



Affordable for good

Building inclusive communities through homes that last



Habitat
for Humanity®

SHELTER
REPORT ²⁰/₁₇

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Habitat for Humanity International is a nonprofit organization that seeks to eliminate inadequate housing from the world and to make decent shelter a matter of conscience and action.

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Helping homes stay affordable, for good.



Grounded Solutions Network supports strong communities from the ground up. We work nationally, promoting housing solutions that will stay affordable for generations so communities can stabilize and strengthen their foundation, for good. We know what policies and strategies work to build and preserve housing opportunities, and we help communities of all sizes use them.

Our mission is to cultivate communities – equitable, inclusive and rich in opportunity – by advancing affordable housing solutions that last for generations.

We bring together an extensive network of partners and member practitioners – and together we agree that when communities are diverse and equitable, everyone benefits. This starts with a stable home. Our holistic and practical programs connect communities with tools and strategies that have been proven to work, enabling practitioners and policy-makers alike to create impact and bring about the change they seek.

For example, Grounded Solutions Network is the leading provider of technical assistance, training, tools and resources for many kinds of affordable homeownership programs. We help our members and partners take the long view, fine-tuning their

programs for maximum impact and developing new technology to help better manage data and programs.

With our innovative technology solution, HomeKeeper, we help housing professionals streamline the way they manage and report on their homeownership program data so that they can more efficiently run their programs and measure their impact.

Collective Learning

We connect people to share best practices, overcome challenges and nurture innovation and new approaches.

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We provide the building blocks that strengthen housing programs so homes can stay affordable for generations.

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We conduct research that provides the empirical basis for our work and explores emerging ideas.

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We work with policy makers, elected officials and their staff at all levels to explore options and provide policy solutions.

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We identify solutions and share best practices to help programs succeed.

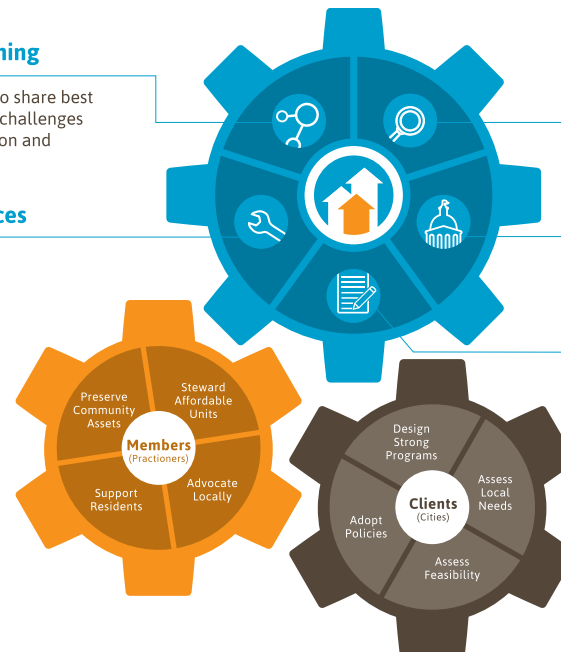


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Summary

Affordably priced homes are constantly lost in the United States. This can happen because of a sudden catastrophe like the Great Recession of 2007-09, which plunged millions of homes into foreclosure. More often it happens because of relentless appreciation in the value of local land and housing, pushing rents and prices beyond the reach of people of modest means.

Thousands of units of assisted housing are removed from the roster of affordable housing every year. Natural obsolescence or inadequate maintenance accounts for some of this loss. Other homes are lost through foreclosure. But the main culprit is the resale of heavily subsidized land and buildings at market prices that families of limited means can no longer afford. Affordability is allowed to disappear, along with the public and private subsidies that initially made these homes affordable.

When affordably priced homes disappear into the market, so the thinking goes, they will be easily replaced. New houses will be constructed on cheaper land somewhere else. When subsidies are lost on the resale of assisted homes, they will be generously replenished by a new round of government appropriations or a fresh fundraising appeal to private donors.

Or so it seemed. The harsh reality is that public funding for affordable housing has been dwindling for decades, and charitable giving has not been growing apace. In many communities, buildable sites have become scarcer and pricier. And the loss of affordable housing has accelerated, spurred by the expiration of short-term affordability controls on assisted housing and the gentrification of low-cost neighborhoods that once provided an abundance of housing that low-income people could afford.

Many nonprofit housing providers, advocates and policymakers have become increasingly concerned about these losses, which happen with distressing regularity in both rental housing and homeowner housing. An increasing number of communities have begun seeking a more sustainable way to invest increasingly scarce local resources. When subsidizing homeownership, in particular, a community will adopt one of two different strategies for responsibly preserving its contribution: “dollars that last” or “homes that last.”

- **“Dollars that last”** focuses on the money that is poured into subsidizing homeownership for low-income and moderate-income families, preventing the loss of such subsidies when assisted homes change hands. Mortgages and promissory notes are tailored to allow a nonprofit organization that developed the housing or a public entity that funded the housing to recapture the front-end subsidies that made these homes affordable in the first place; they also may capture a portion of the back-end appreciation when the homes are resold. These recovered funds are then recycled, subsidizing the construction, rehabilitation or acquisition of new housing, replacing those homes that were lost to the market.
- **“Homes that last”** focuses on the housing itself. Preventing the loss of affordability is a priority here, but preserving the condition of assisted housing and protecting security of tenure for the housing's occupants are equally important. This threefold preservationist strategy is implemented by changing the way that homes are owned and operated.

Permanently affordable housing is the subject of the 2017 Shelter Report, exploring a family of tenures known as “shared-equity homeownership.” These unconventional models of tenure are combined with a stewardship regime that works to protect low-cost homes as well as low-income homeowners. The basic formula for this preservationist approach, which has been adopted by many Habitat affiliates and hundreds of other non-profit housing development organizations, is *“Tenure + Stewardship = Homes That Last.”*

POLICY RECOMMENDATIONS

Bolster resources to increase the development of shared-equity homes.

- Expand federal resources for shared equity:** Directly and indirectly, homeownership has been lavishly supported by the federal government for decades. After the Great Recession, however, there has been a lessening of political support in Washington for helping lower-income and minority families buy homes. Dramatically lower foreclosure rates among the owners of shared-equity homes provide an opportunity to reopen the policy discussion about the advisability and sustainability of homeownership for families earning less than the median income — if homeownership is done differently. To further fair housing in high-priced markets, moreover, consideration should be given to creating new sources of federal funding for nonprofit organizations that construct affordably priced homes in high-priced neighborhoods — or that buy and resell existing housing in such areas — opening up residential enclaves from which low-income families and protected classes have been excluded. To preserve this public investment and to ensure that communities remain inclusive, some form of shared equity should be a threshold requirement for such a program.
- Increase access to existing federal resources:** The HOME Investment Partnership Program is the leading source of direct federal funding for homeownership assistance. HOME regulations also set the standard for many locally funded housing programs. The competitiveness of shared equity projects and programs in applying for public funds would be dramatically increased if more participating jurisdictions adopted affordability requirements for HOME-assisted homeownership that extend beyond the five- to 15-year federal minimums. This is allowed under current HOME regulations. The Department of Housing and Urban Development cannot require jurisdictions to impose longer affordability periods, but HUD could do more to encourage jurisdictions to do so, especially through research and publications that document the benefits to homeowners and communities of homes that last.
- Increase access to existing state resources:** All 50 states have established housing trust funds, or HTFs. Only 20 of them impose affordability restrictions on the owner-occupied homes they assist, lasting as little as five years in some states and as long as 25 years in others. Only in Vermont does a state HTF require permanent affordability of assisted homes. Were other states to adopt the Vermont standard or even to double the length of affordability periods they already require, shared-equity homeownership would become more competitive in applying for HTF support — and become more plentiful. Long-lasting affordability should be a threshold requirement for any state program that offers a substantial grant of equity for the development of owner-occupied housing. This would ensure the “biggest bang” for the state’s investment, assisting many more families over time.
- Extend affordability in municipal homeownership programs:** Over 400 cities and counties operate housing trust funds of their own.

Many also subsidize and incentivize homeownership through tax abatements, energy-efficiency programs, housing rehab programs, and the preferred disposition of properties taken through tax foreclosures or assembled by a municipal land bank. Such programs entail sizable contributions from public coffers. They would yield a larger and longer public benefit if they were put into shared-equity homes, retaining subsidies and preserving affordability far into the future.

- **Promote wider use of shared equity in inclusionary housing:** While the overall trend among inclusionary housing programs has been to impose longer periods of affordability, there are still many programs that allow affordability to lapse in less than 20 years, especially when inclusionary units are owner-occupied. Many programs that require long-lasting affordability, moreover, give inadequate attention to designing (and funding) a durable system of stewardship to watch over these homes. There is a threefold recommendation here: more cities adopting inclusionary housing programs, more programs requiring long-term affordability, and more programs maintaining an effective stewardship regime.

Remove obstacles to mortgaging and operating shared-equity homes.

- **Redesign public funding to support long-term affordability:** Most cities and states that operate homebuyer assistance programs provide their assistance in the form of a down payment grant to the homebuyer, a forgivable loan or a deferred-interest loan recaptured at resale. None of these mechanisms is conducive to the financing of homes that retain subsidies and preserve affordability. Public agencies that support homes that last, by contrast, employ mechanisms that leave their funds in assisted properties, allowing them to be continually resold for an “affordable” price to homebuyers of limited means.

- **Unlock the door to FHA mortgages:** Many shared-equity homebuyers, especially among people of color, have tried unsuccessfully for years to secure Federal Housing Administration-insured loans in mortgaging their homes. They have been similarly frustrated in accessing mortgages provided through state housing finance agencies, when the latter’s regulations mirror those of the FHA. Shared-equity practitioners have been negotiating with the FHA staff over the course of several presidential administrations to remove this obstacle, but to no avail. It is long past time to get it done, if shared equity is to be given a fair chance of going to scale.
- **Duty to serve:** Shared-equity homeownership has been included in the Federal Housing Finance Agency’s Final Rule on Duty to Serve. Government-supported enterprises, or GSEs, should prioritize this regulatory activity. Aspects of the selling guides of GSEs need updating and clarification in order to be more supportive of shared-equity programs. Greater standardization is needed between the GSEs in how they will handle mortgages on shared-equity homes under various forms of shared-equity homeownership.
- **Promote equitable taxation of resale-restricted homes:** Proponents and practitioners of shared equity do not seek to exempt homes with affordability controls from paying local property taxes. They ask only that the assessment of these homes reflect the durable contractual limits that are placed upon their use and price, so that homes are not rendered unaffordable by forcing low-income shared-equity households to pay taxes on value they will never realize. Some states already have enacted laws that provide for the equitable taxation of resale-restricted homes. In a few others, the state’s supreme court has rendered a verdict, requiring shared equity to be taxed at its contractually restricted price. Other states should follow suit.

- **Promote accurate appraisals of resale-restricted homes:**

The regular updating and refinement of standards and practices among licensed appraisers has not kept pace with the number and diversity of programs using one or more models of shared equity. As a result, accurate appraisals for resale-restricted homes are hard to get in many communities, interfering with the ability of shared-equity programs and homeowners to obtain adequate financing from private lenders.⁹⁸

Enhance stewardship and evaluate the performance of shared-equity homes.

- **Diversify funding for stewardship:** Part of the cost of protecting the affordability, durability and security of shared-equity housing is borne by the families who own this housing. Low-income homeowners cannot be expected to pay for stewardship entirely by themselves, however. Other beneficiaries of the protections provided by the sponsors and stewards of shared equity include state and local governments, which want subsidized units and inclusionary units to remain affordable; private lenders, who want their mortgages to avoid default; and neighboring homeowners and renters, who want shared equity to remain in good repair. It is reasonable to ask those who benefit from stewardship to share in covering some of its costs.
- **Compile and evaluate performance data:** Does stewardship always and everywhere deliver the benefits promised by advocates and practitioners of shared-equity housing, along all three dimensions of affordability, quality and security? The best way to know is to collect and analyze data on the actual performance of shared-equity housing. This should be done not only for individual shared-equity programs, but also for the shared-equity sector as a whole. Wider use of HomeKeeper, a data management and reporting system developed by Grounded Solutions Network, would be a step in the right direction.

- **Research and disseminate best practices:** Grounded Solutions

Network has developed an exemplary set of stewardship standards for homeownership programs that provide a solid foundation for identifying “best practices” when it comes to implementing and operating an effective stewardship regime. Much more research remains to be done, however, to document and assess what works well — and what does not — when shared-equity programs endeavor to perform the multiple duties of stewardship over a long period.

Learn from others who are operating shared-equity programs.

- **Promote information sharing:** Shared-equity homeownership is widely practiced. Hundreds of nonprofit organizations and cooperative housing corporations have amassed years of experience with shared-equity housing. Several dozen Habitat affiliates are also using various mechanisms to ensure the lasting affordability of Habitat homes. Facilitating the transfer of knowledge across the silos that separate practitioners using different shared-equity models in different parts of the country is a strategy for enhancing the quality of practice and for expanding the quantity of shared-equity housing. This silo-busting work has already begun, with Habitat for Humanity International and Grounded Solutions Network offering peer-to-peer webinars, small working groups, place-based trainings and national conferences that enable shared-equity practitioners to share best practices, innovations, model documents, successes and challenges.
- **Gather lessons from abroad:** In other countries, the steady loss of affordable housing is as great a problem as it is in the United States. Experimentation with unconventional forms of tenure is just as common. As shared-equity practitioners look for ways to expand their portfolios of permanently affordable housing and to improve the performance of their programs, there are lessons to be learned across the globe from people who are acting and innovating to make homes last and to keep communities inclusive.

Foreword



The U.S. is in the midst of the worst affordable housing crisis in its history. Virtually nowhere in the country can a full-time minimum wage employee afford a one-bedroom apartment. Even two such jobs won't rent a two-bedroom apartment in 29 states and the District of Columbia.

Land costs are rising, the Great Recession changed the reality for many families, and wages are not keeping up with the rising cost of living for people of modest means. Habitat for Humanity is in a unique position to address those challenges. In many cases, we can put people in homes for a lot less than rental costs.

We are thrilled when those who partner with Habitat create better lives for themselves and find new opportunities. But when Habitat homes are sold, we face two big challenges: the subsidies Habitat has put into homes are lost, and one more affordable housing opportunity has disappeared in the community.

People might not be concerned with the sale of a few Habitat homes, assuming that they will be easily replaced. Surely new houses can be constructed on cheaper land somewhere else, or they will be generously replenished by a new round of government appropriations or a fresh fundraising appeal to private donors. The harsh reality is that public funding for affordable housing has been dwindling for decades, and charitable giving has not kept pace.

An increasing number of communities have begun seeking a more sustainable way to invest increasingly scarce local resources. Communities — and

dozens of Habitat affiliates — are looking at shared-equity strategies that can help them sustain affordable housing opportunities. Those strategies look different in every community, but two general approaches are gaining momentum.

“Dollars that last” is an effort to recapture subsidies when Habitat homes resell. In other communities, Habitat has adopted a strategy of “homes that last,” contractually retaining the community's contribution in the houses themselves so that they remain continuously affordable, one low-income homeowner after another.

For example, Austin Habitat for Humanity in Texas developed HomeBase: a deed-restricted, shared-equity homeownership program that ensures long-term affordability for houses being built in a desirable, strong-market neighborhood that is close to jobs, public transportation and good schools. Any subsidies invested in the houses are not lost at resale, and when a house is sold, it remains affordable to another buyer.

Though resales are relatively uncommon at this point, a number of local Habitats are examining ways to make investments in affordable housing last. The actions we employ to draw nearer to our vision of a world where everyone has a decent place to live will always change as we find better ways to do our work, but our principles remain the same. We will continue to put God's love into action as we bring people together to build homes, communities and hope.

Jonathan T.M. Reckford

Introduction

Affordably priced homes are lost at an astonishing rate in the United States. In some cases, the buildings themselves disappear, either destroyed by natural disaster or demolished because of deferred maintenance or normal wear and tear. More often, the buildings remain intact but are emptied of the economically precarious families who earlier occupied them. This can happen because of a sudden catastrophe like the Great Recession of 2007-09, which plunged millions of homes into foreclosure, but more often it happens because of relentless appreciation in the value of local land and housing, pushing rents and prices beyond the reach of people of modest means.

All losses are regrettable in places where housing is scarce, justifying the many policies and programs aimed at repairing, rebuilding or replacing the privately owned houses and apartments produced by for-profit developers. But substantial losses also occur among the homes produced by *nonprofit* builders, housing that would not exist without the assistance of government funds and charitable donations. Thousands of units of assisted housing are removed from the roster of affordable housing every year. Natural obsolescence or inadequate maintenance accounts for some of this attrition. Other homes are lost through foreclosure. But the main culprit is the resale of heavily subsidized lands and buildings at market prices that families of limited means cannot afford. Affordability is allowed to disappear, along with the public and private subsidies that initially made these homes affordable.

This is terribly wasteful, but hardly accidental. Most government housing policies and most nonprofit housing programs presume such attrition; they are designed that way. They fully intend for dollars that have gone into subsidizing homes for lower-income families to wind up

in the pockets of investors, landlords or homeowners. They intend for affordability to lapse within a relatively short period.

These are acceptable losses in the minds of many. When affordably priced homes disappear into the market, so the thinking goes, they will be easily replaced. New houses will be constructed on cheaper land somewhere else. When subsidies are lost on the resale of assisted homes, they will be generously replenished by a new round of government appropriations or a fresh fundraising appeal to private donors. The housing “bucket” in any given community might have many holes — losing homes and subsidies by the gallon — but there will always be ways to make up for the leakage.

Figure i





Or so it seemed. The harsh reality is that public funding for affordable housing has been dwindling for decades, and charitable giving has not been growing apace. In many communities, buildable sites have become scarcer and pricier. And the loss of affordable housing has accelerated, spurred by the expiration of short-term affordability controls on assisted housing and the gentrification of low-cost neighborhoods that once provided an abundance of housing that low-income people could afford. In too many places, what is leaking out is greater than what is pouring in.

Many nonprofit housing providers, advocates and policymakers have become increasingly concerned about these losses, which happen with distressing regularity in both rental housing and homeowner housing. An increasing number of communities have begun taking action to plug the holes in their housing buckets, seeking a more sustainable way to invest increasingly scarce local resources. When subsidizing homeownership, in particular, a community will adopt one of two different strategies for responsibly preserving its contribution: “dollars that last” or “homes that last.”

“Dollars that last” focuses on the money that is poured into subsidizing homeownership for low-income and moderate-income families, preventing the loss of such subsidies when assisted homes change hands. This preservationist strategy is implemented by changing the way homes are financed. Mortgages and promissory notes are tailored to allow a nonprofit organization that developed the housing or a public entity that funded the housing to recapture the front-end subsidies that made these homes affordable in the first place; they may also capture a portion of the back-end appreciation when the homes are resold for the highest price the market commands. These

recovered funds are then recycled, subsidizing the construction, rehabilitation or acquisition of new housing, replacing those homes that were lost to the market.

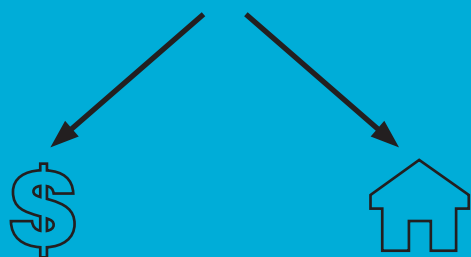
Although a marked improvement over previous policies and practices that allowed homeowners to claim for themselves all of a community’s contribution on the resale of assisted homes, recapture has proved to be a leaky vessel in places with robust real estate markets. Where land values and construction costs are rising faster than household incomes, the funds recaptured and recycled into new homes are gradually depleted. Fewer families are assisted over time, unless the original pool of subsidies is periodically replenished through additional contributions from the community, coming from government, charity or both.

“Homes that last” focuses on the housing itself. Preventing the loss of *affordability* is a priority here, but preserving the *condition* of assisted housing and protecting *security of tenure* for the housing’s occupants are equally important. This threefold preservationist strategy is implemented by changing the way homes are owned and operated. Some of the rights, responsibilities, risks and rewards of homeownership are shared with the nonprofit organization that developed the housing or with a public or private entity that helped lower-income families purchase these homes. When the homes change hands, the front-end subsidies and much of the back-end appreciation are retained in the home, lowering its price for the next income-qualified buyer. Instead of recapturing subsidies and recycling them through a succession of newly subsidized homes, the *same* home is kept permanently affordable for a succession of lower-income homeowners.

Figure ii

Strategies for preserving a community's contribution to homeownership

On resale of assisted homes, private donations and public subsidies that have gone into making homes affordable are recycled in order to improve the housing conditions of additional low-income families.



Dollars that last

Subsidy recapture:

The sponsor or funder claims most of the subsidies and (perhaps) some of the appreciation when assisted homes resell for a market price. Captured funds are invested in new homes.

Homes that last

Subsidy retention:

The sponsor or funder locks all of the subsidies and most of the appreciation into assisted homes at resale, lowering their price for the next income-qualified homebuyers.

Permanently affordable housing is the subject of the present report, exploring a number of ways that subsidy retention can be made a reality and assisted homes can be made to last. Homeownership is our focus, even though many of the organizations profiled in the coming pages are engaged in developing permanently affordable *rental* housing as well. We shall concentrate, moreover, on a special type of homeownership: houses, townhouses and condominiums with long-lasting affordability covenants; community land trusts; limited-equity housing cooperatives; and variations of each — a family of tenures known as “shared-equity homeownership.”

