SHARED EQUITY HOMEOWNERSHIP

AFFORDABLE HOUSING, WEALTH BUILDING, AND COMMUNITY EMPOWERMENT

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Shared equity homeownership (SEH) programs offer an opportunity to effectively provide affordable housing to low-income families, while also allowing for wealth accumulation. Homeownership is often beyond reach for low- and moderate-income households as they are unable to afford entry costs. Additionally, race-based discriminatory policies have denied homeownership access to minority populations. Community land trusts and limited equity cooperatives provide models through which SEH is applied, which ensure continued housing affordability. SEH programs ensure that a public investment will provide the greatest good to the greatest number of people. In addition, SEH programs offer an opportunity for low-income households to become empowered and gain a sense of autonomy.

Shared Equity Homeownership (SEH) is an effective, powerful approach to providing affordable housing services. While traditional affordable homeownership programs provide one-time grants or forgivable loans that do not outlast the initial recipient of the subsidy, SEH programs maximize the potential of the subsidy by keeping it invested in the home (Axel-Lute, n.d.; Kennedy, 2003; Jacobus & Davis, 2010). This provides affordable housing access to multiple households and offers a "stable, sustainable, low-risk mechanism for providing...wealth creation to unlimited numbers of families over the long term" (Jacobus & Davis, 2010, p. 29).

MARKET FAILURES

For many households, homeownership is beyond reach as entry costs are high and programs to support homeownership favor middle- and upper-income households. The mortgage interest deduction program, the main federal program supporting homeownership, costs the federal government more than $70 billion each year, yet does little to promote homeownership outside of providing a benefit for higher-income households (Fischer & Huang, 2013). Most housing assistance for low- and moderate-income households targets rental housing, with fewer than ten percent of expenditures going toward affordable homeownership (Olsen, 2007). Considering that homeownership is virtually the only way for low- and moderate-income households to build wealth, the lack of accessibility to homeownership has contributed to a growing wealth gap even more severe than that of income inequality (Jacobus & Davis, 2010). According to the Institute for Policy Studies (2014), the top ten percent of income earners control 84.5 percent of the wealth, while the bottom 50 percent of income earners control a mere 0.8 percent.

Minorities face even greater wealth disparities, many of them due to a lack of access to homeownership opportunities. Historically, federal housing programs to boost homeownership have denied access to minority households. Sixty-eight percent of U.S. households own their homes, but only 47 percent of African-Americans and 48 percent of Latinos are homeowners, compared to 72 percent of whites (Jacobus & Davis, 2010). More recently, predatory mortgage lending practices have disproportionately targeted minorities. The foreclosure crisis of the late 2000s resulted in the greatest loss of wealth for minority households in modern U.S. history. African American borrowers lost an estimated $92 billion, and Latino borrowers lost an estimated $98 billion due to subprime mortgages (Policylink, 2009). In 2013, the median net worth of white households was $141,900, compared to $11,000 for African Americans and $13,700 for Latinos (Kochhar and Fry, 2014). More than 70% of this difference could be attributed to the disparity in home equity alone (Orzechowksi & Sepielli, 2003).

Wealth is a fundamental building block in a market-based system; the more wealth one has, the more wealth one can generate. Lack of opportunities for homeownership worsens gaps between low-income and wealthy households, as well as between white and minority households. In addition, those with less wealth have less political, social, and economic power. Finally, households with less wealth are also less equipped to endure problems like job loss or a major illness. Providing opportunities for households to accumulate wealth is just as important as providing housing that is affordable. SEH programs offer an effective model for simultaneously delivering affordable housing and providing opportunities for wealth building. Additionally, as programs that invest in communities, they work to overcome racial barriers to homeownership.

