the price cannot appreciate more than 1 to 3.5 percent a year. Boulder also has inclusionary zoning rules requiring 20 percent of all housing built to be permanently affordable. But a problem has emerged, Hotard said: there's not enough housing for middle-income people.

"We're basically driving the middle class out," he said. BARA plans to work with the city to create incentives to build more middle-income homes.

Deed-restricted houses, town houses and condominiums are the fastest growing form of

shared equity home ownership, the NHI study said, primarily because so many communities are now using regulatory incentives and inclusionary mandates, requiring that some or all new housing developments include affordable units.

Community land trusts also are sprouting nationwide, from Burlington, Vt. to Irvine, Calif.

Traditionally, the land trust owns the land and leases it to the owner of the home that sits on the land. With condominiums, there's no land to lease, so a covenant fulfills a similar purpose.

The Burlington Community Land Trust, one of the oldest community land trusts in the U.S., was founded in 1984. Renamed the Champlain Housing Trust when it merged with the nonprofit Lake Champlain Housing Development Corporation in 2006, it is also one of the largest, encompassing nearly 400 single-family homes and condominiums, more than 1,400 rental units and six co-ops with 115 homes in a three-county area of northwest Vermont. Eighty employees run the land trust, which also sees its mission as revitalizing declining neighborhoods, not just with housing but also stores and offices.

"We really are a large-scale community development organization," said Kirsten DeLuca, homeland and technical assistance program manager.

Champlain serves households below the area's median income and provides a subsidy that lowers

the cost to the buyer, then limits the appreciation the homeowner can receive to 25 percent when the home is later sold.

For example, on a home priced at \$200,000, Champlain may provide a \$50,000 subsidy. When the owners decide to sell, a fair market appraisal is conducted. If the home is then worth \$240,000, the owners will get \$10,000 of the \$40,000 appreciation. They sell the home back to the land trust for the amount they initially paid—\$150,000—plus \$10,000, for a total of \$160,000. The land trust keeps the housing affordable by providing the next buyer with a \$70,000 subsidy, holding the mortgage down to \$170,000, DeLuca said.

Potential homebuyers not only can buy units built by Champlain, they can also find a home they like but can't afford in another location and ask to make it part of the land trust, with a subsidy from the organization to help cover the fair market value cost.

Neighbors who paid full price don't get angry, DeLuca said. "If you can afford to buy a market-rate home on your own, that's a better investment. You'll get 100 percent of the appreciation."

People get involved with the land trust because they're "entirely priced out of the market," DeLuca said. "We're talking nurses, teachers, firemen; middle-class and working-class folks cannot afford to buy property in our area. We have a critical affordable housing crisis and that's what you're seeing in many parts of the country," she said. "If folks want to afford a home, for many people, this is their only option."

The Champlain Housing Trust is seen as a model for the nation and serves as a mentor to land trusts organizing elsewhere, including City First Homes, incorporated in Washington, D.C. in October. Its goal: creating 1,000 units of "permanently affordable workforce housing" within three years.

"If folks want to own a home, for many people, this is their only option [the land trust]."



"It has become increasingly clear that workforce housing was a challenge that was facing D.C. for which there were no large-scale solutions," said David Wilkinson, executive director of City First Enterprises, nonprofit parent of City First Homes.

City First is using a \$10-million city grant coupled with \$65 million in private financing, whose investors will receive federal New Markets tax credits. The homes will target families at 80 percent of D.C.'s median income, currently at \$94,500 for a family of four.

Average home prices are nearly \$450,000, Wilkinson said. "A teacher in D.C. in 2000 could buy one of every three homes. Now, it's closer to one in 10. Real estate rates have risen much more quickly than incomes in D.C. so the city is facing potential shortages of teachers and health care workers and others."

City First plans to work with developers to build town homes, single-family homes, condominiums and cooperatives in mixed-income developments throughout the District of Columbia, Wilkinson said. City First will help finance the affordable housing part of the development which will be passed along as a 3 percent second mortgage for the homebuyer.

For example, on a \$300,000 home, the buyer would take out a \$225,000 conventional mortgage. The remaining \$75,000 would come from City First as a second mortgage, with 3.1 percent interest. When the buyer later sells the unit, the buyer takes 25 percent of the appreciation.

"We are told by home ownership counselors and other real estate market experts across the city that demand will be very high for this. It will significantly increase the affordability of units," Wilkinson said. Developers like the idea because it expands the number of potential buyers for their units, he added.

Irvine, Calif. is another community establishing a new land trust. Approved by the city in 2006, its goal is to create 9,700 units by 2025—10 percent of Irvine's housing stock.

Shared equity housing is "a vision that is neither impractical nor remote," the NHI study said, calling for more resources and research into such programs. Public and private support are growing, the study noted, adding, "There are encouraging signs that third sector housing has finally arrived."

*Judy Newman is a business reporter for the Wisconsin State Journal newspaper in Madison, Wis.*



Shared equity housing is a vision that is neither impractical nor remote.