These unconventional models of tenure, which rearrange the traditional prerogatives of homeownership, are combined with a stewardship regime that works to protect low-cost homes and low-income homeowners who are beneficiaries of a community's largesse. The basic formula for this widely practiced preservationist approach is “*Tenure + Stewardship = Homes That Last.*” A more detailed definition is the following:

Shared-equity homeownership is a generic term for various forms of resale-restricted, owner-occupied housing where the rights, responsibilities, risks and rewards of owning residential property are shared between an income-qualified household who buys the home and an organizational steward that protects the affordability, quality and security of that home long after it is purchased. The home is designed to last. The homeowner is helped to succeed.

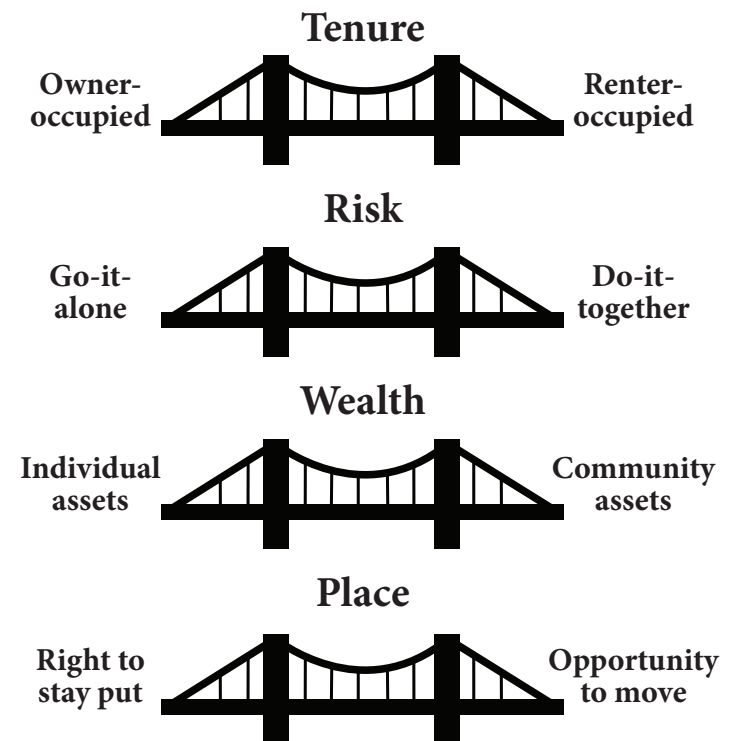
Shared-equity homeownership, or SEH, has the distinction of bridging the chasm between some of the most divisive “either-or” choices that have plagued affordable housing policy for decades. The housing

provided through SEH programs is owner-occupied, but it comes with protections more typically found in publicly assisted rental housing. The owners of shared-equity homes assume most of the responsibilities of homeownership but bear fewer of the risks. They realize an increase in personal wealth when they resell their homes, but the community's contribution is retained in the housing. Affordability is preserved for subsequent homebuyers of modest means.

Homes that last help to bridge another policy and programmatic divide as well. Practitioners promoting place-based development and practitioners promoting individual mobility are both provided with a powerful tool for affirmatively furthering fair housing and intentionally building inclusive communities. Thus, shared-equity homeownership is being used to lift up places that are impoverished, providing islands of security for people at risk of being pushed aside when their neighborhoods improve. Shared-equity homeownership is also being used to open up places that are already prosperous, providing islands of opportunity in neighborhoods, suburbs, cities and towns from which low-income people and protected classes have been historically excluded.¹ *Homes that remain affordable for good are a balanced approach to creating communities that remain inclusive for good.*

Habitat for Humanity is not a newcomer to such concerns. Affiliates have been repeatedly urged by Habitat's leaders to pay closer attention to the amount of subsidy going into each home and to be faithful stewards of the community's contribution. This devotion to preservation harks back to Habitat's inception, deeply rooted in the vision and values that led Clarence Jordan and Millard Fuller to propose a "Fund for Humanity." Capitalized through private donations of land and capital, this fund was intended to be a permanent endowment for the

Figure iii
**Homes that last:
Bridging the strategic divides
of American housing policy**



poor that, in Clarence's words, would eventually become "self-generative and ever expanding." The community's contribution to Habitat's work would never simply be given away, but would be prudently managed and carefully stewarded for the good of successive generations of families in need of a decent place to live.

Heeding this call to stewardship, many Habitat affiliates have adopted a strategy of "dollars that last," diligently replenishing their own Fund for Humanity by recapturing subsidies when Habitat homes resell. Other affiliates have adopted a strategy of "homes that last," contractually retaining the community's contribution in the houses themselves so they remain continuously affordable, one low-income homeowner after another. Both strategies have merit. Each has advantages the other one lacks, depending on the characteristics of the place being served and the priorities of the organization doing the work.

Subsidy retention was selected as the subject of Habitat's 2017 Shelter Report not to cast a cloud over subsidy recapture, therefore, but to shine a light on forms of ownership and stewardship that may be less familiar to many Habitat affiliates and to other practitioners and policymakers besides. Especially at a time when housing markets are heating up again and when the specter of displacement is looming over many of the places where Habitat affiliates are currently engaged in neighborhood revitalization, alternative models of homeownership that promise lasting affordability and "gentrification with justice" seemed a timely topic for Habitat's examination.

This topic is timely for another reason as well. The magnitude of the losses experienced by homeowners during the Great Recession has caused many people to question whether homeownership should

continue to be encouraged and subsidized for low-income families. There is a rising chorus of opinion that suggests it should not, arguing that homeownership is too risky and costly a burden for economically precarious people to bear.²

Habitat for Humanity, for its part, would agree that homeownership is not for everyone. More assistance is needed to enable low-income families to access existing rental housing. More resources are needed for the construction of new rental housing that low-income families can afford. More service-enriched housing is needed for people who are homeless, for people who are elderly, and for people with addictions or disabilities — populations for whom homeownership may be neither desirable nor desired.

At the same time, Habitat for Humanity would vigorously argue — and its affiliates have amply demonstrated — that low-income people can succeed as homeowners. Habitat has also shown, however, that the conventional route to homeownership may need modification for that to happen. Habitat affiliates change the way that families are prepared for homeownership; they change the way that housing is built; and, most significantly, they change the way that housing is financed. Habitat's unconventional approach to homeownership enables people with very little income to purchase homes and to hang on to their homes in good economic times and in bad.

Shared-equity housing has had similar success in making homeownership accessible and sustainable, while taking a somewhat different tack. Like Habitat, SEH practitioners pay special attention to preparing families for homeownership and to helping them avoid such dangers as shoddy construction and predatory lending, to which low-income

buyers of market housing commonly succumb. In shared-equity housing, however, it is not unconventional financing that helps low-income homeowners succeed; it is tenure and stewardship, the unconventional manner in which shared-equity homes are owned and operated.

These are complementary strategies, which is why a number of Habitat affiliates are now incorporating shared-equity housing into their programs. These pioneering affiliates continue to believe that homeownership is a good deal for low-income families, and they continue to employ Habitat's proven approach to partnering with families and financing homes. But they have come to believe that in some cases homeownership is a *better* deal for low-income families when responsibilities and risks of ownership are shared.

It is a better deal, too, for the larger community. When heavily subsidized homes are allowed to leak away, along with the public dollars and private donations invested in them, the generosity of government and charity is squandered. Their earnest attempt to address a community's chronic shortage of safe, decent and affordable housing is crippled. These losses are unacceptable, but they are not inevitable. Assisted homes *can* be made to last. Subsidies *can* be preserved. All it takes is a prudent dose of creativity and a farsighted willingness to rethink the way that homeownership is normally done.

Shared-equity homeownership: Shifting the paradigm

"The benefits of SEH go beyond initial affordability. When implemented effectively, SEH can reduce many of the risks of traditional homeownership, providing a safer and more sustainable option for low- and moderate-income households while still allowing sizable opportunities for households to build wealth. . . . I am acutely aware of the risks involved in asserting such sweeping benefits for a little-known and sparingly used tenure choice. It is justifiable to be skeptical of things that 'sound too good to be true.' But this is a time when I believe the case is so compelling that the field needs to be open to shifting its paradigms to accommodate it."

Jeffrey M. Lubell, *Filling the Void Between Homeownership and Rental Housing: A Case for Expanding the Use of Shared Equity Homeownership* (2010).



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Habitat for Humanity
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Chapter 1: Unacceptable losses

When community activists, nonprofit developers and government officials worry about affordable homes being lost, what exactly is the housing they want to save? One of the earliest pieces of federal housing legislation was the Wagner-Steagall Act, passed in 1937.³ Its purpose was to create “decent, safe, and sanitary dwellings for families of low income.” Later, in the Housing Act of 1949, Congress established a national policy goal of providing “a decent home and suitable living environment for every American family.”⁴ These phrases are now regularly combined in the mission statements of hundreds of organizations that proclaim their purpose to be helping families of limited means to obtain housing that is “safe, decent and affordable.”

It is the loss of *this* kind of housing that is most damaging to a community’s efforts to make a dent in a problem that never seems to get much better, despite the multitude of public dollars and charitable donations that are poured into solving it. No matter how hard we try, there stubbornly persists an insufficient supply of housing that is safe, decent and affordable for families earning less than the median income.

This shortfall has multiple causes. Not enough housing is being built that is modestly priced. Not enough jobs are being created that pay a livable wage. Not enough resources are being provided by government or charity to close the affordability gap for more than a fortunate few, leaving other families to fend for themselves.

But the sheer intractability of the housing problem experienced by so many communities cannot be explained by these factors alone. There is another reason for such little progress: Safe, decent and affordable housing that already exists is regularly lost at a rate that equals or

exceeds the number of homes being added of similar security, quality and affordability. Things never get better because the net impact of a community’s total investment in affordable housing hovers near zero. Water doesn’t rise in a leaky bucket.⁵

THE LANDSCAPE OF LOSS

Historically, our nation’s preferred strategy for expanding access to housing that is safe, decent and affordable has been homeownership, although other tenures and strategies have played a part. There has been support for publicly owned rental housing; publicly subsidized, privately owned rental housing; assisted housing for the elderly and disabled; and a continuum of care for the homeless. But homeownership has always had the starring role. By any measure, the subsidization of housing that is owner-occupied exceeds the subsidization of housing that is renter-occupied — by a lot.⁶ Some homeownership subsidies are direct, and some are indirect (see Figure 1.1), but every one of them represents an enormously generous contribution by the larger community to housing that is owned and occupied by private individuals.

This policy preference was founded on solid assumptions and laudable results. Homeownership did — and does — provide a host of benefits for families and communities.⁷ The concentrated effort of governments, charities, nonprofit organizations and financial institutions to expand access to homeownership has proved to be a fairly effective strategy for improving the safety, quality and affordability of housing for many families — but not always, and not for everyone. The housing acquired by lower-income families, as conventionally financed,

A catalog of homeowner subsidies*

Direct assistance (grants and below-market interest-rate loans):

- Grants and subsidized loans from state and local housing trust funds and from municipal down payment assistance programs.
- Grants and subsidized loans capitalized by the Home Investment Partnerships Program, or HOME, and Community Development Block Grants, or CDBG.
- Grants and subsidized loans provided through charitable donations to Habitat for Humanity and similar organizations.
- Grants and services provided through NeighborWorks members, capitalized via an annual federal appropriation for the Neighborhood Reinvestment Corp.
- Subsidized loans from state housing finance agencies, capitalized mostly through tax-exempt mortgage revenue bonds.
- Subsidized loans from the U.S. Department of Agriculture's Rural Development (formerly the Farmers Home Administration).
- Housing choice vouchers.

Indirect assistance (tax expenditures):

- Deductibility of mortgage interest payments.
- Deductibility of property taxes.
- Exclusion of capital gains on house sales.
- Homestead exemptions and credits offered by many states.
- Mortgage insurance via the Federal Housing Administration.
- Mortgage insurance via the Department of Veterans Affairs.

**Not included in this catalog are homebuyer assistance programs that no longer exist, such as the Neighborhood Stabilization Program, nor the panoply of state and local programs providing tax abatements, rebates or caps for special categories of homeowners — assistance that is usually unavailable to renters in the same categories.*



owned and operated, is often built on shaky ground. And in times of economic stress, especially at the top and bottom of the business cycle, too much of this housing is lost.

How these losses occur varies from place to place. A community's stock of affordably priced, owner-occupied housing can be eroded in many ways, succumbing to a variety of pressures and depredations. What is lost varies widely as well. Sometimes security of tenure disappears, as homeowners lose possession of treasured spaces they thought would always be theirs. Sometimes the condition of the buildings deteriorates because of inadequate maintenance or obsolescence. Sometimes affordability declines for current homeowners or disappears entirely for future homebuyers.

The rationale for shared-equity homeownership rests on a sunny assertion that unconventional forms of tenure do a superior job of preventing such losses, preserving the affordably priced homes that public subsidies and private donations have helped to create. But the flip side of that rationale is a gloomy assessment of subsidies squandered and risks imposed on low-income families when buying conventional housing on the open market. Before making the case for homes that last, it is worth considering those that don't. This is the landscape of loss that shared-equity housing is designed to overcome.

LOSS OF SECURITY

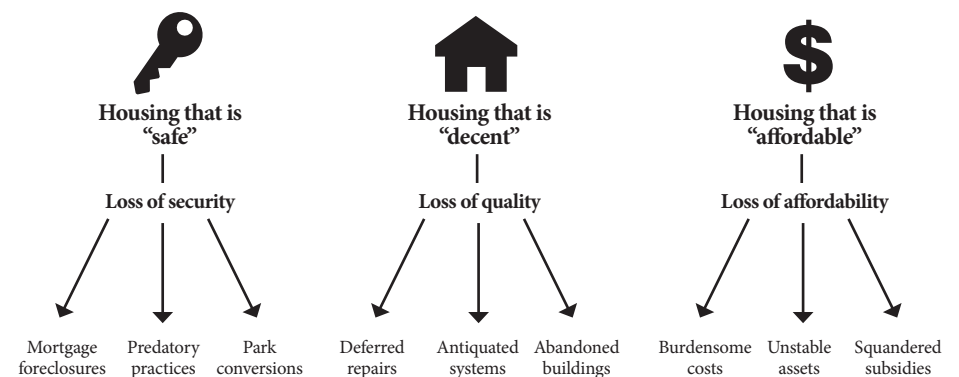
Of the many benefits promised by homeownership, security was the one that always seemed, well, the most secure. If low-income and moderate-income families could just make it onto the first

rung of the homeownership ladder, they had a good chance of staying put.⁸ They must still meet their financial obligations, of course, but homeownership could be depended upon to deliver residential stability to a degree unmatched by rental housing.

That has not been the actual experience for many homeowners, however, especially those on the lower half of the income ladder. For homeowners without the sort of unconventional financing offered by Habitat for Humanity and for those without the sort of protections provided by unconventional forms of tenure, staying put has not always been a sure thing.

Mortgage foreclosures. Writing several years prior to the Great Recession, William Apgar warned that homeownership had a downside too often ignored by families buying homes:⁹

Figure 1.1
The landscape of loss
for owner-occupied housing



“Unable to properly assess the real risks and responsibilities of homeownership, many low-income and low-wealth families become homeowners even if this choice is a risky and potentially costly mistake. ... In the worst case scenario, overextended homeowners may face a financially devastating foreclosure that undermines their ability to gain access to credit and capital for years to come. And, when concentrated in low-income and low-wealth communities, foreclosures can serve to destabilize already distressed communities and undo decades of community revitalization efforts.”

Despite such warnings, the inherent insecurity of homeownership was little discussed until it became the stuff of headlines after 2007. During the Great Recession and the slow recovery that followed, foreclosures soared, although an accurate count remained elusive. One estimate put the number of foreclosures that occurred between 2007 and 2012 at 11.2 million;¹⁰ another at 12.5 million;¹¹ but neither included the millions of properties that did not go through the foreclosure process, where homeowners surrendered title through short sales and cash-for-keys trades with their creditors.

Predatory practices. These losses were skewed by class and race, disproportionately affecting homeowners with the least income and homeowners of color.¹² Not only did the foreclosure crisis hit these populations the hardest, but it also revealed the prevalence of predatory and exploitative practices that had made these homeowners more susceptible to loss. They were enticed into adjustable-rate mortgages that started at low-interest “teaser” rates and went up sharply. They fell prey to cash-out refinancing schemes. They were abused by companies that serviced their loans, subjecting them to misapplied mortgage payments; force-placed insurance; illegal fees, penalties and

rate increases; altered principal balances; and a general failure of servicers to maintain accurate account statements.

As millions of homes entered the foreclosure process, a harsh light was also cast on the rot that had crept into America’s 300-year-old property records system of titling and tracking the ownership of real estate. During the frenzy of Wall Street’s foray into mortgage securitization, the chain of title was frequently broken. Assignments were never filed. Promissory notes were lost by lenders. Recorded documents were forged, backdated and robo-signed by the thousands. Once a foreclosure got underway, it was sometimes unclear who even owned the mortgage or note on a distressed property and who had standing to foreclose.¹³

Park conversions. There is a large subset of homeowners for whom security of tenure has always been the most precarious: residents of approximately 9 million manufactured homes in the United States that are located in more than 50,000 landlord-owned “mobile home parks.” Residents of these communities frequently own their manufactured homes, but not the underlying land. They pay a monthly lot rent to occupy the concrete pad beneath their homes and to tap into the park’s utilities. There is little to prevent this lot rent from rising precipitously year to year. Residents of many parks also live in constant uncertainty over the landlord’s plans for possibly selling the park or converting its land to another use.

LOSS OF QUALITY

The landscape of loss for homeowners has pitfalls beyond losing the possession of a house, a condominium or a concrete pad for a man-

ufactured home. Even when security of tenure is not in jeopardy, many lower-income families own and occupy housing that is neither “safe” nor “decent.”

Deferred repairs and antiquated systems. Lacking the assets and income that more affluent households can bring to the table when looking to purchase a home, lower-income homebuyers often have little choice but to shop for the least expensive housing in the least desirable neighborhoods. They are more likely to acquire older homes that have not been adequately maintained and contain antiquated systems in need of replacement.¹⁴ Confronted with the unexpected cost of maintaining or upgrading such housing after it is purchased, lower-income homeowners may have neither the available savings nor the surplus income to make these improvements.¹⁵

During downturns in the business cycle, the quality of owner-occupied housing often deteriorates. Lower-income households are usually hit the hardest when the economy contracts and unemployment rises. They are left with even less disposable income to invest in the upkeep of their homes, forcing them to reduce routine maintenance, forgo major repairs, and put off the replacement of major systems.

The absence of quality, like the shakiness of security, tends to be the most severe in landlord-owned mobile home parks. Residents often face intense challenges in maintaining the physical and structural integrity of their manufactured homes, two-thirds of which were built before 1995. In the 2011 Annual Housing Survey, over 12 percent of the owners of manufactured housing reported problems with heating; 11 percent had trailers with exterior water leaks; and 5 percent of all manufac-

tured housing — 485,000 units — were deemed to be in moderately or severely inadequate condition.¹⁶

Abandoned homes. Abandonment is the crisis of quality at its most extreme. It has long been presumed to be a problem confined to rental housing in distressed inner-city neighborhoods, where absentee landlords have been known not only to abandon dilapidated buildings but also to torch them for profit. Abandonment can happen in owner-occupied housing as well, however, leaving vacant homes and blighted blocks in suburbs and towns. In the wake of the Great Recession, for example, entire neighborhoods in states like Florida and Nevada became ghost towns. Thousands of homes lay vacant, suspended in the limbo of clouded title, stuck in foreclosure, or taken by lenders who did little to maintain them beyond boarding them up. Some homeowners with underwater mortgages simply locked their doors and walked away, engaging in what came to be known as “strategic default.”

LOSS OF AFFORDABILITY

One of the enduring attractions of homeownership for low-income and moderate-income renters is the prospect of removing themselves from the uncertainty and unaffordability of a housing situation where annual rent increases can climb faster than wages and salaries. This is not an empty promise. Over time, homes with fixed-rate mortgages do tend to become more affordable relative to the cost of renting in the same locale. Many homeowners do not have fixed-rate mortgages, however, and even those who do can incur operating costs that make homeownership an unsustainable burden.

Burdensome costs. Roughly a quarter of all homeowners in the United States pay too much for their housing; they are, in the parlance of the U.S. Department of Housing and Urban Development, moderately or severely “cost-burdened.” As of 2014, 10.6 million households were paying more than 30 percent of their annual income for the homes they owned and occupied, and nearly 8 million homeowner households were paying more than 50 percent. Among the latter group of severely cost-burdened homeowners, 72 percent earned less than \$30,000 per year.¹⁷

Among the nonmortgage costs that can make homeownership less affordable are the rising costs of heat, cooling and other utilities.¹⁸

Figure 1.2

Cost-burdened homeowners, 2001 – 14

	2001			2014		
	Moderate cost burden	Severe cost burden	All cost burden	Moderate cost burden	Severe cost burden	All
Number of households (thousands)	10,270	6,485	69,986	10,593	7,888	74,083
Percentage of households	14.7%	9.2%	100%	14.3%	10.6%	100%
Number of <i>cost-burdened</i> households earning less than \$30,000/year	2,658	4,499		3,100	5,691	
Percentage of <i>cost-burdened</i> households earning less than \$30,000/year	25.9%	69.4%		29.3%	72.1%	

Source: Table A-2 (page 40), *The State of the Nation's Housing, 2016* (Cambridge, Massachusetts: Joint Center for Housing Studies, Harvard University, 2016). *Moderate burdens* are defined as housing costs of more than 30 percent and less than 50 percent of household income. *Severe burdens* are housing costs of more than 50 percent of household income.