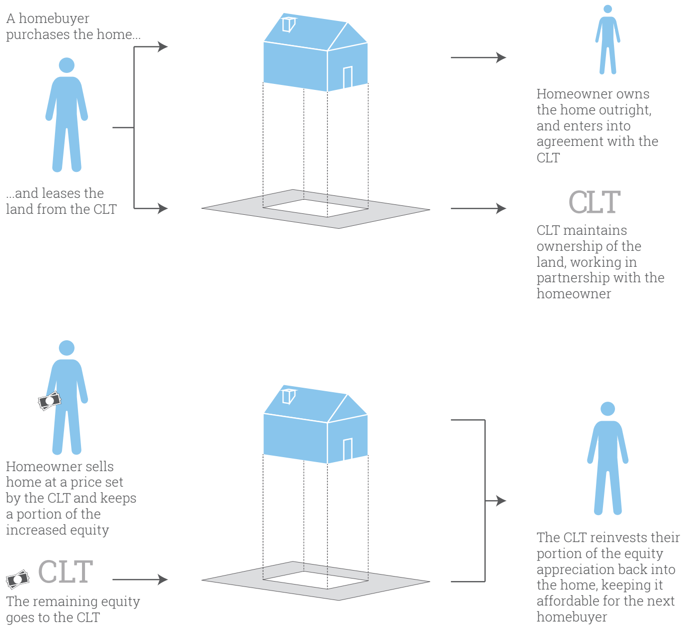

Figure 1

How a Community Land Trust Works: A community land trust makes a home affordable by separating the cost of the land from the cost of the home.

Income and racial inequality in the U.S. is likely to continu, and without drastic changes, relying upon the market alone to address these conditions is not sufficient (Kennedy, 2003). SEH programs provide an opportunity to address these issues in a way that the market cannot. In this article I will detail the SEH model, describing how community land trusts and limited equity cooperatives act as steward organizations, and illustrate how the model effectively provides both affordable housing and modest wealth gains.

DEFINING SHARED EQUITY HOMEOWNERSHIP

SEH is a general term for an array of programs that offer an alternative to renting and traditional homeownership (HUD, 2012). SEH programs typically involve a steward organization that partners with the homeowner. In addition, the programs require that the homeowners occupy the home, that equity be shared, and that affordability be maintained over time (Axel-Lute, n.d.; HUD, 2012). A nonprofit or government entity provides a subsidy to make homes affordable. The subsidy lowers the cost of the home, reducing the amount a buyer must borrow. The steward organization enters into an agreement with the homeowner that restricts the resale price and requires that, at resale, a portion of the equity remain with the home. The equity that remains with the home is reinvested, keeping the purchase price of the home low and enabling the initial subsidy to benefit multiple households (Jacobus & Davis, 2010).

Steward organizations also share the responsibilities, risks, and rewards of owning the home, in addition to protecting its affordability and quality over time. These organizations also offer technical support to the homeowner. As partners who have a vested interest in the home, steward organizations often provide low-interest loans for home maintenance and educational training on budgeting and home upkeep. The main job of the steward organization is to protect the interests of both the community and the homeowner (Jacobus & Davis, 2010).

THE COMMUNITY LAND TRUST AND LIMITED EQUITY COOPERATIVE

Steward organizations often take shape as a community land trust (CLT) or limited equity cooperative (LEC) (Axel-Lute, n.d.; HUD, 2012; Jacobus & Davis, 2010). These models differ in how they operate and how they maintain affordability and generate wealth for the homeowner. Typically, CLTs and LECs exist as independent organizations; however, sometimes other organizations manage them. For example, a nonprofit such as a community development corporation could manage a CLT, or an LEC could be part of a larger cooperative of cooperatives. Overall, CLTs and the LECs balance the needs of the community with the needs of the homeowner, while ensuring continued housing affordability.

COMMUNITY LAND TRUST

Community land trusts are nonprofit, community-based organizations designed to ensure community stewardship of land (National Community Land Trust Network, n.d.). CLT homeowners and non-CLT public representatives often govern their boards. A CLT makes a home affordable by separating the cost of the land from the cost of the home. Using philanthropic and public subsidies, the CLT purchases or develops homes in a targeted geographic area and then sells those homes at an affordable price. The homeowner purchases the home outright and enters into a ground lease with the CLT, paying a monthly ground lease fee to the CLT to support its operations.

The long-term renewable ground lease includes restrictions for the homeowner that are designed to benefit both the homeowner and the community. One such restriction is that the homeowner agrees to occupy the home and resell it at a price set by an affordability formula detailed in the ground lease. When the homeowner sells the house, a portion of the increased value of the home goes to the homeowner, and the CLT keeps the rest. The CLT reinvests the increased value back into the home, keeping the purchase price low for the next homeowner and preserving affordability for future low-income households.