Property taxes can be burdensome as well, especially for families of limited means. When homes are located in distressed urban areas,

insurance can impose an extra strain, since the cost of insurance is typically higher in these neighborhoods as a percentage of a home's value. The cost of maintaining and repairing older buildings in distressed neighborhoods is also likely to be high, notes Alan Mallach, “further burdening households that typically have little savings and little excess disposable income.”¹⁹

Unstable assets. In the minds of many renters who are buying homes – and in the calculus of many professionals who are helping them to do so – the financial burden of owning and operating a home is outweighed by the prospect of building wealth. Yes, homeownership may have higher costs and greater risks, but it is worth it in the long run because homeowners accumulate savings as they pay off their mortgages, and they possess an asset that is likely to appreciate in value.

Whether a homeowner really does build wealth through appreciation, however, depends entirely on where, when and how long – the neighborhood in which the home is located, the timing of the home's purchase and resale within the pricing cycle, and the longevity of tenure. The last is the “golden rule” for how wealth is accumulated through homeownership.²⁰ The longer a home is held, the more likely it is that a homeowner will build equity, earning a positive return on his or her original investment.

The tenure of many low-income homeowners, however, outside of the protected enclaves of Habitat for Humanity, shared-equity homeownership and the like, does not last long enough for homeowners to

The golden rule

“The true golden rule of how to accumulate wealth through homeownership is whether ownership is sustained over the long run. Housing booms aside, many of the financial benefits are slow to accumulate, including the gradual buildup of forced savings, the compounding of values at low appreciation rates, and the decline in monthly housing costs in real terms over time. The expression ‘time heals all wounds’ may also be applicable to many of homeownership’s most critical risks.”

Herbert, McCue and Sanchez-Moyano,
Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was It Ever?) (2014)

accumulate wealth through amortization or appreciation. Starting in 2004, a series of studies began looking at the long-term success of low-income families who had purchased homes for the first time, often with the assistance of subsidies and donations from their community.²¹ It was discovered that many of these low-income families did not succeed in hanging on to the housing they had recently bought.

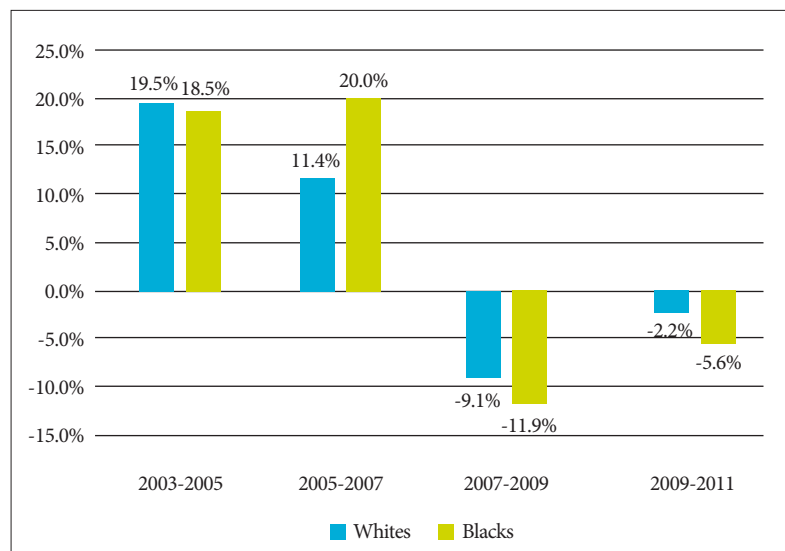
Within five years of becoming homeowners, roughly half of them returned to renting.²² For some, this was a voluntary exit from homeownership. For others, it was not.

Even for lower-income homeowners who succeed in staying longer, gains in wealth from appreciation may be nonexistent. By necessity, low-income families tend to buy homes in low-value neighborhoods, where appreciation is modest. They also have less leeway than affluent households in timing the purchase and resale of homes in order to take advantage of profitable swings in the pricing cycle of a volatile housing market.²³

When market volatility tips over into market collapse, as happened during the foreclosure crisis of the Great Recession, homeowners not only lose the equity that accrued to their homes from earlier appreciation, but many also see erosion in the value of equity they brought to the deal when buying their homes or erosion in the value of the forced savings they have accumulated in paying off the principal on their mortgages. Millions of homeowners were left “underwater” by the foreclosure crisis, owing more on mortgages than their homes were worth. Many remained underwater long after the recession was officially over.²⁴

This wealth stripping had the same economic and racial dimension as the distribution of foreclosures. African-Americans, Hispanic-Americans and Asian-Americans experienced, in the words of James Carr and Katrin Anacker, “a catastrophic loss of wealth as a result of the burst of the national house price bubble in 2006 and the ensuing foreclosure crisis that started in early 2007, both of which have had a disproportionate impact on families and communities of color.”²⁵

Figure 1.3

Loss of home equity by race, 2003 – 11²⁶**Percentage change in home equity during and after the housing boom**

Source: Sarah Burd-Sharps and Rebecca Rasch, *Impact of the U.S. Housing Crisis on the Racial Wealth Gap Across Generations*, American Civil Liberties Union, June 2015: 13.

Squandered subsidies. When so many homes enter foreclosure and when so much wealth gets stripped, there is a double tragedy. Not only are the personal assets of individual homeowners irretrievably lost, but so are the charitable assets contributed by the community. Many of the owner-occupied homes purchased by households earning less than median income are heavily subsidized through a variety of public and private sources.²⁷ It is only by taking advantage

of some combination of down payment assistance; below-market financing; assorted gifts of land, infrastructure and services; and tax rebates, deductions and abatements that most low-income homeowners gain access to a costly asset like housing. A substantial number of moderate-income homebuyers receive such assistance as well. When subsidized homes go into foreclosure, these community contributions disappear.

Foreclosure is merely the most extreme case. It doesn't take a lender's seizure of property to cause homeowner subsidies to circle the drain. They leak away in a steady stream even when homeowners meet their financial obligations. This is business as usual. On a regular basis, in communities across the country, owner-occupied homes made affordable through generous contributions from government programs and private donors are later resold with little regard for what happens to the subsidies or the homes. Both are usually lost.

More accurately, both are no longer available to assist a community in meeting its abiding need for safe, decent and affordable housing. The subsidies are removed from assisted homes and pocketed by homeowners who claim for themselves all of the wealth embedded in their properties — even the equity contributed or created by their community. The homes themselves are removed from the stock of “affordable” housing, if resold in a rising market for prices no longer within the financial reach of lower-income homebuyers.

Some homeowner assistance programs do recapture these subsidies or require them to remain in a home at resale, but such programs are a minority. Among those programs that practice recapture or retention, moreover, contractual controls tend to expire within a relatively short

time.²⁸ The dollars invested and the homes assisted are allowed to leak away.

TOWARD A SUSTAINABILITY AGENDA

These cracks in the structure of conventional homeownership tend to overlap. They can trigger or augment each other, causing a cascade that leads to the loss of homes and the loss of any subsidies poured into them. Such vulnerabilities have always existed. There has always been attrition in the ranks of low-income and moderate-income homeowners. There has always been a degree of erosion in the security, quality and affordability of assisted homes. Until the Great Recession, however, these losses were largely disregarded.

That is somewhat surprising given the alarm sounded for decades over the expiration of affordability controls in publicly subsidized, privately owned *rental* housing.²⁹ The crusade to preserve these “expiring use” projects has raised awareness throughout the country of the broken bucket fashioned by older federal programs like 221(d)(3) and more recent programs like Low-Income Housing Tax Credits. Here and there, preservationists have won major victories, saving subsidized rental projects slated for loss, despite a constant struggle to find the necessary funds to resubsidize housing that the public has already paid for.

By contrast, the expiring affordability and vanishing subsidies that occur on a regular basis within the nation's stock of heavily subsidized owner-occupied housing have gone relatively unnoticed. Only recently has that begun to change. There has been a dawning realization of scarcity, as government officials and nonprofit organizations have been forced

Figure 1.4
Homes at risk



to face the insufficiency of their resources when asked repeatedly to replenish homeowner subsidies and to replace assisted homes that are lost to the market. There has been a widening acknowledgment of the vulnerability of low-income homeowners. With the memory still fresh of millions of homes lost to foreclosure in the Great Recession, many people inside and outside of government have, in fact, begun to question whether homeownership really does deliver security, quality and affordability as dependably and universally as promised.

Some have argued that homeownership should no longer be encouraged and supported for low-income families, who would be better

served by expanding the production of rental housing and increasing the amount of tenant-based assistance.³⁰ Others have argued that the vulnerability of low-income homeowners is due primarily to the shallowness of the subsidies made available to them. With more homebuyer counseling, more down payment assistance and more access to fully amortizing 30-year, fixed-rate mortgages provided through regulated lenders and state housing finance agencies, low-income homeowners would not be forced into the arms of predatory lenders and would have a higher rate of success.³¹

These are constructive proposals. Both have merit. More affordably priced rental housing *is* needed, especially in residential enclaves that have historically excluded low-income families and people of color. More services and deeper subsidies *would* make low-income homeowners more secure.

Before tilting the scales too heavily toward rentals, however, or before subsidizing more abundantly conventional forms of homeownership that have proved precarious for many lower-income families, there is a third path that is worth exploring: Change the way that homeownership is done. Redesign homeownership so it is better protected and more resilient. Reconfigure the rights, responsibilities, risks and rewards of this favored form of tenure so that security, quality and affordability are less likely to leak away. Don't abandon homeownership, in other words — do it differently. Make it sustainable. Make it last.

Sustainable homeownership

“Public policy and resources should be directed less toward maximizing the *number* of lower-income homeowners and more toward maximizing the *quality* and *stability* of the homeownership experience for lower-income owners, by creating an environment in which homeownership becomes a more stable and sustainable experience, rather than a revolving door fraught with risk and uncertainty. This proposition should be a starting point for designing specific programs and initiatives at the federal, state and local levels.”

Alan Mallach, *Building Sustainable Homeownership: Rethinking Public Policy Toward Lower-Income Homeownership* (Federal Reserve Bank of Philadelphia, 2011)

Chapter 2: Homes that last

If the housing produced by Habitat affiliates and other nonprofit organizations is going to remain affordable, if the physical condition of that housing is going to remain sound, if the low-income families being boosted into homeownership are going to succeed, more attention must be paid to protecting these heavily subsidized homes against loss, and to supporting these newly minted homeowners after they move in. Such protections and supports are put in place by changing the way that housing is owned (tenure) and by changing the way it is operated (stewardship). Both are necessary for homes to last.

Stewardship — why it is needed, how it is done and who can play this essential role — is addressed in the next chapter. The present chapter is devoted to tenure, describing how the rights, rewards, responsibilities and risks of homeownership can be creatively reworked to make homeownership more sustainable for families of limited income.³²

Rental housing certainly deserves more attention as well. Loss of affordability, lack of repair and insecurity of tenure are problems every bit as serious for low-income renters as they are for low-income homeowners. Here, too, tenure can be restructured and stewardship can be enhanced to make homes last longer. Here, too, the rights and rewards of ownership can be reallocated to give renters more control over their housing and, in some programs, an opportunity to build wealth.

Our focus, however, is on homeownership, specifically on models of owner-occupied housing that have been designed with sustainability in mind. They include houses, townhouses and condominiums with long-lasting affordability covenants appended to their deeds; community land trusts; limited equity cooperatives; and related variations and hybrids. The term of art for this family of tenures has long been

“limited-equity housing.” A decade ago, “shared-equity homeownership” came into vogue. It was proposed by the National Housing Institute to put less emphasis on what is contractually limited and more on what is equitably shared.³³ This is the term we will use to describe various forms of resale-restricted housing that are designed to remain affordable from one income-qualified homebuyer to the next for many years, perhaps forever.

CHARACTERISTICS: SHARED-EQUITY HOMEOWNERSHIP VS. CONVENTIONAL HOMEOWNERSHIP

Each model of shared-equity homeownership, or SEH, has features that make it unique. Each has advantages that make that model the “right” choice in a given situation, serving a particular population or place.³⁴ Their differences are less important than their similarities, however, when distinguishing SEH from more conventional forms of homeownership.

Rights are selectively modified. The people who occupy shared-equity housing are homeowners. They hold most of the “sticks” in the “bundle of rights” that homeowners have traditionally possessed when acquiring residential property. Not insignificantly, they see themselves as being homeowners, enjoying the status and independence that comes from owning rather than renting a home. But in shared-equity housing, some of these rights are modified. Limits are placed on a homeowner’s traditional prerogatives in financing, improving and renting out his or her home. There are also limitations on how and to whom a home is resold and for what price.



	Conventional homeownership	Shared-equity homeownership
RIGHTS	Right to occupy the home as long as the bills are paid (security).	Same
	Right to exclude others from the home and grounds (privacy).	Same
	Right to decorate and shape one's living space.	Same
	Right to bequeath assets to one's heirs (legacy).	Same
	Right to make capital improvements (but somewhat limited in common interest communities like condos and co-ops).	Regulated right Most SEH models review and approve proposed post-purchase improvements.
	Right to sublet all or part of the home to anyone for any length of time.	Regulated right Most SEH models discourage absentee ownership and regulate renting/subletting (if allowed).
	Right to sell (or gift) the home to anyone at any time.	Regulated right All SEH models regulate the process of reselling homes and specify the eligibility of future buyers.
REWARDS	Opportunity for forced savings as the mortgage is amortized.	Same
	Opportunity for forced savings if capital improvements are made.	Same
	Opportunity for homeowner tax deductions.	Same
	Opportunity for building wealth through renting out a room – or the entire property.	Moderated reward Most SEH models regulate (or prohibit) renting/subletting and may cap allowable rents.
	Opportunity for building wealth through market appreciation in the value of the home.	Moderated reward All SEH models allow a fair return on the owner's investment but cap the resale price.
RESPONSIBILITIES	Responsibility for paying mortgage and other loans secured by the property.	Same
	Responsibility for complying with health, zoning, sanitation and fire safety codes.	Same
	Responsibility for paying insurance and homeowner association fees (if any).	Same
	Responsibility for paying property taxes.	Same
	Responsibility for securing loans and services from bankers, contractors and other professionals.	Shared responsibility Many SEH models do referrals, review contracts and screen against predatory practices.
	Responsibility for doing regular repairs and replacing major systems.	Shared responsibility Many SEH models provide financial or staff support for repairs and replacement.
	Responsibility for finding a buyer when a homeowner decides to resell and move.	Shared responsibility Most SEH models either repurchase homes themselves or assist in finding new buyers.
RISKS	Risk of home prices declining in a down market, wiping out homeowner equity.	Managed risk Most of the equity belonging to a homeowner is not exposed to erosion if real estate values decline.
	Risk of an increase in property taxes, rendering homes unaffordable.	Managed risk Shared-equity homes in some jurisdictions have lower assessments because of the cap on the resale price.
	Risk of expensive repairs or system replacements that may be needed right away.	Managed risk Some SEH models create escrows to help defray the cost of major repairs and replacement.
	Risk of unaffordable rate increase from variable-rate, subprime or predatory mortgages.	Managed risk Most SEH models review and approve mortgages and refinancing.
	Risk of homes being lost through mortgage foreclosure.	Managed risk Most SEH models intervene to cure defaults and to prevent foreclosure.

Affordability is contractually extended. These limitations are spelled out in a covenant, ground lease, mortgage instrument or some other contract signed by the homeowner at closing. Embedded in each of these contracts is a “resale formula” that establishes both the process and price for transferring a shared-equity home from one income-qualified homebuyer to another. This formula is designed to preserve a home's affordability across multiple resales. “Forever” is the gold standard here, with most proponents of shared-equity housing insisting on affordability that is permanent. Others have been willing to settle for affordability protections that last “only” for 30 years, provided that the 30-year clock is restarted every time a home is refinanced or resold.

Wealth is equitably shared. Conventional homeowners build wealth in multiple ways. They benefit from forced savings as they pay off the principal on their mortgages and when they get back some of the money they may have spent on capital improvements. Their income is augmented by deductions and exemptions that homeowners are allowed under federal and state tax codes. They may supplement their income by renting out all or part of their property. They may also reap a windfall in equity if they are lucky enough to live in a neighborhood where property values are appreciating.

All of these paths to wealth building are open to the owners of shared-equity housing. Many resell their ownership interest and walk away with substantially more wealth than was theirs when they bought a shared-equity home.³⁵ But there is one important limitation: Shared-equity housing, regardless of the model, places a cap on the amount of equity that homeowners may remove from homes upon resale.³⁶ This contractual restriction ensures that all of the subsidies invested in a home and most of the appreciation that accrues to it (if any) will

Resale formulas

When homeowners move out of shared-equity housing, either they resell to another income-qualified homebuyer or the home is repurchased by the organization that originally developed or financed the home. In either case, the maximum price is set by a “resale formula.” These formulas vary greatly from one SEH program to another, but they fall into one of three categories:

Appraisal-based formula: The resale price is tied to the change in the market value of a home. Typically, the seller receives the original purchase price *plus* some specified percentage of any increase in the property’s appraised value between the time of purchase and the time of resale. The seller’s share of appreciation is set as high as 50 percent in some SEH programs and as low as 10 percent in others.

Indexed formula: The resale price is tied to the change in a published index like the area median income or the consumer price index. Homes are resold at the original purchase price, adjusted upward according to the annual change in the preselected index.

Fixed-rate formula: The resale price is tied to a specified percentage that stays constant from year to year. This percentage is applied either to the original purchase price (simple increase) or to the original purchase price plus the *accumulated* increases from previous years (compounded increase).

be retained in the home, lowering its price for the next income-qualified homebuyer. By intent and effect, this embedded wealth is shared across successive generations.

Risks are prudently managed. Many of the risks of owning and operating a shared-equity home are managed, mitigated or removed, a process that begins before a home is sold and continues throughout a homeowner’s occupancy. Prospective buyers are provided with an intense orientation that prepares them for homeownership and informs them of the special conditions and restrictions that accompany a shared-equity home. They are steered away from high-cost mortgages and protected against predatory lending.

After purchasing a shared-equity home, they are backed by an organizational steward that shares some of the responsibilities of maintaining the home, replacing major systems, and reselling the home when a family is ready to move. Most stewards review and approve proposals for making capital improvements and for refinancing mortgages. They also intervene, when necessary, to cure defaults and to prevent foreclosures. Such protections are woven deeply into the tenorial tapestry of shared-equity homeownership, enhancing the security of families whose homes might otherwise be threatened by fluctuations in the local economy or by the volatility of their own incomes.³⁷

TENURES: THE DIVERSE LANDSCAPE OF SEH

The most common models of shared-equity homeownership are deed-restricted homes with long-lasting affordability covenants, community land trusts, and limited-equity cooperatives. This is a landscape of enormous organizational diversity, since each model

Preserving affordability and creating wealth

One Roof Community Housing Duluth, Minnesota

One Roof Community Housing shows that it is possible to keep homes affordable for the long term and to help homebuyers build wealth. These are goals many affordable housing providers believe to be incompatible. One Roof has proved they are not.

Created through a 2012 merger of Neighborhood Housing Services of Duluth (founded in 1983) and the Northern Communities Land Trust (founded in 1990), One Roof currently oversees a portfolio of 276 resale-restricted, owner-occupied homes scattered throughout Duluth and its surrounding counties. All of these homes are managed to remain permanently affordable, no matter how many times they change hands. The performance of One Roof's portfolio of resale-restricted homes can be easily evaluated because of HomeKeeper, a data management system provided by Grounded Solutions Network. The fair market value of the average One Roof home was \$120,000 at the time of sale, but the buyers purchased

them for only \$82,000. This discount in the purchase price resulted in families saving roughly \$200 per month on their mortgages.

Since 2000, 118 homes have resold. On average, these homes were affordable to households earning 42 percent of the area median income when they were first purchased. On resale, they remained affordable to households at the same level of income. Affordability has been preserved.

But did homeowners build wealth? Those reselling their One Roof homes recouped their initial down payment, which had averaged only \$1,208. They also recovered any mortgage principal paid down by the time they moved, an amount that averaged \$5,213, and they received a percentage of the appreciation that had accrued to their One Roof homes, earning on average an additional \$1,515 per household.

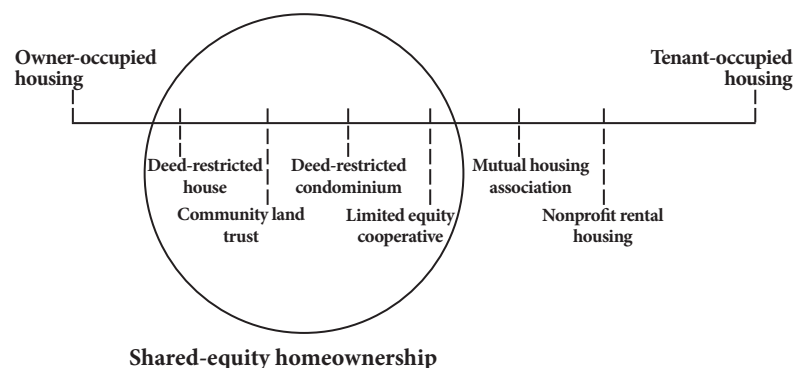
Five years after purchasing a resale-restricted home, making the leap from renting to owning, 91 percent of One Roof's families are still homeowners. Either they continue to own a One Roof home or they have taken the equity they earned on reselling that home and moved into a new home purchased on the private market.

comes in many varieties. Practitioners in different communities may use the same model but rework it to fit local circumstances. They may choose different resale formulas. They may allocate the risks and responsibilities of ownership in different ways. They may structure the governance of their organizations or the financing of their homes in different ways. They may even combine models to create hybrid forms of shared-equity housing.

Figure 2.1

Shared-equity homeownership within the continuum of permanently affordable housing

Selected models



Amid all the variations and combinations, however, this family of tenures displays a dominant trait: Shared-equity housing remains affordable for good. Whatever the model or mechanism, homes that are made affordable today through a community's generosity are kept affordable tomorrow, one income-qualified homebuyer after another. Subsidies are not lost. Homes are not lost. Opportunities for homeownership that a community has worked so hard to create do not leak away.

DEED-RESTRICTED HOMES

Deed-restricted owner-occupied homes are found among detached houses, attached townhouses, and multiunit condominiums. Continuing affordability is usually achieved through a covenant appended to the homeowner's deed.³⁸ The covenant requires each homeowner to resell to someone from a specified pool of income-qualified buyers for a specified, formula-determined price.³⁹ Alternatively, the covenant may contain a pre-emptive option giving a nonprofit organization or public agency the first right to repurchase the property for that price.

In some states, covenants are allowed by law to last indefinitely. They "run with the land," surviving a home's transfer from one owner to another. In most states, however, affordability covenants may not last longer than 30, 40 or 50 years without running afoul of state statutes, court precedents or the common law rule against perpetuities. SEH practitioners have adapted to this legal limitation by requiring a new covenant to be signed, starting a new affordability period, whenever a deed-restricted house, townhouse or condominium is transferred or refinanced.⁴⁰

COMMUNITY LAND TRUSTS

The community land trust, or CLT, is a dual ownership model: One party holds the deed to a parcel of land, and another party holds the deed to a residential building located on that land. The owner of the land is a nonprofit, community-based corporation, committed to acquiring multiple parcels of land throughout its service area with the intention of retaining ownership of those parcels forever. The owner of the building, in the case of a detached house or attached townhouse, is an individual homeowner, holding title to a house located on the CLT's land. Buildings configured as multiunit condominiums, on the other hand, or as a multiunit cooperative, a multiunit rental complex or a mixed-use project may be owned through a variety of corporate arrangements.

Although CLTs do not resell their land, they provide for its exclusive use by the owners of the buildings. Parcels of land are conveyed to homeowners (or to the corporate owners of other multiunit residential or commercial buildings) through ground leases that typically run for 99 years. The ground lease is the contractual means through which the CLT imposes a variety of controls over the building's use, occupancy, financing, repair and improvement. It is also the means through which the CLT preserves the affordability of any buildings located on its land. Embedded in each ground lease is a formula for determining the resale price of shared-equity homes and a pre-emptive option giving the CLT the right to repurchase the home at the formula-determined price.⁴¹

LIMITED-EQUITY COOPERATIVES

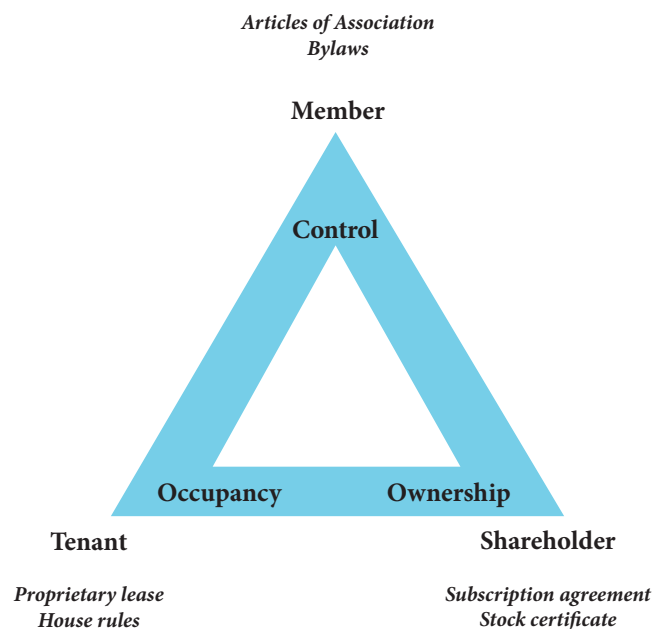
Cooperative housing is operated and governed by a corporation whose shareholders are drawn mostly or exclusively from those who occupy the housing. The cooperative housing corporation is the owner of record of both the land and the buildings. This corporation owns the deed, holds the mortgage, pays the taxes and carries insurance on the property.⁴²

Families and individuals who occupy cooperative housing have exclusive use of a house or apartment or, in the case of a mobile home cooperative, exclusive use of the concrete pads underlying their manufactured housing. These rights of occupancy and use are secured through a proprietary lease that, despite its name, is not the same as a typical landlord-tenant agreement. For example, a cooperative's occupants may be evicted only for cause, and in some cooperatives the right to occupy the unit may be bequeathed to one's heirs.

The people who live in cooperative housing are homeowners, not tenants, albeit homeowners of a special kind. They do not hold title to their individual units, but they own shares in the corporation that owns the housing. They are also voting members of that corporation, with ultimate control over its assets and operations. Each occupant is simultaneously a leaseholder, a shareholder and a member. These rights and roles are inseparable.

In a limited-equity cooperative, or LEC, an occupant's ownership interest cannot be resold for more than the maximum transfer value determined by a formula embedded in (1) the subscription agreement, which serves as a purchase-and-sale contract for the prospective purchase of co-op shares; (2) the stock certificate, which evidences the

Figure 2.2
Rights and roles
 Limited-equity cooperative



occupant's ownership of one or more shares; and (3) the bylaws of the corporation. These documents impose a contractual cap on the price for which a cooperative's members may resell their shares when leaving. They also grant the cooperative housing corporation a pre-emptive right to repurchase these shares for their maximum transfer value.⁴³

VARIATIONS AND HYBRIDS

For each of these signature models of shared-equity homeownership, practitioners tailor a model's use restrictions, resale formulas and other contractual terms to fit the conditions and needs of their own communities. This results in numerous internal variations in the way that models are structured from one locality to another.

Variations also occur because of external hybrids, where two models of shared-equity housing are combined. For example, covenants appended to a deed or mortgage have sometimes been used as a second line of defense in protecting the affordability of housing developed through a community land trust or a limited-equity cooperative. Another hybrid combines the CLT and an LEC, developing cooperatives on land that is leased from a community land trust.⁴⁴ CLTs have also been enlisted to protect the affordability of limited-equity condominiums, where the CLT does not own the underlying land.⁴⁵ There are numerous cases, too, of one or more models of shared-equity housing being established under the aegis of a public agency or a nonprofit housing developer such as Habitat for Humanity, either organized as a corporate subsidiary or operated as an internal program.

Manufactured housing communities, commonly and colloquially known as "mobile home parks," have become fertile ground for other hybrids when residents have taken over the ownership and management of their parks. Resident ownership has been structured in a variety of ways. In the most popular model, a resident-owned cooperative is established to own the land, maintain the infrastructure and manage the park. Residents purchase shares in the cooperative, a buy-in that is paid off over 18 months and returned when a resident moves out of the park. Residents continue to pay a monthly fee to occupy the

concrete pads under their housing, but they lease their lots from the cooperative corporation they collectively own and control.⁴⁶ In these resident-owned cooperatives, there are contractual controls over the transfer value of the co-op's shares, but there is often no limitation on the resale price of the manufactured homes. These homes change hands for whatever price a prospective buyer is willing to pay.

There are three other variations, however, in which resident-owned parks are drawn more completely into the family of shared-equity homeownership. In one, the LEC that owns the land and infrastructure also holds a pre-emptive option to repurchase the manufactured homes for a below-market price when their owners decide to leave the community. In the second, a public agency or nonprofit organization attaches an affordability covenant to the title (or loan agreement) for each manufactured home. In the third, the underlying land is leased from a community land trust, with the CLT holding a pre-emptive right to repurchase any homes that come up for sale, paying a formula-determined price.⁴⁷

SYNERGIES: SEH AS A COMPLEMENT TO OTHER HOUSING STRATEGIES

The signature models of shared-equity housing undergo constant reinvention. Practitioners working with deed-restricted homes, community land trusts and limited-equity cooperatives, as discussed above, have devised numerous organizational and operational variations. They have tied different models together. They have housed them under the corporate umbrella of various types of organizations.

These unconventional models of shared-equity housing can also be combined with an array of public and private strategies for funding, financing, mandating or incentivizing affordably priced homes. There is synergy here. SEH makes these strategies more effective, preserving the affordability, quality and security of the homes they create. These strategies, in turn, make SEH more productive, expanding the number of resale-restricted homes.

Any strategy that is aimed at lowering the price of housing being offered for sale, lowering the cost of the financing to buy that home, or increasing the equity a low-income homebuyer can bring to the deal may be combined effectively and productively with SEH. There are many examples. Here are three with significant potential for bringing SEH to scale.

INCLUSIONARY HOUSING

Over 500 municipalities have enacted some form of inclusionary zoning, or IZ, either mandating or incentivizing the construction of housing that must be rented or sold for a below-market price. In the early days of inclusionary zoning, it was standard practice for municipalities to regulate the rents and prices of IZ units for no more than five to 10 years. Consequently, the affordability of much of this housing disappeared in short order. Learning from past mistakes, many cities and counties with inclusionary housing programs are now adopting very long affordability periods, a trend explained by Rick Jacobus as follows:⁴⁸

"If inclusionary programs are to create and preserve mixed-income communities, long-term restrictions are vital for a

program to have a lasting impact. After all, if homes expire out of a program and return to market rate after a few decades, the program won't actually increase the stock of affordable housing."

When an inclusionary program creates houses, townhouses or condominiums that must be kept affordable for a very long time, shared-equity homeownership is the mechanism for achieving it. In some cases, the municipality that imposed the inclusionary requirement continues to monitor and enforce affordability restrictions on IZ homes after they are built. In other cases, this responsibility is dele-

gated to a nonprofit organization acting on the municipality's behalf. Either way, IZ and SEH work together to create an expanding portfolio of affordable owner-occupied homes that are designed to last.

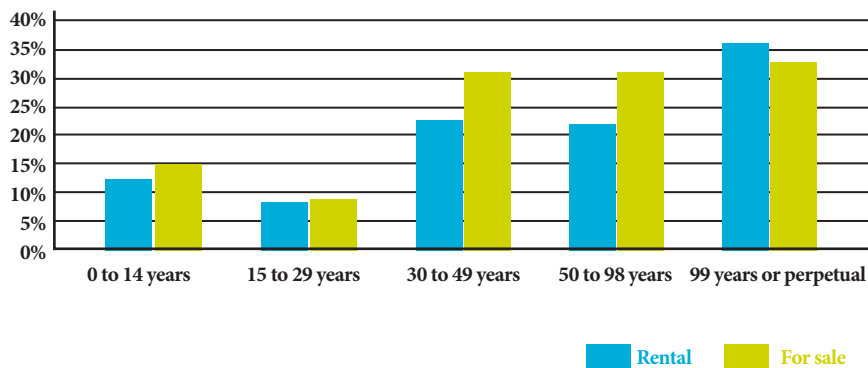
HOUSING TRUST FUNDS

All 50 states have established a housing trust fund, or HTF, collecting and disbursing public monies for the production of affordable housing. Cities operate 73 additional housing trust funds, and counties operate 138. There are also 161 jurisdictions in Massachusetts that administer community preservation funds. Capitalized with a 3 percent tax levy against real property under authority of the state's Community Preservation Act, these Massachusetts funds subsidize the acquisition of land for open space protection, outdoor recreation and affordable housing.⁴⁹

The data are sketchy as to the number of housing trust funds organized below the federal level that require affordability to last when their monies assist homeownership. Many undoubtedly do, investing in shared-equity homes that remain affordable because of deed covenants, ground leases, mortgage instruments or cooperative forms of ownership. The housing trust funds of 20 states, for example, require ongoing affordability for assisted owner-occupied housing, control periods that range from a low of five years in some states to a high of 25 years in others. Vermont's time horizon is even longer, requiring owner-occupied homes receiving assistance from the Vermont Housing and Conservation Board to remain permanently affordable. A similar insistence on long-lasting affordability can be found in many

Figure 2.3

Length of mandated affordability in 330 inclusionary housing programs*



Sources: Robert Hickey, Lisa Sturtevant, and Emily Thaden, "Achieving Lasting Affordability through Inclusionary Housing," Working Paper WP14RH1 (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2014).

municipal housing trust funds, including those in Massachusetts where the Community Preservation Act stipulates that “a real property interest that is acquired with monies from the Community Preservation Fund shall be bound by a permanent restriction.”⁵⁰

There is synergy in this SEH-HTF connection. Shared-equity homeownership in its various forms is made more productive and plentiful in every jurisdiction where public monies from housing trust funds reserved for owner-occupied housing are invested primarily in projects with lasting affordability. The public benefit derived from a trust fund's investment, conversely, is deepened and extended when those monies are invested in homes where affordability, quality and security are protected and preserved.

SHARED APPRECIATION LOANS

A variety of financial products have long been available under the general rubric of the “shared appreciation loan.” Few have previously been paired with shared-equity homeownership, however. In the late 1990s, for-profit companies began offering different types of shared appreciation mortgages, or SAMs, most of which were considered predatory by affordable housing advocates. Homebuyers received cash payments or lower-interest mortgages in return for forgoing some of their home's appreciation in the future, appreciation that was claimed by the private lender when the home was resold.

A more supportive form of shared-equity mortgage has long been used by public agencies and nonprofit organizations to promote affordable homeownership. In exchange for down payment assistance or a subsidized mortgage, homebuyers are required to share a

percentage of the appreciation with the program's sponsor when reselling their homes at market prices.⁵¹ Typically, these SAMs have been structured so that the percentage of appreciation going to the sponsor is relatively small, a percentage that gradually shrinks over a period of five to 15 years until it is totally gone.

More recently, shared appreciation loans, or SALs, have been designed specifically to finance shared-equity homes. They are similar in function to low-interest loans often found in homeownership programs that are automatically and continuously “rolled over” to the next buyer of an assisted home, as long as the homebuyer meets the program's income qualifications. An SAL is typically structured as a 0 percent interest, due-on-sale second mortgage, covering 20 to 40 percent of the home's value. The SAL acts as a subsidy, reducing the cost of a homebuyer's monthly mortgage payments. When coupled with SEH, the SAL is accompanied by a deed covenant, containing all of the terms and conditions that are typical in shared-equity housing, including restrictions on use, occupancy, refinancing and post-purchase capital improvements. There are affordability restrictions as well, stipulating the income eligibility of future buyers, specifying the formula for the allocation of proceeds when a home is resold, and granting the program's sponsor a pre-emptive option to purchase homes offered for resale. When the SAL is repaid to the program's sponsor, a payment that includes accumulated interest, the principal balance from the original loan, and a share of the home's market-value appreciation, these funds are reinvested in the *same* home, offering the next income-eligible buyer another shared appreciation loan.

FUNCTION OVER FORM: TENURE IS NOT ENOUGH

Tenure matters. The way in which the rights, rewards, responsibilities and risks of homeownership are rearranged in SEH makes an enormous difference when it comes to preserving the homes — and homeownership opportunities — that public funders, private donors and nonprofit organizations have worked so hard to create. The better the tool, the better the artisan.

But tenure is not enough. Shared-equity housing must still be made to perform as promised and function as designed. Most practitioners who labor day to day developing, marketing and managing deed-restricted homes, CLTs, LECs and related forms of tenure spend less time worrying about what shared-equity housing *is* than what it *does*.

Having been handed a tool of power and potential, their focus is on keeping it sharp and using it well, accomplishing what conventional homeownership cannot: repairing the cracks and plugging the holes in a broken bucket from which dollars and homes otherwise leak away.

To ensure the durability of that repair, however, something more is needed. There must be an organizational entity that remains in the picture for many years, watchfully monitoring and dependably enforcing the contractual conditions that rearrange the prerogatives of ownership. That same entity must stand behind the owners, sharing their burdens and ensuring their success amid the ups and downs of a volatile economy. It is the *form* of shared-equity housing that makes these models different from conventional homeownership. It is *stewardship* that makes them work.

Chapter 3: Stewardship that works

Stewardship has been a long time coming to homeownership programs administered by public agencies and nonprofit organizations alike. Even programs that promote some form of shared-equity homeownership sometimes devote insufficient attention to the duties of stewardship, failing to create an adequate system of oversight and care capable of ensuring that homes really do last.

Someone must pay attention. There is no such thing as a “self-enforcing” or “self-executing” deed covenant, ground lease or proprietary agreement.⁵² These long-lasting contracts require homeowners to resell for a price that remains “affordable,” while imposing many other conditions on the use, financing and improvement of assisted homes. They remove some of the responsibilities and risks of homeownership, enhancing security of tenure. Experience has shown that an organizational “steward” must stay in the picture for these protections and enhancements to remain in effect, monitoring contract compliance, intervening to correct violations, and providing support for the homes and the homeowners.

That steward, in some cases, is the nonprofit organization that constructed the shared-equity homes or the cooperative housing corporation that owns and manages them. In other cases, the public agency that funded the homes or mandated their inclusion in a for-profit development assumes responsibility for their stewardship after they are built and sold. Alternatively, a governmental entity may delegate this responsibility to a community land trust or other nonprofit organization, paying an annual fee for this service. There also are many cases of one nonprofit providing steward services for another.

It does not really matter who plays this necessary role, as long as the designated steward has a mission-driven commitment to stewardship and the capacity to perform the duties of stewardship over a long period.

This is not as burdensome as it might seem. Most owners of shared-equity homes willingly comply with the contractual requirements that accompany the deal. Most stewards intervene infrequently in correcting violations. The operational goal of any stewardship regime is, in fact, to reach the point where compliance is routine and enforcement is unnecessary.

Information and relationship are the keys to success. Homeowners are more likely to abide by the conditions that encumber their properties when they are fully informed of what they are getting into before they buy a resale-restricted home and when they are periodically reminded of their obligations after moving in. Willing compliance also depends on the quality and continuity of the relationship established between new homeowners and the organization with responsibility for watching over their homes. This relationship is partially a function of the services a steward provides, supplementing its “negative” role of being a watchdog with a “positive” role of being a shepherd. But the relationship between homeowner and steward often has a less tangible, social component as well. When a steward builds trust with prospective homeowners as they are buying their homes and when a steward interacts with them regularly and respectfully after they have moved in, homeowners are more likely to view the steward as a partner in their success, feeling that “we are all in this together.”⁵³



‘Stewardship is not a burden’

Housing Land Trust of Sonoma County Petaluma, California

Seven of the nine municipalities in Sonoma County, California, are currently contracting with a single nonprofit organization to provide stewardship services for affordably priced, owner-occupied homes mandated by inclusionary zoning, subsidized with public funds, or both. The Housing Land Trust of Sonoma County, or HLTSC, is paid an annual fee in exchange for:

- (1) Marketing these homes after construction and doing so again whenever they come up for resale in future years.
- (2) Preserving the affordability of these homes forever.
- (3) Supporting new homeowners in any way possible to prevent foreclosures and ensure the homeowners’ success.

HLTSC currently manages a portfolio of 79 single-family houses, with 56 other houses and condominiums in the pipeline.

Some cities came to HLTSC several years ago because they were worried about losing the affordability of housing that the municipality had helped to create. Others walked through the door during the foreclosure crisis of the Great Recession. Dev Goetschius, HLTSC’s executive director, recalls: “We had zero foreclosures. Town officials looked at us and said, ‘You’re not losing anything? Could we pay you to look after our homes too?’

“Our job is to lessen the burdens of government, taking care of their homes and protecting their investment. Smaller cities don’t have the capacity to be dealmakers and midwives. Larger cities don’t do well at maintaining the sort of high-touch relationship with lower-income homeowners that makes stewardship work in the long run. That is our job. We will do anything for our families. Stewardship is not a burden for us. That is what we were designed to do. That is what separates us from other housing organizations.”

DUTIES OF STEWARDSHIP

Homes are made to last by combining an unconventional form of housing tenure with a multifaceted stewardship regime that is focused simultaneously on *dollars*, *buildings* and *people* – sometimes called the “three faces” of stewardship.⁵⁴ Any organization assigned responsibility for the stewardship of shared-equity homes must be equally

capable of keeping the financial cost of this housing within the reach of low-income homeowners (affordability), keeping the physical structure in good repair (quality), and keeping families in the homes they have newly purchased (security). These duties often overlap. Security of tenure is enhanced, for example, when a homeowner’s cost

of heating is kept affordable as a result of the home being well-built and well-maintained.

Lasting affordability is the purpose for which shared-equity homeownership is best known. It is no accident that the greatest

expansion in the number of resale-restricted houses and condominiums, community land trusts, and limited-equity cooperatives tends to occur in periods of economic growth and in places where the average price of buying a home is rising faster than the average income of local residents. The reliability of these unconventional models of tenure in preserving affordability is often touted as the principal reason for doing shared-equity homeownership.