CLTs preserve land for affordable housing and protect low-income homeowners from land speculation and displacement caused by rising housing prices. Since CLTs are comprised of neighborhood members, they use the equity generated by increased land value for resident welfare and neighborhood interests, rather than as profit for individual landowners (Kennedy, 2003). CLTs also help stop neighborhood deterioration

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by investing in abandoned buildings and maintaining the neighborhood. A major cause of neighborhood decline is absentee property owners who neglect properties and/or purchase properties as investments, letting them sit empty until the property value increases. CLTs bring property ownership into the hands of community members, thus giving them greater control over occupancy and development. In addition, since the ground lease requires that homeowners occupy their homes, investors cannot turn property into rental property, which increases the likelihood of obtaining occupants who have a greater investment in the neighborhood.

LIMITED EQUITY COOPERATIVE

An LEC is a type of SEH where "shareholder residents manage their buildings…and have a right to get back what they have paid for their shares plus an allowance for improvements" (Kennedy, 2003, p. 85). Residents buy shares or membership in the cooperative, which entitles them to a 'proprietary lease.' Residents can then access and use their shares to build wealth if and when they decide to move out (Nembhard, 2014). Generally, a fixed monthly amount is paid that covers operating expenses and the mortgage for the building (Gary, Marcus, & Carey, 2005). Residents manage the building and work to prevent deterioration and abusive or discriminatory management decisions, as well as limit improvements that may make units no longer affordable when resold (Kennedy, 2003).

In addition to providing affordable housing, LECs promote resident participation through self-management and community responsibility. For example, residents have equal voting privileges on decisions related to the operations of the LEC (Kennedy, 2003). LECs see participation in this process as a value in and of itself, where self-management and autonomy empower marginalized and oppressed groups. Cooperatives go beyond individual homeownership to promote stronger communities through democratic processes and increased resident interaction (Gray, Marcus, & Carey, 2005).

HOW DOES SHARED EQUITY HOMEOWNERSHIP MAINTAIN AFFORDABILITY AND GENERATE WEALTH?

CLTs and LECs use resale restrictions as a way to maintain affordability over time. The resale restrictions also stipulate the amount of wealth that residents can gain from the sale of the housing unit or share. The CLT model is similar to traditional homeownership in that the homebuyer takes out a mortgage on the subsidized home price and then makes mortgage payments each month. Since the CLT model provides for individually-owned homes, homeowners are at a greater risk of losing wealth due to fluctuations in the housing market and local economic conditions than homeowners in LECs. In the LEC model, the cooperative owns the the building or development, which enables it to pool its resources and have greater flexibility in adjusting the resale price of the share.

AFFORDABILITY AND WEALTH - COMMUNITY LAND TRUST

CLTs use resale restrictions that are stipulated in the ground lease to maintain affordability and generate wealth for the homeowner. The resale restrictions determine the maximum sale price and, in turn, the amount of wealth the homeowner will grow. CLTs use a number of formulas to determine this price. The most common formula is shared appreciation, through which the homeowner receives a percentage of the home's equity appreciation value, typically set at 25 percent (Sherriff, n.d.). The affordability of the home is maintained by keeping the remaining equity and the original subsidy with the home. The resale value of the home ends up as the original purchase price plus the seller's equity share. Wealth accumulated for the homeowner is dependent upon the housing market at the time of sale and how much the home appreciated in value. The home is kept affordable relative to the cost of housing in the area.

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AFFORDABILITY AND WEALTH - LIMITED EQUITY COOPERATIVE

LECs have a different process of wealth accumulation than CLTs, and in many ways, they are more concerned with affordability and maintaining community than with wealth gain for its members. Since the LEC corporation owns the mortgage, homeowners purchase a lease or membership into the cooperative and pay a monthly fee to the corporation that covers the cost of the mortgage. Upon leaving the LEC, the homeowner sells his or her membership to the cooperative. The cooperative determines the selling price of the membership, which is typically the initial cost of the membership adjusted for inflation plus some percentage of equity. Oftentimes, members receive compensation for any improvements made on their units to ensure that they leave the LEC having incurred only expenses related to the monthly cooperative fee.

Given that the cooperative holds the mortgage, the LEC has greater flexibility with the resale price. LECs can adjust to local needs and restrict resale pricing to ensure affordability for a specific income level (Gray, Marcus, & Carey, 2005). Compared to CLTs, LECs tend to offer fewer opportunities for wealth accumulation. Instead of distributing equity to members upon resale, LECs can decide to use equity to provide an insurance fund for members in case of financial instability or to invest in common property (Kennedy, 2003).