But lasting affordability is not all that distinguishes these unconventional forms of tenure from their market-priced counterparts, nor is it the only concern of organizations assigned responsibility for stewardship. The long-term survival of shared-equity housing – and the long-term success of its owners – requires a steward that is equally protective of the condition of the buildings and the well-being of the occupants across the full cycle of buying, occupying and reselling a home.




The many duties required of any organization tasked with playing this stewardship role can be arranged according to the *goals* a stewardship regime is designed to achieve or by the *phase* in the homeownership cycle when these duties are carried out (see Figure 3.2). They can also be described in terms of the steward's main activities vis-à-vis the homes under its care: disclosing, approving, monitoring, enforcing and serving.⁵⁵ The method and manner by which these duties are performed can vary greatly from one steward to another, depending on a steward's administrative capacity, its culture of engagement with the families purchasing a shared-equity home, and its programmatic priorities that favor either close supervision of subsidies and homes or remote observation, intruding as little as possible on a homeowner's privacy and independence.⁵⁶

Figure 3.1

Three faces of stewardship



Figure 3.2

Goals of stewardship	Duties of stewardship during different phases of the homeownership cycle		
	Prepurchase <i>Preparing homes and homeowners</i>	Occupancy <i>Supporting homes and homeowners</i>	Resale <i>Transferring homes to new owners</i>
 Preserve affordability	<ul style="list-style-type: none"> • Maintain a waiting list of income-eligible buyers for homes that are offered for sale. • Inform prospective buyers of resale restrictions and other conditions encumbering the home they are about to buy. 	<ul style="list-style-type: none"> • Secure equitable taxation of resale-restricted homes. • Regulate the renting/subletting of homes (if permitted at all). Set the maximum time a homeowner may be temporarily absent and the maximum rent a homeowner may charge. 	<ul style="list-style-type: none"> • Calculate the maximum resale price/transfer value of the ownership interest when notified of a homeowner's intent to leave. • Manage the process of transferring ownership of the home, either repurchasing it or overseeing its resale to an income-eligible buyer at the formula-determined price.
 Preserve quality	<ul style="list-style-type: none"> • Install durable materials and energy-efficient systems as a home is being constructed or renovated. • Prepare homebuyers for the maintenance responsibilities that will come with homeownership. 	<ul style="list-style-type: none"> • Review/approve post-purchase capital improvements proposed by the homeowner. • Periodically inspect the condition and repair of homes. • Admonish poor maintenance; reward good maintenance. • Maintain a "stewardship fund" for helping homeowners with major repairs and system replacements. 	<ul style="list-style-type: none"> • Calculate the value of post-purchase capital improvements credited to the seller's equity. • Inspect the home during resale, overseeing any necessary repairs or rehabilitation.
 Protect security	<ul style="list-style-type: none"> • Review and approve all mortgages, preventing predatory lending. • Match the cost of buying and operating a particular home to the prospective buyer's ability to carry this financial burden. 	<ul style="list-style-type: none"> • Verify occupancy as the homeowner's primary residence, preventing absentee ownership. • Review/approve refinancing. • Ensure that owners have adequate insurance coverage. • Monitor the payment of taxes, utilities and insurance. • Correct violations in affordability covenants, ground leases, etc., before they linger too long or loom too large to be easily corrected. • Intervene to cure mortgage defaults and prevent foreclosures. 	<ul style="list-style-type: none"> • Assist in marketing homes that are offered for resale so that sellers can collect their equity and move on to their next home.

Disclosing. Stewardship begins *before* a shared-equity house, townhouse, condominium or share of stock in a cooperative housing corporation is ever purchased. All of the contractual restrictions affecting the home's current use and future resale have to be disclosed and discussed. A steward must do everything in its power to help prospective buyers understand how shared-equity housing is different from conventional homeownership, especially with regard to the "profits" a homeowner may receive on resale. Shared-equity homes do not lend themselves to a "hard sell." Prospective buyers must be allowed, even encouraged, to walk away if they are uncomfortable with the deal they are being offered. *Informed* consent and *willing* acceptance are the watchwords here.

Approving. To protect affordability, durability and security, a variety of actions proposed by homeowners are subject to the steward's prior review and written consent. In *most* shared-equity housing programs, for example, homeowners cannot go forward with plans for financing or refinancing their homes, renting them out, or making major structural improvements without receiving the steward's approval. In *all* shared-equity programs, the ownership interest cannot be resold without the steward's signoff on both the affordability of the transfer price and the eligibility of the subsequent buyer.

Monitoring. A steward must be sure that homeowners are abiding by the terms and conditions of the contracts that encumber their homes; that they are paying those costs for which they are responsible; that they are maintaining the safety and livability of the buildings they occupy; and that they are not burdening their homes with debts and liens that can threaten the homeowner's security of tenure. Such monitoring may be remote and indirect, as when a steward is notified

by an insurance company, mortgage lender or utility that one of its homeowners is in arrears. Or monitoring may be a more hands-on proposition, as when a steward directly supervises the resale of shared-equity homes or periodically inspects the homes under its care.

Stewardship standards

Grounded Solutions Network has collected hundreds of sample documents and identified dozens of "best practices" for operating an effective and sustainable stewardship program.

Thirty-two Stewardship Standards for Homeownership Programs have been identified, arranged in six categories:

- (1) Program and business planning.
- (2) Affordable pricing.
- (3) Mortgage financing.
- (4) Fair housing and buyer selection.
- (5) Resales.
- (6) Support, monitoring and enforcement.

These standards are linked to online resources (groundedsolutions.org/resources), helping SEH programs implement a particular practice without having to "reinvent the wheel."



GROUND
ED
SOLUTIONS
NETWORK

Enforcing. Whenever homeowners are revealed not to be fulfilling their obligations or not to be complying with the affordability covenant, ground lease, mortgage instrument or proprietary lease that encumbers a shared-equity home, the steward must be prepared to intervene. It is the steward's duty to see that violations are corrected in a timely fashion, preventing them from becoming so serious as to compromise the condition of the housing, the homeowner's security or the housing's transfer at the formula-determined price from one income-qualified household to another.

Serving. Enforcement morphs easily into service when a steward is committed to doing everything it can to keep families in their homes should they fall into arrears in meeting their financial obligations. Mortgage defaults are the clearest example. Many stewards insist on being a party to every mortgage. They want to be notified if homeowners get behind in their mortgage payments, and they want the opportunity to cure defaults on their homeowners' behalf, forestalling foreclosure.

"I think owning a shared-equity home would feel like arms wrapped around you telling you you're going to be OK. And so what? You make less money at the end of the day. That sounds like a fair deal to me."

*Prospective homebuyer,
Nashville, Tennessee⁵⁷*

This is not the only service provided in most SEH programs, however. Both the form of tenure and the stewardship regime that accompanies it are designed to remove some of the risks and responsibilities of homeownership from the shoulders of families with limited resources. The need to make major repairs such as fixing an old roof or the need to replace an antiquated system like a failing furnace is a good example. In shared-equity models like limited-equity cooperatives and shared-equity condominiums, the cost is pooled, so no single homeowner must individually bear the entire expense of the maintenance or replacement of common elements. In other models of shared-equity housing, some stewards are creating maintenance escrows or "stewardship funds" for the homes under their care. Capitalized mostly through monthly fees collected from their homeowners, these forced savings are used to defray the cost of repairs, renovations or upgrades that would otherwise be too expensive for low-income homeowners to handle.⁵⁸

Some stewards offer additional services, providing a range of training, referrals, assistance and support for homeowners whose resources are predictably limited and who are unlikely to have had any prior experience dealing with homeownership issues. Habitat affiliates go further than most, since the ultimate service a steward can offer to a low-income homebuyer is affordable financing from a sympathetic lender who is vested in seeing a homeowner succeed, no matter the occasional bump in the road.

Sources: Emily Thaden, Andrew Greer & Susan Saegert (2013) Shared Equity Homeownership: A Welcomed Tenure Alternative Among Lower Income Households, *Housing Studies*, 28:8, 1175-1196.

TENURE + STEWARDSHIP = HOMES THAT LAST

The promise of shared-equity homeownership is that heavily subsidized homes can be made to last by changing the way that housing is owned (tenure) and by changing the way it is operated (stewardship). This represents a more responsible use of charitable donations and government subsidies, preventing the loss of dollars and homes that many communities can never replace. This unconventional approach to homeownership also provides enhanced security for low-income and moderate-income homeowners, protecting them against many of the dangers that put homeownership at risk. Does shared-equity housing deliver on those promises? Does it actually *work*?

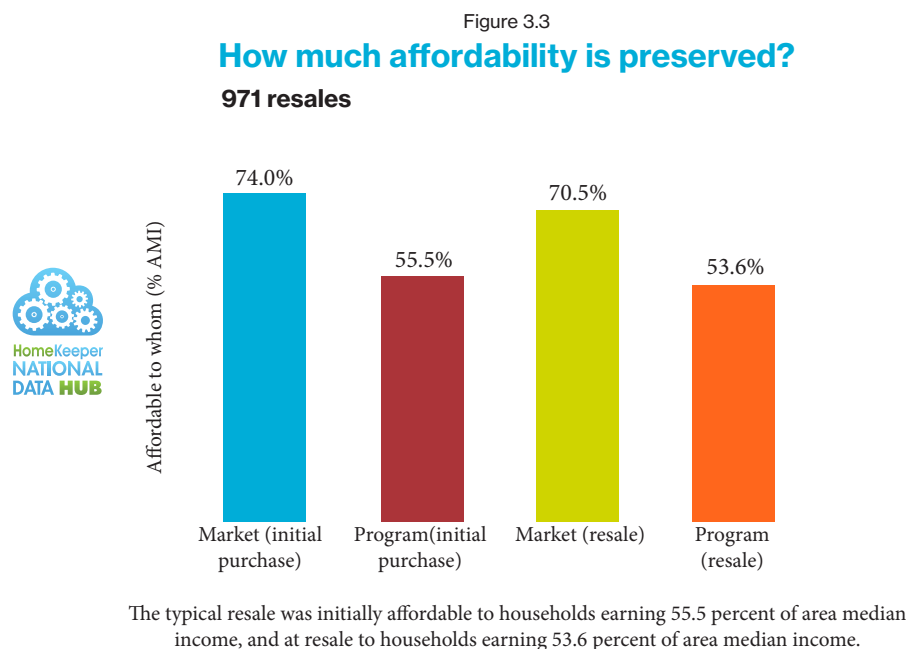
The evidence is thin when it comes to some of these goals, particularly those related to preserving the physical condition of shared-equity homes. Anecdotally, the longer time horizon of SEH programs does seem to result in wider use of durable materials and more energy-efficient systems during construction, along with closer attention to sound maintenance after the homes are sold. After all, if a steward knows it may someday be buying back a resale-restricted home, there is a greater incentive to build it right and to keep it repaired.⁵⁹ No quantitative data have been systematically collected so far, however, that might allow a definitive answer to the question of whether the “second face” of stewardship actually performs as promised.

The other dimensions of stewardship are better documented, examining the performance of shared-equity homeownership at both extremes of the business cycle. In hot markets, shared-equity housing has proved to be highly effective in preserving affordability for the next generation of low-income homebuyers, while allowing the first generation of low-

income homeowners to build wealth when reselling their homes. The evidence also suggests that a greater number of low-income families can be served over time by retaining the subsidies poured into owner-occupied housing, recycling these homes among a succession of low-income families. In cold markets, shared-equity housing has proved to be highly effective in preventing mortgage foreclosures, preserving security of tenure, and protecting the equity that families have invested and earned.

Affordability is preserved for future homebuyers. The most detailed studies of the performance of shared-equity housing in preserving affordability across multiple resales were those conducted in 2009 by the Champlain Housing Trust, or CHT, examining its own portfolio of resale-restricted, owner-occupied housing,⁶⁰ and the Urban Institute’s evaluation of seven shared-equity homeownership programs — three community land trusts, two limited-equity cooperatives and two using deed covenants.⁶¹ In the first, affordability was found not only to have continued between successive generations of low-income homebuyers, but to have improved. The average CHT home was affordable to a household earning 56.6 percent of area median income on initial sale. On resale, it was affordable to a household earning 53.4 percent of area median income. Similar results were discovered in the programs examined by the Urban Institute. The prices in all seven SEH programs remained remarkably stable from 1998 to 2008 — a 10-year period when the rest of the local housing market fluctuated wildly. Some programs were able to serve slightly lower-income buyers at resale, while others experienced a small increase in what prospective buyers needed to earn, but in all seven of these programs the shared-equity houses, condominiums and cooperatives remained affordable to the same class of low-income buyers they initially served.

More recently, Grounded Solutions Network examined 971 resales from 53 different SEH programs across the United States, comparing their affordability at the time they were first purchased and at the time they were later resold. As of 2016, on average, these shared-equity homes initially sold for a price that was affordable to households earning 55.5 percent of area median income. On resale, they sold for a price that was affordable to households earning 53.6 percent of area median income (see Figure 3.3).



Sources: Grounded Solutions Network, HomeKeeper National Data Hub, July 2016.

Wealth is created for present homeowners. When the owners of shared-equity homes resell, they walk away from the closing table with net proceeds that come from four sources:

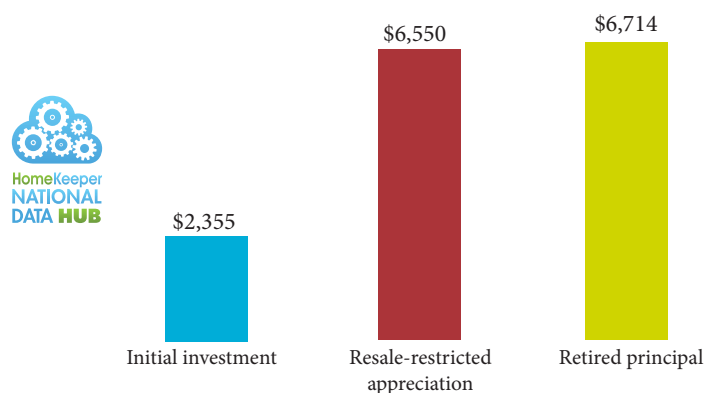
1. The money they brought as a down payment when purchasing a house, condominium or shares in a limited-equity cooperative.
2. The “forced savings” they accumulate in paying off the principal of their mortgage.
3. A portion of the value of any capital improvements they may have made.
4. A portion of the home’s appreciation, as determined by a program’s resale formula.

These returns vary widely, depending on the type of formula, the type of housing, the model of shared-equity homeownership, and market conditions in a specific locale. In nearly every case, however, the sellers of shared-equity homes walk away with more wealth than they had when buying these homes. The return on their original investment, moreover, tends to be higher than had they put their down payment into a savings account or blue chip stocks instead of buying a shared-equity home.

In 2016, Grounded Solutions examined wealth creation in the resale of 674 shared-equity homes of various types, using data compiled through HomeKeeper. Grounded Solutions found that homebuyers averaged an initial investment of \$2,355. When they resold their homes, they recouped their downpayment, collected an average of \$6,714 from the amortization of their mortgages, and earned an additional \$6,550 from appreciation. Had they invested their original down payment in the stock market instead, they would have earned only \$33 in appreciation over the same period.

Figure 3.4
Are sellers creating wealth?

674 resales



The typical seller would have received an estimated \$33 in net gain, had they instead invested their downpayment in the stock market.

Source: Grounded Solutions Network, HomeKeeper data, July 2016.

These findings are consistent with the earlier study of seven shared-equity homeownership programs conducted by the Urban Institute in 2009. For the most part, the homebuyers in these programs made small initial investments, resold their homes after three to six years, and walked away with a significant return on that investment. The rate of return on an annualized basis ranged from 6.5 percent for a limited-equity cooperative in Davis, California, to a high of 59.6 percent for a deed-restricted homeownership program with a very lenient resale formula in King County, Washington. The other five programs fell somewhere in between, delivering returns much higher

than the average return for stocks listed in Standard & Poor's 500 Index (see Figures 3.4a and 3.4b).⁶²

Families are served in greater numbers. In an essay published in 2014, the director of the Center for Housing Policy, Jeffrey Lubell, conducted an instructive “thought experiment.” He asked how many *more* families might be served for the *same* amount of grant money if owner-occupied homes normally sold and resold at market prices were transferred, instead, under resale restrictions typically found in shared-equity housing. His calculations revealed that an SEH program “could serve two to five times as many households for the same amount of money.”⁶³

Lubell's calculations were based on solid assumptions about real-world housing costs and household incomes, but his analysis relied on a series of hypothetical scenarios.⁶⁴ The only examination of this topic employing quantitative data from actual resales was done in 2009. From 1988 to 2008, the Champlain Housing Trust, or CHT, in Burlington, Vermont, helped 357 families purchase shared-equity homes that were resold one or more times, using \$2,172,207 in public subsidies. Examining these resales, CHT posed a question similar to Lubell's: How many families would have been served with that same amount of money if those same homes had *not* been part of CHT's stewardship regime — that is, if homeowners had been allowed to pocket all of those subsidies on resale, along with all of the appreciation? The answer was that only 152 families would have had access to homeownership, instead of the 357 who were actually served. By using a ground lease to retain subsidies and to preserve affordability in its portfolio of shared-equity houses and by using a deed covenant to accomplish the same goal in its portfolio of shared-equity

Figure 3.4a

Wealth creation in seven shared-equity homeownership programs

	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%

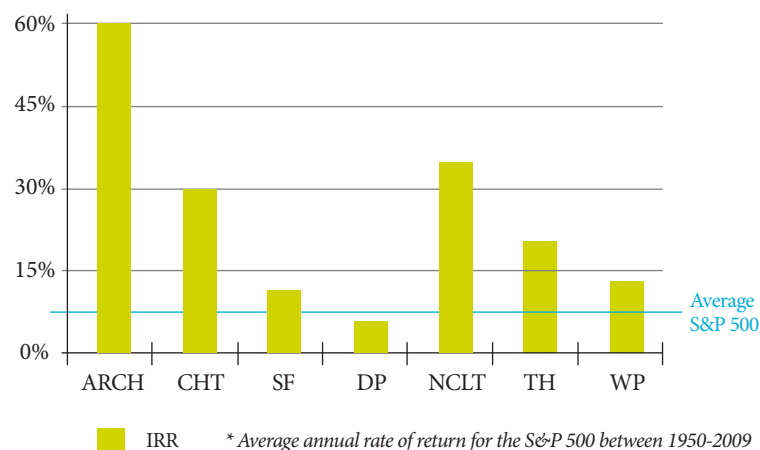
* ARCH did not provide information on mortgages. Therefore, reported IRR for ARCH units is based on estimates where a buyer places a 5 percent downpayment and finances the remaining purchase with a 30-year, fixed-rate mortgage with a 6.0 percent interest rate. Note: All dollar amounts are in 2008 dollars.

Source: Kenneth Temkin, Brett Theodos and David Price, "A Promising Way Forward for Homeownership: Assessing the Benefits of Shared Equity Programs," *Community Investments*, v. 23 (1), Spring 2011: 16.

Figure 3.4b

Annual rate of return for sellers in seven shared-equity homeownership programs

Annual return on investment



Source: Kenneth Temkin, Brett Theodos and David Price, "A Promising Way Forward for Homeownership: Assessing the Benefits of Shared Equity Programs," Community Investments, v. 23 (1), Spring 2011: 16.

condominiums, CHT was able to serve nearly 2½ times as many homebuyers over a 20-year period (see Figure 3.5a).

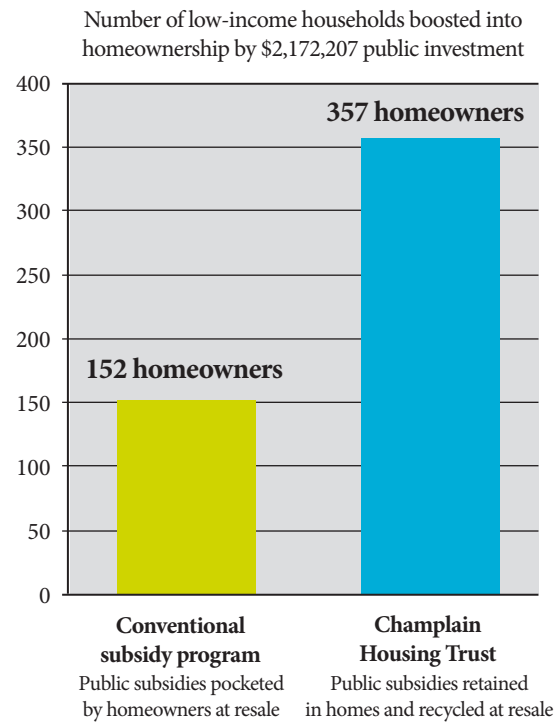
CHT's researchers then examined the data from the opposite side. They asked: How many dollars in additional government assistance would have been required to serve the same number of families (357) at the same level of income (68 percent of area median income) if CHT's homes had been sold and resold under a conventional homeownership assistance program? The answer was \$10,584,003 – nearly *five times* the amount of public investment that had actually been needed (see Figure 3.5b).⁶⁵

Mortgage foreclosures are significantly reduced. Most stewardship regimes are designed to work not only during the upside of the business cycle but also during downturns. When the economy stalls, when real estate values decline, and when foreclosures rise in the rest of the housing market, the security and equity of the families occupying shared-equity homes are protected in ways they are not in conventional housing.

The stiffest test of this proposition occurred during the Great Recession and the years immediately after, a period when millions of homeowners without the protections accompanying shared-equity housing were forced into foreclosure and millions more were forced to give up their homes in short sales or cash-for-keys sales. By contrast, three studies conducted during this turbulent period revealed a very different picture among the owners of shared-equity homes, providing evidence that stewardship worked to reduce foreclosures when economic times were very bad.

Figure 3.5a

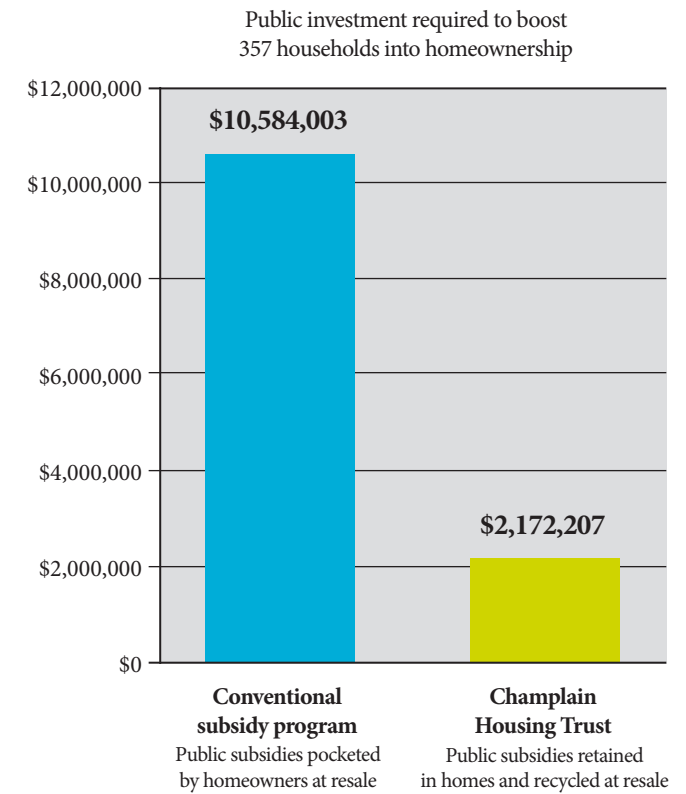
More families served in a shared-equity homeownership program



Source: John Emmeus Davis and Alice Stokes, *Lands in Trust, Homes that Last*. (Burlington, Vermont: Champlain Housing Trust, 2009).

Figure 3.5b

More subsidies needed in conventional homeownership programs



Source: John Emmeus Davis and Alice Stokes, *Lands in Trust, Homes that Last*. (Burlington, Vermont: Champlain Housing Trust, 2009).

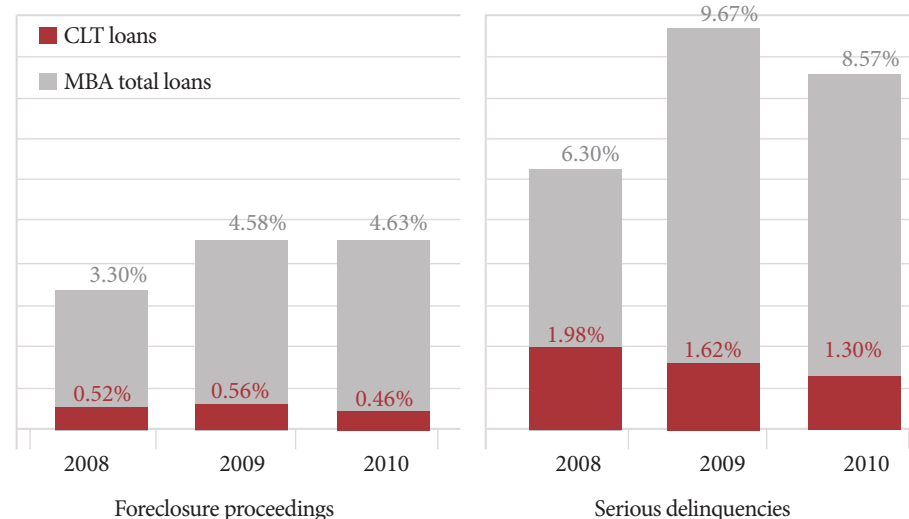
The Urban Institute's 2009 evaluation of seven shared-equity homeownership programs found that all six of the programs for which it could obtain foreclosure data had rates that were significantly lower than the foreclosure rates in their surrounding counties.⁶⁶ They performed even better when compared with national rates. A full 15 percent of all Federal Housing Administration loans originated in 2004 had been delinquent at some point by 2008, and 4.2 percent of them were currently in foreclosure. By contrast, shared-equity homes in foreclosure at the time of the Urban Institute study ranged from 0 percent in three of the programs to "highs" of 0.4 percent, 0.5 percent and 1.1 percent in the others.

Two national studies of the performance of shared-equity housing under the stewardship of community land trusts were conducted by Emily Thaden for the National CLT Network in 2010 and 2011 (now Grounded Solutions Network).⁶⁷ These studies compared serious mortgage delinquencies and foreclosure proceedings reported by the National Delinquency Survey of the Mortgage Bankers Association to the delinquencies and foreclosures among CLT homeowners. From 2008 to 2010, CLT mortgages consistently posted much lower rates of serious delinquency and foreclosure than the pool of MBA mortgages (see Figures 3.6a and 3.6b). When the American economy was at its worst, the stewardship regime overseen by CLTs was at its best, preventing the loss of shared-equity homes and outperforming conventional homeownership by a wide margin.

First-time homeowners succeed at a higher rate. Finally, there is the question of whether the unusual tenures and watchful stewardship of shared-equity housing improve the odds that new homeowners will successfully hang on to the homes they have been helped to acquire.

Earlier longitudinal studies of low-income households buying into *conventional* homeownership, conducted before the shocks of the Great Recession, consistently found that roughly half of these first-time homeowners revert to renting within five years. The success rate among low-income households buying shared-equity homes is considerably higher. The Urban Institute study found in 2009 that

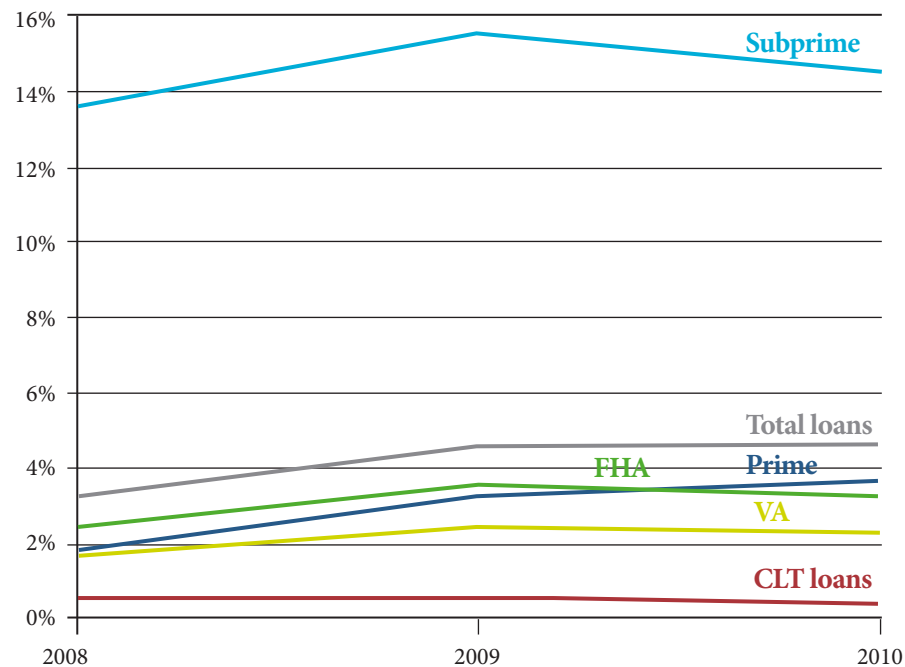
Figure 3.6a
Rate of foreclosure proceedings and serious delinquencies at year's end



Source: Emily Thaden, "Stable Home Ownership in a Turbulent Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts," Lincoln Institute Working Paper WP11ET1 (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2011).

Figure 3.6b

Rate of foreclosure proceedings at year's end by type of mortgage



Source: Emily Thaden, "Stable Home Ownership in a Turbulent Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts," Lincoln Institute Working Paper WP11ET1 (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2011).

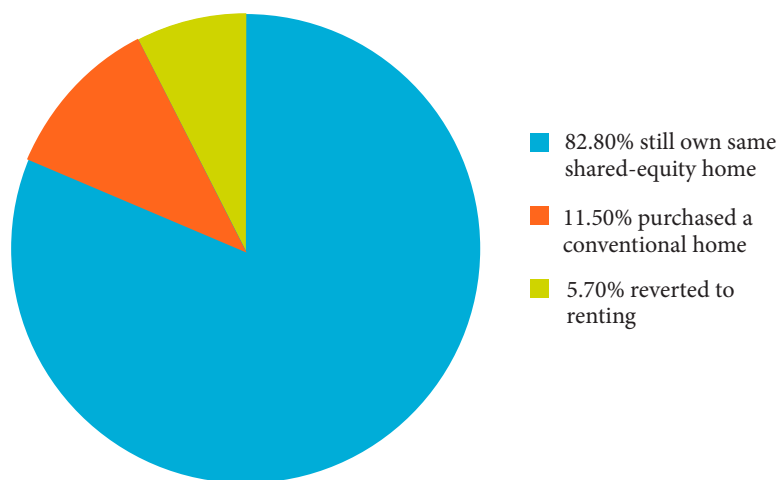
over 90 percent of homeowners in the shared-equity housing programs for which occupancy data were available were still homeowners after five years.

More recently, Grounded Solutions reported in 2016 that over 94 percent of the homeowners being tracked in its HomeKeeper data management system either still owned and occupied their original shared-equity home five years after buying it or had purchased another home (see Figure 3.7). This is an impressive rate of success in light of the fact that the household income of these homeowners averages only 55.5 percent of area median income, one additional piece of evidence that shared-equity homeownership delivers on its promises. Stewardship works.

Figure 3.7

Households who are still homeowners five years after purchasing a shared-equity home

3,614 purchases



Source: Grounded Solutions Network, HomeKeeper National Data Hub, July 2016

The triple benefit of shared-equity homeownership

“In an era of tight public and private resources and increasing housing affordability problems, we clearly need a new model, one that will open doors for families in need now and into the future without breaking the bank. Delivering a triple benefit of long-lasting affordability, wealth creation and increased security, homeownership programs that preserve long-term affordability are poised to answer that call.”

Miriam Axel-Lute, *Homeownership Today and Tomorrow: Building Assets While Preserving Affordability* (2010).

Chapter 4: Communities that remain inclusive

The affordably priced homes produced and sold by nonprofit organizations using private donations and public subsidies are more likely to last when a form of ownership that rearranges the rights, responsibilities, risks and rewards of residential property is combined with a regime of stewardship that protects the affordability, quality and security of that housing for many years. Such protections give shared-equity housing a resiliency that conventional homeownership lacks, allowing affordable homes and vulnerable homeowners to weather the punishing storms of a volatile economy.

These unconventional models of tenure, wrapped in a mantle of stewardship, also provide a degree of weatherproofing in the face of market forces that threaten constantly to wash away whatever housing is currently occupied or recently constructed for low-income people and protected classes. Shared-equity homeownership can prevent the loss of affordably priced housing in impoverished neighborhoods that are being lifted up by the intervention of nonprofit organizations and the investment of foundations, government and private donors. Shared-equity homeownership can do the same in affluent neighborhoods that are being opened up by the affordable housing initiatives of nonprofit developers or the inclusionary programs of local governments, enabling a different class of people to move into communities from which they have been historically excluded.

These are very different places, but they present a similar challenge. Unless affordably priced homes can be dependably and durably preserved, any hope for inclusive communities that last is like a house that is built upon the sand.

ISLANDS IN THE STREAM

Affordability in neighborhoods, suburbs, cities and towns with a strong or rapidly improving real estate market is dearly purchased – and highly precarious. Large contributions are needed from government or charity to bring homes within the financial reach of families of limited means. Any developer of affordable housing in such a place needs some combination of public subsidies, private gifts, tax abatements and regulatory incentives of various kinds to lower the price of newly constructed homes. As soon as these homes are completed and sold, however, the economic incentives and political winds that swirl around them can make it difficult to prevent the subsidies that made these homes affordable from being lost over time, along with the affordability of the homes themselves.

This is clearly a resource issue. When heavily subsidized homes are lost in localities where prices are rising and developable sites are few, neither the subsidies nor the homes are likely to be replaced in their entirety. To allow such leakage is to squander both a community's contribution and its commitment to housing a diversity of people.

This is a fair housing issue as well, since the disappearance of affordably priced homes can have a disparate impact on protected classes. These are populations that are often extruded from places that are improving. They are often excluded from places that are prosperous.

Shared-equity homeownership works equally well in both situations, erecting a bulwark against loss while reconciling the frequently competing goals of security and opportunity. Such a balanced approach is consistent with current thinking among practitioners who eschew the rhetorical and programmatic divide that has long separated advocates



for what David Imbroscio has called the Placemaking Paradigm, which focuses on rebuilding low-income neighborhoods, and advocates for the Mobility Paradigm, which focuses on helping low-income people “move to opportunity,” leaving their old neighborhoods behind.⁶⁸

It is consistent, too, with current thinking among advocates for “affirmatively furthering fair housing,” or AFFH. As declared by the U.S. Department of Housing and Urban Development in its final rule for AFFH, published on July 16, 2015, “place-based and mobility strategies need not be mutually exclusive.” The central concern of AFFH still lies in removing discriminatory barriers in “areas of opportunity” that prevent the residential mobility of protected classes. This may include incentivizing (or mandating) construction of affordable housing in places where none currently exists. But AFFH may also be aimed at preserving affordable housing that already exists, both in areas that are prosperous and in areas that are not. Shared-equity housing is a powerful tool for making this happen.

Shared-equity housing cannot keep market forces from buffeting a neighborhood. It cannot prevent affluent people from moving into a low-income area that is newly attractive to homebuyers and entrepreneurs who, sensing a change in the area’s fortunes, are now willing to settle their families or businesses there.⁶⁹ What SEH can do is keep the poor from getting drowned in the deluge. It is a bulwark against displacement, protecting islands of security against steady erosion as the waters rise.

These are islands of opportunity as well. Several years ago, Lance Freeman and Frank Braconi looked at gentrification in several of New York City’s hottest neighborhoods.⁷⁰ They noted that, “Public housing,

A balanced approach to fair housing

“A balanced approach would include, as appropriate, the removal of barriers that prevent people from accessing housing in areas of opportunity, the development of affordable housing in such areas, effective housing mobility programs and/or concerted housing preservation, and community revitalization efforts.”

U.S. Department of Housing and Urban Development,
Affirmatively Furthering Fair Housing, Final Rule,
July 16, 2015

often criticized for anchoring the poor to declining neighborhoods, may also have the advantage of anchoring them to gentrifying neighborhoods.” The same may be said of shared-equity housing. The compounded tragedy of gentrification is not only that low-income families are frequently displaced when the places they inhabit are improved, forcing them to look elsewhere for affordable shelter; it is also tragic that someone else gets to reap the benefits of the long-neglected neighborhoods those families are vacating, just as they are becoming more livable. Shared-equity homeownership ensures a more equitable distribution of these benefits, providing for the inclusion of low-income people when economic conditions, schools, shops, services and public safety finally take a turn for the better.

Gentrification with justice

“Resisting gentrification is like trying to hold back the rising ocean tide. It is surely coming, relentlessly, with power and growing momentum. Young professionals as well as empty nesters are flooding into our cities, buying up lofts and condos and dilapidated historic residences, opening avant-garde artist studios and gourmet eateries. If market forces alone are allowed to rule the day, the poor will be gradually, silently displaced, for the market has no conscience. But those who understand God’s heart for the poor have a historic challenge to infuse the values of compassion and justice into the process. But it will require altogether new paradigms of ministry.

“The urban church that seeks to minister in disadvantaged areas faces the eventual disappearance of lower-income renters from their communities. Such urban ministries are approaching an inevitable fork in the road. If they remain committed to the poor, they must decide to either follow the migration streams as they gravitate to the periphery of the city, or get involved in real estate to capture affordable property in their neighborhood to ensure that their low-income neighbors retain a permanent place.”

Bob Lupton, “Gentrification With Justice,”
byFaith: The Online Magazine of the
Presbyterian Church in America,
Issue 9, June 2006

Establishing islands of security and opportunity in communities that are already prosperous is equally important, especially from a fair housing perspective. Protected classes may work in affluent neighborhoods, suburbs, cities and towns. They may shop there. But they are often prevented from living there, excluded by rents and prices far beyond their reach – reinforced, in many places, by exclusionary regulations and discriminatory practices.

Opening up these enclaves to low-income families and protected classes faces formidable obstacles. It is harder to develop affordable housing there. Buildable land is less abundant and more expensive. The per-unit subsidy required to close the affordability gap for low-income renters or homebuyers is often enormous. Zoning is often unfavorable. Opposition from the “not in my backyard” crowd is often fierce.

Undeterred, many nonprofit housing development organizations, including many Habitat affiliates, have fought the good fight, constructing affordable housing in “areas of opportunity” where little has existed heretofore. SEH programs have been especially aggressive in this regard. As a whole, community land trusts, limited-equity cooperatives and inclusionary projects with durable affordability covenants are as likely to be found prying open the “best” places as they are to be engaged in lifting up the “worst” places.

When they prevail, that is but half the battle. *Privileged communities remain inclusive only when assisted homes remain affordable.* The practical, legal and moral question that must be addressed by every practitioner and public official who has worked so hard to promote fair housing by building affordable housing in a sea of prosperity is how

Building Habitat homes in a high-value neighborhood

Austin, Texas

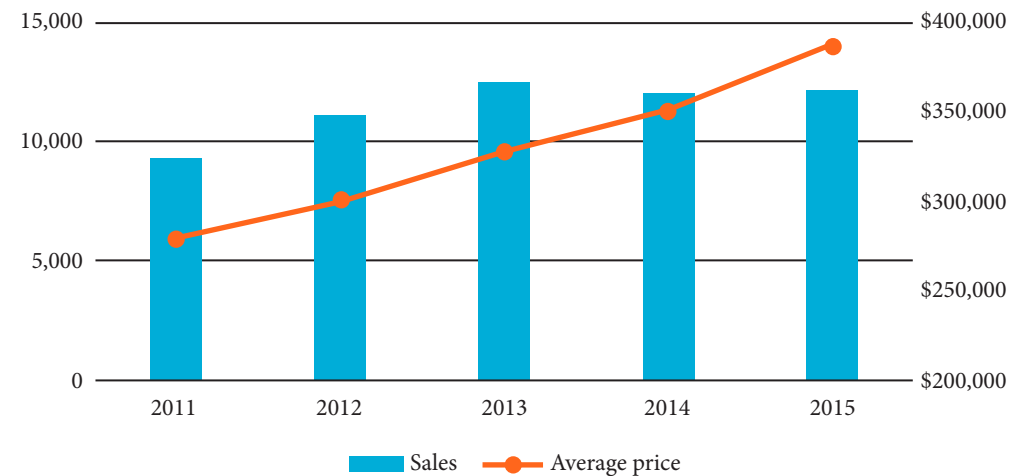
The cost of building and buying a home in Austin, Texas, has increased dramatically since the Great Recession. The primary driver for the house price increase has been the cost of land. In the neighborhoods of East Austin, for example, where Austin Habitat for Humanity has focused much of its work, land prices jumped from \$25,000 for a buildable lot to \$150,000 or more.

Increasingly, Austin Habitat and other affordable housing providers have been “priced out” of Central Austin neighborhoods. When land is so expensive, we couldn’t justify investing so much money to subsidize a single family. So Habitat began buying land further out, where we could afford it.

This made the purchase price of a Habitat house somewhat less expensive, but it had other consequences that were less desirable for our homeowners. The houses being built outside of the central city were farther away from jobs and public transportation. Families moved into

different school districts and were forced to send their children to schools that were not the top performers in the area. In many cases, the schools were not “neighborhood schools” but were located miles from the families’ homes. Habitat homebuyers were forced to become more car-dependent, driving kids to and from school, to and from work, and to and from shopping for groceries and other essentials. The cost to own and operate cars increased the families’ cost of living in these outlying areas.

Austin home sales volume and average house price



Austin Habitat's solution to this was to develop HomeBase: a deed-restricted, shared-equity homeownership program that ensures long-term affordability for houses being built in a more desirable, strong-market neighborhood that is closer to jobs and public transportation and has schools of higher quality.

This is a win-win-win program for everyone involved. It is a win for the homebuyers, because they can buy houses at an affordable price in a better neighborhood and build equity over time. It is a win for Habitat, because we deepen our pool of eligible buyers, serving households up

to 80 percent of the area median income, and because we ensure that any subsidies invested in the houses are not lost at resale. It is a win for the next generation of low-income homebuyers, because when a house resells, it remains affordable to another buyer at 80 percent of area median income.

Austin Habitat created the HomeBase Program to complement the traditional Habitat homebuying program, allowing Habitat to house low-income families in high-value neighborhoods for the first time. A comparison of the two programs is below.