SEH - AN EFFECTIVE MODEL FOR AFFORDABLE HOUSING?

A review of several SEH programs throughout the country demonstrated that the SEH model made homeownership affordable for households making as little as 35 percent of area median income (Temkin, Theodos, & Price, 2010). In comparing

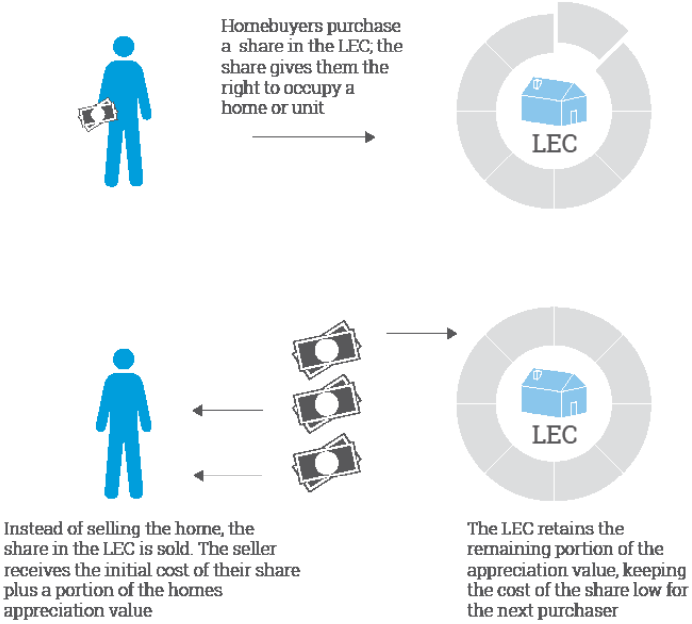

Figure 2

How a Community Limited Equity Cooperative Works. Each share owner purchases a membership in the LEC. When the shareowner leaves, the membership is sold at a price determined by the cooperative.

LECs and CLTs, LECs made homeownership available to lower-income households, those between 35 percent and 50 percent of area median income, whereas CLTs made homes affordable for households making upwards of 55 percent of area median income. This demonstrates that LECs may be a better model for delivering affordable housing to extremely low-income households and could act as a transitional model into CLTs and other homeownership programs.

In addition to providing affordable housing, SEH programs extend the benefit of public and philanthropic subsidies. A study of the Champlain Housing Trust (CHT), located in Northwest Vermont, showed that after an initial investment of $2 million, 350 households gained affordable housing. It would cost five times as much money to serve the same number of households under traditional affordable housing programs (Jacobus & Davis, 2010). The CLT model is also more efficient than traditional homeownership programs, as programs like the Low-Income Housing Tax Credit (LIHTC), mortgage subsidies, and the Community Reinvestment Act do not provide for long-term affordability nor promote community responsibility and resident empowerment (Kennedy, 2003).

CONCLUSION

The purpose of SEH programs is not just to help people move through the market system, but also to "counter the tendency of the market to generate, through the combination of employment instability, neighborhood instability, and the various forms of racial and class discrimination, an endlessly renewed sector of urban misery" (Kennedy, 2003, p. 91). For a population that is often marginalized and shifted around from one controlling institution to another, it is empowering to gain opportunities to shape and control one's future. As urban planners, we need to build these opportunities into our intervention strategies and help empower marginalized populations so that they can defend themselves in an oppressive system.

From an investor's perspective, housing is a commodity rather than a home. It exists for the purpose of profit. While SEH programs do not correct the inequities of a market-based system, they do offer a compromise between the complete decommodification of housing and a purely market-driven approach.

SEH programs offer homeownership opportunities while also achieving larger social goals (Gray, Marcus, & Carey, 2005). They also preserve affordability and extend the benefit of public subsidies to multiple households (Jacobus & Davis, 2010). SEH programs help stabilize neighborhoods by stemming the tide of rising housing costs and curtailing neighborhood decline, and help empower low-income households and communities (McStotts, n.d.). Lastly, and most importantly, SEH programs provide an opportunity for low-income households to accumulate wealth. As Jacobus and Davis (2010) conclude, "wealth is not just about money. It is a means to freedom, status, security, opportunity, and perhaps most importantly, the ability to take risks without worrying that your whole life will fall apart if you go without pay for a few months" (p. 29). Given these benefits, planners should more readily use SEH programs to address affordable housing in their communities. ■

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