	Traditional Habitat home	HomeBase home
Household income	60% area median income (\$46,080 for a household of four)	80% area median income (\$61,450 for a household of four)
Mortgage source	Austin Habitat	Market lender
Mortgage rate	No-profit loan	Market rate interest
Partnership model	Sweat equity and classes	Homebuyer class
Homebuilder	Austin Habitat	Outside builder/developer
Mortgage holder	Austin Habitat	Lender or sold to Fannie Mae/Freddie Mac
Subsidy protection	Second note and shared appreciation	Capped appreciation (1.5%)
Resale restrictions	Habitat, first right of refusal	HomeBase, first right of refusal, income-eligible buyer
Average sale price	\$80,000-\$110,000	\$173,757 (at Westgate Grove)
Average second note	\$30,000	\$53,743 (at Westgate Grove)

Profile contributed by
Michael Willard,
principal at Willard
Consulting and former
president and CEO of
Austin Habitat for Humanity.

to protect and preserve that island of opportunity as homes change hands in subsequent years. Shared-equity homeownership has an answer. Conventional homeownership does not.

It should be noted, however, as scholars like Robert Chaskin and Mark Joseph have pointed out, that integration does not automatically produce inclusion.⁷¹ Whether in the case of low-income people being helped to move to a neighborhood more affluent than the one they are leaving or in the case of low-income people being enabled to stay in a neighborhood that is gentrifying around them, they may still be excluded (or alienated) from full participation in the locality's economic and social life. Surrounding affordably priced homes with legal and organizational protections to make them last is a necessary condition for creating and sustaining an inclusive community, but it may not be sufficient.

Here, too, shared-equity homeownership may do what conventional homeownership does not. What the latter lacks is not only a steward that assumes responsibility for protecting the affordability, quality and security of heavily subsidized homes, but also a champion that accepts responsibility for helping newly minted homeowners who may be poorer than the people around them to find community in the neighborhood in which they live. By no means is every organization that plays a role in the stewardship of shared-equity housing fully attuned to the obstacles to inclusion that low-income families and protected classes may continue to face, despite becoming homeowners. Nor is every steward fully prepared to play a post-purchase role in charting a path around these obstacles. In many SEH programs, however, the steward's commitment to helping its homeowners succeed extends into the programmatic realm of

helping them to belong. Here, as well, the owners of shared-equity homes are not forced to “go it alone.”

SEH HAS A PLACE IN COLD MARKETS TOO

Shared-equity homeownership has found a niche and been able to thrive in a broader range of settings than might be supposed. That is due in part to the willingness of SEH practitioners to tailor both ownership and stewardship to fit a variety of conditions on the ground. The precise manner in which any model of shared equity is structured, therefore — even the choice of which model to use — is largely a product of the characteristics of the place being served. That is true, too, for the manner in which shared-equity homes are priced, marketed, financed and resold. Shared-equity housing in a hot real estate market can look very different from shared-equity housing in a cold market.⁷²

Shared-equity housing may be an easier sell in strong-market neighborhoods, where rents and prices are rising faster than household incomes, where property values are higher than housing replacement costs, where there is a significant “affordability gap” between average housing prices and average household incomes, and where the asking price for a shared-equity home is likely to be significantly lower than the average price for market-rate homes of comparable quality and size.⁷³ In prosperous places, it is easier to persuade prospective homebuyers that the deal they are being offered on a shared-equity home, despite the ceiling on back-end “profits,” is preferable to the rental housing they want to leave and the conventional homeownership they cannot afford. It is easier to persuade private lenders to write mortgages on shared-equity homes in a place where the value of their collateral is more likely to be

secure. It is easier to convince public funders and private donors that the preservation of affordability is more urgently needed and more fiscally prudent when assisted homes are located in a neighborhood where the replacement of homes lost to the market is too costly to be realistic.

That does not mean, however, that unconventional models of shared-equity homeownership are appropriate only for neighborhoods on the cusp of gentrification or on the bubble of prosperity. Houses with resale covenants, homes on lands leased from a community land trust, and homes in limited-equity cooperatives have also been successfully developed, financed and marketed in places where the upward pressure on prices is mild or nonexistent. The loss of affordability is not an immediate concern in weak-market neighborhoods, but SEH programs have thrived nonetheless, finding other purposes. Shared-equity homeownership does more than regulate resale prices, and stewardship has more “faces” than one.

Add residential diversity. Neighborhoods with weak markets and high concentrations of poverty tend to have only one form of housing tenure – multiunit rentals – and, frequently, much of it is of lower quality. Shared-equity homeownership, when developed in such places, not only diversifies the housing stock but also may diversify the mix of the neighborhood’s population, attracting households of a slightly higher income. To sell homes in a weak-market neighborhood, an SEH developer must compete not only on price, but on the quality and size of the homes offered for sale. The deal is often enhanced by services and supports that accompany the ownership and stewardship of most shared-equity homes. Even where the preservation of affordability is not a pressing concern, therefore, the higher quality, greater durability, fewer responsi-

bilities, lower risk and enhanced security of SEH homes can make them an attractive deal for low-income homebuyers and a welcome addition for a neighborhood looking to improve.

Protect personal wealth. It is common for critics of shared-equity homeownership to complain that resale restrictions do not allow low-income people to build wealth.⁷⁴ Aside from the fact that the owners of shared-equity homes do build wealth (as previously discussed in Chapter 3), the reality is that homeowners build wealth only if they remain homeowners and keep their homes in good repair. On both counts, the performance of shared-equity homes has been shown to be superior to conventional homeownership. Foreclosures are prevented and sound maintenance is promoted, even in neighborhoods where affordability is not currently at risk.

During downturns in the economy, moreover, in places where the value of market-rate homes is taking a nosedive, the appreciated equity earned by the owners of shared-equity homes remains stable and may, in fact, exceed the equity being realized by the sellers of market-rate homes (see Figure 4.1). There is clearly a “ceiling” on the amount of equity that SEH homeowners can remove from their homes on resale when markets are hot, but there is also a “floor” beneath them, protecting a family’s investment against loss when markets turn cold.

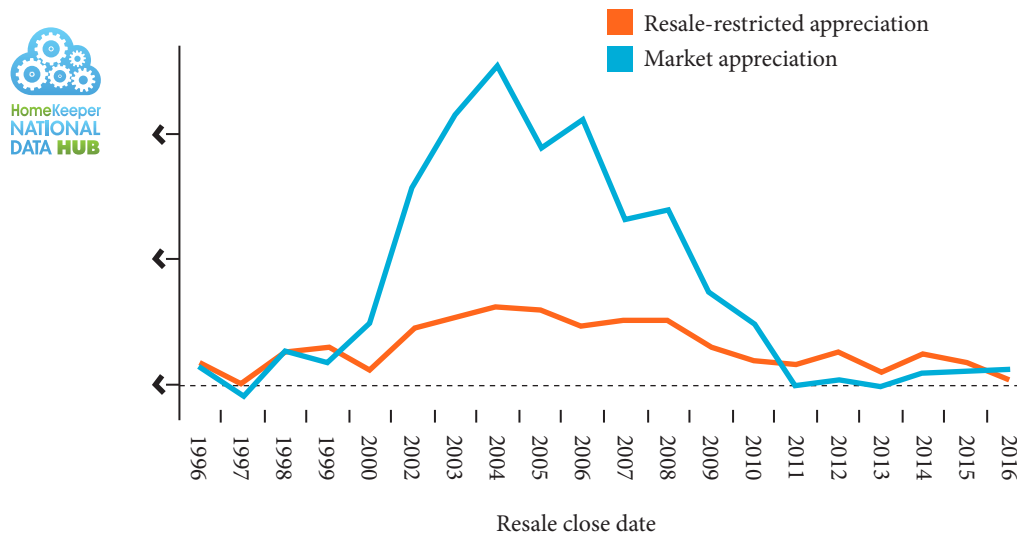
Preserve community wealth. In weak-market neighborhoods and cold-market towns, land may be cheaper and buildable lots more plentiful, requiring fewer subsidies to lower the price of a newly constructed home to the point where a low-income family can afford to buy it. On the other hand, neighborhoods, cities and towns with rock-bottom real

Figure 4.1

Appreciation realized by sellers of shared-equity homes vs. selling at current market value

How much appreciation do sellers realize

836 resales



Median market appreciation: \$10,000

Median resale-restricted appreciation: \$5,750

Source: Grounded Solutions Network, HomeKeeper National Data Hub, July 2016.

estate values also tend to have scarce resources. There is seldom a surplus of government funds for rehabilitating housing or rebuilding distressed areas, nor is there likely to be a deep pool of charitable dollars available to support such work. Subsidies for the production of affordable housing are often harder to raise in such places, and when they are lost, they are harder to replace. This makes every community contribution doubly precious – and worth preserving.

Increase social capital. The owners of shared-equity housing are not forced to go it alone. There is *vertical* solidarity with an organizational steward that shares responsibilities and manages risks, standing behind the homes and homeowners. There is also *horizontal* solidarity in some forms of SEH in which homeowners join together to oversee the management of property that is held in common, to ensure the safety and amenity of common spaces, and to govern the organization that has responsibility for stewardship. The more distressed – and maybe dangerous – the neighborhood surrounding housing and the more precarious the families occupying it, the more valuable the neighborly network of relationships. Social capital is a nonmonetary reward of living in shared-equity housing that is far less visible than the buildup of savings and the back-end “profits” that some homeowners realize on resale, but this hidden asset can be enormously important in stabilizing and improving a family’s living situation.⁷⁵

Plan for success. Many communities wait until it is too late before developing plans and designing programs to preserve the affordability, quality and security of assisted housing. Cold markets turn warm. Tepid markets turn hot. Low-income people begin to feel the pressure of rising prices, taxes and rents. Only then do practitioners, funders and public officials realize they “should have done something” years before condi-

tions got better and prices crept higher, perhaps as a consequence of their own well-meaning efforts.

Conversely, some foresighted communities “plan for success.” They hammer into place an organizational framework for the preservation of affordability and the prevention of displacement long before such protections are needed.⁷⁶ Aspects of this precautionary framework can be fine-tuned to fit current market conditions. For example, resale controls can be relaxed until the local housing market improves, allowing the owners of the first homes sold through an SEH program to collect most (or all) of the appreciation on resale.⁷⁷ Homeownership itself can be deferred; that is, an SEH program can produce permanently affordable *rental* housing today for possible conversion to shared-equity homeownership down the road.⁷⁸

Either way, practitioners, funders and public officials have prudently prepared for the day, however remote, when things get better and conditions possibly conspire to put vulnerable people at risk of being pushed aside. They have secured a place at the table for everyone, so their changing community will remain inclusive over time.

“Many philanthropic, government and nonprofit organizations typically seek to improve the physical and social conditions for families living in distressed low-income areas, commonly referred to as community development or neighborhood revitalization. However, any veteran community development practitioner must also acknowledge the dual responsibility of creating neighborhood improvements while also managing the potential of those same improvements to change private market perceptions that attract new higher-income ‘urban pioneers’ who often precede displacement.”

Tony Pickett, “Stop Talking About Displacement,”
Rooflines (Feb. 5, 2016)

Chapter 5: Habitat vision and innovation — sustainable homes in inclusive communities

Habitat for Humanity is hardly a stranger to creating homes with affordability, quality and security that last for many years, spanning multiple resales. Nor is Habitat a newcomer to the “balanced approach” to creating inclusive communities, aimed at developing without displacement in impoverished neighborhoods and creating islands of opportunity in affluent neighborhoods. These commitments are consistent with the vision and values that gave rise to Habitat 40 years ago. They are consistent with the policies that guide Habitat in the present. In dozens of communities throughout the United States, Habitat is already hard at work putting these commitments into practice.

BUILDING HOMES

“Habitat for Humanity brings people together to build homes, communities and hope” — a mission statement read narrowly by some Habitat affiliates and expansively by others. Both are appropriate. Both lead an affiliate to better the lives of people in need of decent housing. An increasing number of affiliates have found, however, that a more expansive reading of Habitat’s mission may allow them to build more homes and assist more families, while being better stewards of the contributions received from their communities.

For Millard Fuller, the founder of Habitat for Humanity, the main purpose of constructing and rehabilitating houses in so many different places was to replace the inadequate housing occupied by so many low-income families, helping them to move into safer shelter of better quality.

No More Shacks is the title of Millard’s third book and a fitting description of Habitat’s mission at the time.

The success of this production-oriented program depended on the willingness of people possessing abundant resources to share with people who have few. Donations of land, money and materials, when mixed with the labor of numerous volunteers, would make it possible for Koinonia Partners, the precursor and template for Habitat for Humanity, to help low-income families build low-cost houses.

Millard and his spiritual mentor, Clarence Jordan, established a nonprofit corporation, the Fund for Humanity, to serve as the permanent repository for these gifts of land and capital, holding both in trust for the poor. As Clarence described it, the fund’s purpose was twofold: to provide “an inheritance for the disinherited” and to provide the rich with “a way of divesting themselves of their overabundance.”⁷⁹ The resources contributed to the fund by people who were well-off would be invested into helping people who were poor build houses, one subsidy layered upon another until the price of a house could be reduced to the point where a low-income family could afford it.

Land was one of these subsidies. The Fund for Humanity would not sell whatever land had come into its possession, but would make it freely available for the construction of houses that low-income families would own and occupy. This was one of Clarence’s key “partnership principles,” namely, that “all land will be held in trust by the Fund for Humanity but will be used by the partners free of charge.”



None of the subsidies put into a house was to be a handout. As Clarence described it: “Land and capital are provided but not given, on faith, at no charge.” The Fund for Humanity would loan its resources to homeowners, collecting neither rent nor interest for their use. But the fund’s resources were to be returned eventually. Land would be relinquished whenever a family moved away, allowing the fund to lease it out to another low-income homebuyer. Capital would be returned to the fund in monthly payments, with the balance recovered if the home was resold before the end of 20 years.

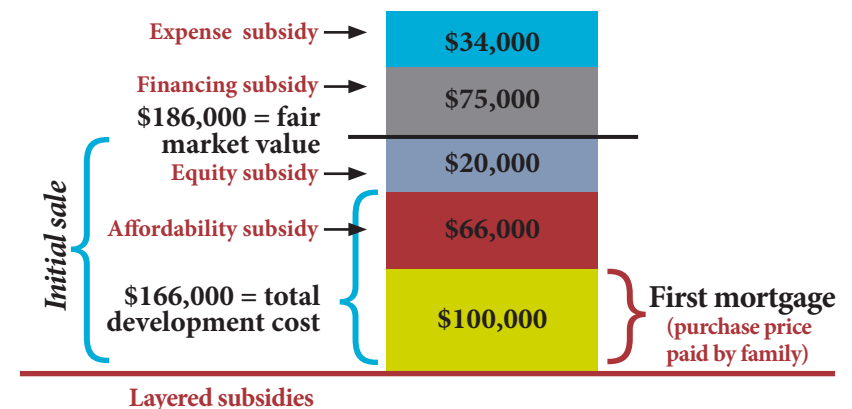
Neither Clarence nor Millard ever contemplated that so *many* subsidies would someday be needed to help a low-income family secure a house. But as Habitat for Humanity spread from areas where land was cheap and construction costs were low to building houses in towns, cities and suburbs where land and construction were pricey, the subsidies mounted. It took a greater contribution from an affiliate’s community to close the gap between what a low-income family could afford to pay for a home and what it cost an affiliate to acquire land and build a house (what Habitat today calls the “*affordability subsidy*”).⁸⁰

Other subsidies were layered on top of this one. Instead of borrowing money from a private bank or public agency, paying a high rate of interest for a conventional mortgage, homebuyers received a 0 percent mortgage from the Fund for Humanity, enabling them to afford the discounted purchase price of a newly built (or newly renovated) Habitat home.⁸¹ This was a subsidy of significant size (called by Habitat today the “*financing subsidy*”). Indeed, over a 20-year or 30-year period, the difference between what a family would have paid for a market-rate mortgage and what they actually paid for a Habitat mortgage might

Figure 5.1

Subsidies in a sample hot-market home

(Family pays \$100,000 for a house costing the Habitat affiliate a total of \$166,000 to develop and appraised at \$186,000 after construction)



match or exceed the combined total of all the other subsidies poured into a Habitat home.

In high-priced markets, the appraised value of a completed home sometimes turned out to be far higher than the affiliate’s total development cost, another subsidy embedded in the home (what Habitat today calls an “*equity subsidy*” or “*gifted equity*”).

Subsidy calculator for Habitat homes

A subsidy calculator, developed by Cornerstone Partnership (now Grounded Solutions Network) in consultation with Habitat for Humanity International, allows an affiliate to identify and quantify all of the direct and indirect contributions that go into closing the affordability gap and making homeownership available to a low-income family.

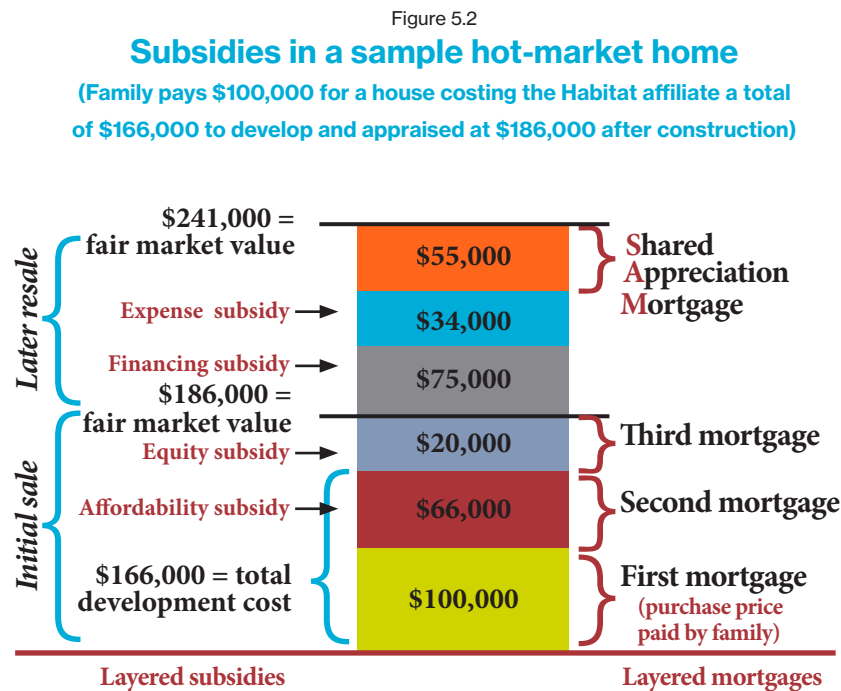
It captures community contributions that are easily identified, like donations of land or grants from public sources, as well as those that are often overlooked, like the subsidy inherent in a no-interest loan or the affiliate's unrecovered cost of managing a home's construction.

After an affiliate enters all of the costs of developing and mortgaging a Habitat home, the subsidy calculator automatically computes the total community contribution that has gone into assisting a single family. This is confidential information for the affiliate's private use. It is a tool for helping an affiliate to assess how heavily it is subsidizing its homes and to craft policies that make judicious use of these subsidies to assist as many families as possible. Habitat affiliates can access the calculator at groundedsolutions.org/resources.

Finally, there was the subsidy represented by the cost incurred by a Habitat affiliate in keeping its own doors open. Early affiliates were small enterprises, staffed entirely by volunteers. That remains true for some affiliates today. But many other affiliates grew larger and began building a number of houses every year, requiring them to add both paid staff members and administrative overhead. Some of their operating costs were recovered when completed houses were sold, but most of their costs were not, representing an implicit subsidy for every house an affiliate built (which Habitat now calls the “*expense subsidy*”).

As long as the flow of outside contributions to support an affiliate's production and overhead kept pace with the burgeoning size of the per-unit subsidy going into each Habitat home, an affiliate's mission was not compromised. It could continue building as many homes as possible, helping as many families as possible improve their living conditions. When contributions lagged, however, the mission suffered. Higher per-unit subsidies resulted in lower per-year production.

The solution embraced by a growing number of Habitat affiliates, with the approval of Habitat for Humanity International, was to recapture more and more of these subsidies when a Habitat home resold. Just as subsidies were layered one on top of the other, so too were the claims recorded against them: a second mortgage to capture the *affordability subsidy* and, in some cases, a third mortgage to capture the *equity subsidy*.⁸² Some affiliates also began capturing a portion of a home's *market appreciation*, adding some form of shared-appreciation mortgage to the stack of liens on a Habitat home.⁸³



This was a marked departure from Habitat’s past practices. Until recently, most affiliates have given a rather narrow reading to Clarence’s dictum that land and capital from the Fund for Humanity should be “provided but not given” to homeowners. The only funds that most affiliates insisted on recovering were those directly loaned to a family to cover the purchase price of a house, secured through a first mortgage. An affiliate might sometimes record a second or third mortgage against other subsidies, but these subordinate liens were allowed to expire within 10 years or less.

A more robust commitment to preserving the community’s contribution, covering a wider array of subsidies for a longer period, has been gaining ground among Habitat affiliates over the past decade. It is based on a more expansive reading of Clarence’s original conception of the Fund for Humanity. He had envisioned the fund being “self-generative and ever expanding.” Whatever was put into the houses of Habitat homeowners today would be recycled down the road in order to “build houses for others.”

One of the preservationist strategies widely employed by Habitat affiliates is *subsidy recapture* (“dollars that last”), using the layered mortgages described above to replenish the resources of the Fund for Humanity when homes resell. A more recent twist has been to extend the term of these liens to last as long as the first mortgage, a minimum of 30 years. Dollars are captured by the affiliate when homes resell for the highest price the market will bear. These funds are then reinvested in a newly built Habitat home.

The preservationist strategy employed by other affiliates is *subsidy retention* (“homes that last”). All of the front-end subsidies put into a Habitat home are locked into the home itself, along with most of the back-end appreciation, lowering the price for the next low-income homebuyer — and the next. Instead of recycling dollars through a succession of new homes, a succession of families are cycled through the same home. These homes are kept continuously affordable, one owner-occupant after another.

We do not know just how many affiliates are currently practicing subsidy retention, nor is there any tally of which models of perma-

nently affordable housing are most commonly used. Some highly productive affiliates have employed deed covenants for many years. A few have developed limited-equity cooperatives. Some three dozen affiliates, breathing new life into Clarence's partnership principle that "all land will be held in trust," have added a community land trust component to their programs.⁸⁴ In some cases, these affiliates are operating a ground leasing program on land that is owned by the affiliate; in others, an affiliate is partnering with a local CLT, building resale-restricted Habitat homes on land that is owned by the CLT.

In high-cost real estate markets where prices are rising and where land is dear, many Habitat affiliates have concluded that subsidy retention is the most effective way of preserving the "inheritance" that Clarence hoped to create for the poor. They have discovered their local Fund for Humanity does not leak away when homes are made to last, advancing their organizational goal of helping as many low-income families as possible improve the condition of their housing.

BUILDING HOPE

From the beginning, Clarence and Millard espoused a mission that was broader than replacing shacks with well-built houses. They intended for the partnership enterprises that originated at Koinonia Farm to lift low-income families out of poverty, giving them hope for a better life. It wasn't enough, therefore, to upgrade the *quality* of a family's housing; it was important to enhance the *tenure* of that housing as well, allowing the house to become a vehicle for improving a family's economic situation. That meant homeownership.

As envisioned by Clarence and Millard in 1968, the houses provided through Koinonia Partners and, later, through Habitat for Humanity, would enable families to build wealth by giving them access to free land and free capital.⁸⁵ They could buy a house without being forced to buy the underlying land or to pay rent for it. They could get a mortgage without being forced to pay interest on it. These unconventional features of "partnership housing" lowered a family's monthly housing costs while also enabling them to accumulate equity at a faster clip. Families did not spend a decade paying mostly interest on a mortgage, as they would have done had they borrowed from a bank. Instead they began amortizing their 0 percent mortgage from the Fund for Humanity on the day they moved into their new home.

As the Habitat model moved from the country to the city, fewer Habitat affiliates made use of ground leasing, except for those that partnered with a community land trust or operated a CLT program of their own. Nevertheless, land donated to affiliates still played a major role in reducing the cost of many Habitat homes, along with donations of materials and labor. Habitat's mortgages still allowed for a rapid buildup of equity. As a result, when Habitat homeowners resold their homes, they usually walked away with more wealth than they had possessed when first buying the home.

Clarence, for one, fully expected that families who became better off as a result of being loaned land and capital at no charge would voluntarily choose to give some of it back. Out of gratitude, they would "share generously and cheerfully to help set others free." Indeed, his main reason for believing that the Fund for Humanity would eventually become self-generating and ever-expanding was his own warm-

“As with farming and industries, the partner family will gradually free the initial capital to build houses for others, and will be encouraged to share at least a part of their savings on interest with the Fund for Humanity.

“Even as all are benefited, so should all share. If, as Jesus says, ‘It is more blessed to give than to get,’ then even the poorest should not be denied the extra blessedness of giving.”

The Rev. Clarence Jordan,
Letter to Friends of Koinonia,
Oct. 16, 1968

hearted belief that beneficiaries of the fund’s largesse would be moved to share some of their newfound wealth with others.

They would not be required to do so, however. It was left entirely to the families themselves to decide whether to contribute a portion of the proceeds they realized when reselling their homes. The organization that had earlier helped them to buy their homes might depend on these contributions to sustain the Fund for Humanity, but families were not going to be forced to share gifts they had been freely given.

At first, there was very little to share. In a remote rural county like the one in southwest Georgia where Koinonia Farm was located, there

was little chance that homes would appreciate significantly in value. Whatever financial benefit the families might derive from owning and reselling a home would come mainly from “savings on interest” and the rapid amortization of their no-interest mortgages. To compel a family to share such a small nest egg could undermine the larger mission of lifting people out of poverty.

Well into the late 1990s, it remained standard practice among Habitat affiliates to impose *no* contractual limits on the amount of equity a family could remove from a home on resale.⁸⁶ Neither recapture nor retention was widely practiced. That began gradually to change, however, in places where the affordability gap grew larger, requiring an ever-greater contribution from an affiliate’s community for a low-income family to purchase a home, and in places where market appreciation made homes more valuable over time.

There was now much more wealth at stake; a lot more equity was embedded in a Habitat home. That was good news for families reselling in strong real estate markets. They were walking away not only with the “savings on interest,” but also with all the front-end subsidies and backend appreciation. It was bad news, however, for all the low-income families who were waiting patiently to buy a Habitat home. They were put on hold until an affiliate managed to find a new pot of subsidies to replenish those pocketed by the previous homeowners, allowing the affiliate to construct new houses to replace those lost to the market. In effect, one generation of beneficiaries was prospering at the expense of the next. Inadvertently, one part of Habitat’s mission (“no more poverty”) was being advanced at the expense of the other (“no more shacks”).

Habitat homes that last

Seattle-King County, Washington

Permanent affordability was not a priority of Habitat for Humanity Seattle-King County until 2012, the year of its merger with another Habitat affiliate from the eastern side of the county. The latter had operated an internal land trust program for a number of years, removing the cost of high-priced land from the purchase price of Habitat homes and using ground leases to preserve affordability when homes resold. When the two Habitat affiliates merged, they created a combined portfolio of 429 houses, of which 116 were resale-restricted houses on leased land.

Twenty-three land trust homes have resold since the start of this program, providing a glimpse into how well the program has worked. The Habitat families reselling these homes had lived there an average of 6.4 years. They had originally purchased their homes with no down payment. When they moved out, they earned an average of \$28,418 from the

retirement of principal and an additional \$1,689 from their share of the home's total appreciation.

Even as the sellers walked away with a significant increase in wealth, realized over a relatively short period, the houses stayed affordable for the next families who lined up to buy them. These houses had originally sold for prices affordable to households earning 46 percent of the area median income. Upon resale, they were affordable to households earning 42 percent of area median income. Not only did they retain affordability when land trust houses changed hands; they actually became more affordable. The success of this program has led the affiliate to add more resale-restricted homes. Ten new land trust houses are currently being developed. Mia Walterson, Habitat Seattle-King County's director of homeowner services, explains, "As it becomes more difficult to find land and to be able to afford it, it's even more important to keep homes in our portfolio through the land trust to serve more families." It's important too, she notes, for donors to see that the money they are giving to Habitat helps as many people as possible, instead of helping only a few lucky homeowners "to win the lottery, so to speak."

Permanently affordable housing provided a way for Habitat affiliates in strong real estate markets to bring these competing interests into better balance. Homes with affordability protections retained the spirit of Clarence's original vision while making a concession to reality. A family reselling a Habitat home would not merely be "encouraged" to share their equity windfall; they would be contractually obligated to do so. They could still accumulate savings and build wealth, earning a substantial return on their investment. But most of the subsidies and appreciation would *remain* in the Habitat home, allowing another low-income family the benefit of buying that home at a lower price. Any new contributions to an affiliate's Fund for Humanity, moreover, would allow the affiliate to expand the total supply of affordably priced houses, instead of merely replacing houses recently lost to the market. When Habitat homes were made to last, the twin goals of building homes and building hope could be made more compatible, bringing occasionally competing parts of Habitat's mission into closer alignment.

BUILDING COMMUNITIES

The community component of Habitat's current mission was there from the start. Indeed, Habitat's original mission statement declared that the main reason for launching the organization was "so that people could live in decent houses in decent communities."⁸⁷ This historic concern for developing "decent communities" was often obscured in subsequent years, however, by the higher profile and higher priority of constructing houses and boosting families into homeownership.

Neighborhood revitalization, a Habitat initiative launched in 2010, has gradually recalibrated those priorities, at least for the nearly 250 affiliates that have taken up this effort. For them, the development of a geographically defined place is put completely on a par with the other two parts of Habitat's mission, while giving special attention to places in greatest distress. What is needed in these damaged localities, according to neighborhood revitalization, is "an expanded array of products, services and partnerships, with the mission of empowering residents to revive their neighborhoods and enhance the quality of life."

Jonathan Reckford, the chief executive officer of Habitat for Humanity International, has called neighborhood revitalization "the way of the future," declaring that "by focusing on entire neighborhoods, we can greatly increase our impact." He has also acknowledged, however, two major obstacles to working in distressed neighborhoods: the reluctance of outside investors, both public and private, to commit the resources necessary to revitalize such places, and the reasonable fear of many people residing there that they will be pushed aside if investment increases and improvement occurs. With this in mind, he posed a provocative question in a *Shelterforce* blog posted in September 2015: "Knowing what we now know, how can we change the policy environment so that rejuvenating communities becomes an attractive investment to a broad base of support, and community members don't feel threatened by the specter of displacement?"⁸⁸

What a number of affiliates "now know" is that it is possible to invest in homes that will *not* be washed away should an affiliate's success at neighborhood revitalization open the floodgates to a rising tide of

gentrification. Homes protected by a form of tenure that preserves affordability and by a stewardship regime that enables homes to withstand the winds and waters that buffet them, provide islands of security in places that have become newly attractive to outside investors and affluent homebuyers. Homes that last allow development to occur *without* the wholesale displacement of an area's most economically vulnerable residents. They provide a foundation for what a Presbyterian minister living in a changing neighborhood in Atlanta has called "gentrification with justice."⁸⁹

These unconventional forms of homeownership can also play a crucial role in revitalizing neighborhoods where the prospect of gentrification is remote, as noted in the previous chapter. One form of shared-equity housing has proved especially effective in this regard: the community land trust. Community-owned land can be used for any type of housing and for any type of activity. It can be used in assembling and developing sites for larger projects, residential or commercial. It can be used to diversify a neighborhood's economy, to increase its population, and to create a market for homeownership where one does not presently exist. Land that is held by a CLT becomes a platform for development when a neighborhood is hurting, as well as a bulwark against displacement when a distressed neighborhood is improving.⁹⁰

When Jonathan Reckford suggests that "focusing on entire neighborhoods" is the "way of the future" for Habitat for Humanity, he is not talking just about impoverished neighborhoods, however. The same comprehensive approach is being applied by Habitat affiliates in affluent neighborhoods, suburbs, cities and towns. To be sure, neighborhood revitalization has a different meaning in places that

A Habitat affiliate that is building houses with low-income families in a prosperous place from which they would otherwise be excluded might be seen as providing a wise, honorable and just way for that locality's longtime residents to divest themselves of an overabundance of privileged space, welcoming the poor as neighbors.

A preservationist mindset

Habitat for Humanity New York City

Since 1984, Habitat for Humanity New York City has produced single-family and multifamily homes for nearly 400 households earning between 50 and 80 percent of area median income. This focus on production has been supplemented in recent years by what Christopher Illum, the vice president for homeownership and family services, describes as a “preservationist mindset.”

Habitat NYC has internally declared that all of the housing it develops will be permanently affordable, a policy that resulted from CEO Karen Haycox’s challenge to impact greater numbers of families and to protect community assets. This commitment to “affordability in perpetuity” is accomplished by using three different models of shared-equity homeownership: deed-restricted homes, limited-equity cooperatives and a community land trust program still under development.

As Christopher describes it: “We have learned from our mistakes. Homes that Habitat built in Harlem and Brooklyn 15 to 20 years ago with short-term recapture restrictions are now being lost to New York’s booming real estate market, with some homeowners seeing six-figure windfalls. Had we implemented permanent restrictions 20 years ago, these homes would be affordable for working-class families today.”

Before embracing permanent affordability, Habitat NYC considered recapturing subsidies and using shared appreciation mortgages to capture some of the gain in value. “Recapture provisions could have helped our bottom line,” Christopher explains, “but they can’t achieve the goal of replacing what we have lost.”

It is difficult to replace not only homes that disappear into the market, but also the subsidies that went into them. “We have to be good stewards of public and private donations,” Christopher says. “This is an important pitch to our funders. We can say to them that the resale-restricted model grows the value of your investment and will go on to serve even more families decades from now.”

When they talk about being “good stewards,” the staff of Habitat NYC mean more than protecting affordability and subsidies. Their preservationist mindset has also led them to rethink their earlier stance that homeowners are “on their own” after purchase. Having witnessed the problems that going it alone can sometimes cause, Habitat NYC is now providing a wider array of post-purchase services for its LECs and homeowners, including assisting with major renovations or helping homeowners and co-ops navigate through the maze of city regulations on tax abatements, construction and the like.

Inclusion is the ultimate preservationist prize. Whether in neighborhoods with a red-hot housing market or in those with cooler markets, Habitat NYC is committed to preserving equitable access for lower-income families who would otherwise be pushed out or kept out. Christopher Illum says it well:

“New York’s ethnic, racial, economic diversity is what makes this city great. If we don’t build the affordable housing infrastructure that allows working-class people to live here, the city we love will disappear. Manhattan will become the largest gated community — or perhaps ‘moated community’ — in the country. We want to ensure that the investments our partners make and the housing we build will continue to be available to our families for generations to come.”

have a concentration of prosperity, rather than a concentration of poverty, but Habitat's mission is similar in both: enable people of limited means to live in "decent homes in decent communities."

Clarence Jordan, for one, would surely have applauded such a balanced approach to place-based development, where the same Habitat affiliate might be found using neighborhood revitalization to create islands of security in one type of locality and islands of opportunity in the other.⁹¹ The latter endeavor would likely have held special appeal for a modern-day prophet who believed that people with a surplus of riches "need a wise, honorable and just way of divesting themselves of their over-abundance."⁹²

Everyone who lives in an affluent neighborhood, suburb or town is not rich, of course, except for having privileged access to jobs, schools, shops and services often lacking in neighborhoods inhabited predominantly by low-income people. In Clarence's calculus, it would be equally wrong to hoard these locational riches, refusing to share them with the poor, as to hoard personal treasure in a bank account. Thus a Habitat affiliate that is building houses with low-income families in a prosperous place from which they would otherwise be excluded might be seen as providing a wise, honorable and just way for that locality's longtime residents to divest themselves of an overabundance of privileged space, welcoming the poor as neighbors. Clarence would have liked that.

Such places only *remain* inclusive, however, when the affordably priced houses that Habitat builds are protected against loss. If affordability is allowed to disappear five or 10 years down the road as each Habitat home is resold, the fragile island that permitted low-income families to move to opportunity is steadily eroded. Homes lost to the market

on resale are not easily replaced. In affluent areas where inexpensive, buildable sites are scarce, where opposition to affordable housing is frequent, and where recaptured subsidies buy less and less, every Habitat home must be made to last. That is the way of the future; indeed, it is the only way that decent communities will continuously and affirmatively share their riches with low-income families being offered decent homes in their midst by Habitat for Humanity.

Chapter 6: Conclusions and recommendations

Shared-equity homeownership does what conventional homeownership cannot; it preserves the affordability and quality of heavily subsidized homes for future generations of low-income homebuyers while protecting security of tenure and the equity stake of a present generation of low-income homeowners. In houses and condominiums with long-lasting affordability covenants, in community land trusts, in limited-equity cooperatives and in related models of SEH, the most burdensome responsibilities of homeownership are shared and the most fearsome risks are managed – or removed. When backed by a watchful stewardship regime, shared-equity homeownership improves the odds that newly built (or newly renovated) homes will last and that newly minted homeowners will succeed. It also enhances the chances of creating and sustaining inclusive communities.

The policy environment in which owner-occupied housing for families of limited means is developed, financed and subsidized must be modified in significant ways, however, if SEH is to go to scale. The following changes would be major strides in that direction.

BOLSTER RESOURCES TO INCREASE THE DEVELOPMENT OF SHARED-EQUITY HOMES

- **EXPAND FEDERAL RESOURCES FOR SEH:** Directly and indirectly, homeownership has been lavishly supported by the federal government for decades. After the Great Recession, however, there has been a lessening of political support in Washington for helping lower-income and minority families buy homes. Dramatically lower foreclosure rates among the owners of

shared-equity homes provide an opportunity to reopen the policy discussion about the advisability and sustainability of homeownership for families earning less than the median income – *if* homeownership is done differently. To further fair housing in high-priced markets, moreover, consideration should be given to creating new sources of federal funding for nonprofit organizations that construct affordably priced homes in high-priced neighborhoods or that buy and resell existing housing in such areas, opening up residential enclaves from which low-income families and protected classes have been excluded. To preserve this public investment and to ensure that communities *remain* inclusive, some form of SEH should be a threshold requirement for such a program.

- **INCREASE ACCESS TO EXISTING FEDERAL RESOURCES:**

The HOME Investment Partnership Program is the leading source of *direct* federal funding for homeownership assistance. HOME regulations also set the standard for many locally funded housing programs. The competitiveness of SEH projects and programs in applying for public funds would be dramatically increased if more participating jurisdictions adopted affordability requirements for HOME-assisted homeownership that extend beyond the five- to 15-year federal minimums. This is allowed under current HOME regulations.⁹³ HUD cannot *require* jurisdictions to impose longer affordability periods, but HUD could do more to *encourage* jurisdictions to do so, especially through research and publications that document the benefits to homeowners and communities of homes that last.

- **INCREASE ACCESS TO EXISTING STATE RESOURCES:** All 50 states have established housing trust funds. Only 20 of them



impose affordability restrictions on the owner-occupied homes they assist, lasting as briefly as five years in some states but up to 25 years in others.⁹⁴ Only in Vermont does a state housing trust fund require permanent affordability of assisted homes. Were other states to adopt the Vermont standard or even to double the length of affordability periods they already require, shared-equity homeownership would become more competitive in applying for HTF support — and become more plentiful.⁹⁵ Long-lasting affordability should, in fact, be a threshold requirement for any state program that offers a substantial grant of equity for the development of

owner-occupied housing. This would ensure the “biggest bang” for the state’s investment, assisting many more families over time.

- **EXTEND AFFORDABILITY IN MUNICIPAL HOMEOWNERSHIP PROGRAMS:** Over 400 cities and counties operate housing trust funds of their own. Many also subsidize and incentivize homeownership through tax abatements, energy efficiency programs, housing rehab programs, and the preferred disposition of properties taken through tax foreclosures or assembled by a municipal land bank. Such programs entail sizable contributions from public

A state where permanent affordability is the public norm

The Vermont Housing and Conservation Trust Fund was established by an act of the state Legislature in 1987.¹ This enabling act stipulated that future disbursements would be used to support “perpetually affordable housing,” both rental and homeownership, and “to protect and preserve in perpetuity” forests, farmland, natural areas and historic properties.

The entity created to oversee this fund, the Vermont Housing and Conservation Board, was also given authority over the state’s allocation of federal HOME funds and later assigned responsibility for administering monies awarded to Vermont from several other federally funded housing programs. Permanent affordability was

adopted as the state’s priority for the disbursement of these funds as well.

VHCB, working in partnership with a network of nonprofit organizations, has helped create 12,000 permanently affordable homes, of which 1,200 are owned and operated as shared-equity housing. The latter include houses and condominiums encumbered with permanent housing subsidy covenants, authorized by state statute; homes in buildings or homes on lots owned by a limited-equity cooperative; and homes on lands leased from a community land trust.

VHCB also has partnered with Habitat in a dozen communities, helping to fund construction of more than 100 houses. As with every home assisted by VHCB, these Habitat homes must remain affordable for good.

coffers. They would yield a larger and longer public benefit if they were put into shared-equity homes, retaining subsidies and preserving affordability far into the future.

- **PROMOTE WIDER USE OF SEH IN INCLUSIONARY HOUSING:** While the overall trend among inclusionary housing programs has been to impose longer periods of affordability, there are still many programs that allow affordability to lapse in less than 20 years, especially when inclusionary units are owner-occupied. Many programs that require long-lasting affordability, moreover, give inadequate attention to designing (and funding) a durable system of stewardship to watch over these homes. There is a threefold recommendation here: more cities adopting inclusionary housing programs; more programs requiring long-term affordability; and more programs maintaining an effective stewardship regime.

REMOVE OBSTACLES TO MORTGAGING AND OPERATING SHARED-EQUITY HOMES

- **REDESIGN PUBLIC FUNDING TO SUPPORT LONG-TERM AFFORDABILITY:** Most cities and states that operate homebuyer assistance programs provide their assistance in the form of a down payment grant to the homebuyer, a forgivable loan, or a deferred-interest loan recaptured at resale. None of these mechanisms is conducive to the financing of homes that retain subsidies and preserve affordability. Public agencies that support homes that last, by contrast, employ mechanisms that leave their funds in

assisted properties, allowing them to be continuously resold for an “affordable” price to homebuyers of limited means.

- **UNLOCK THE DOOR TO FHA MORTGAGES:** Many SEH homebuyers, especially among people of color, have tried unsuccessfully for years to secure FHA-insured loans in mortgaging their homes. They have been similarly frustrated in accessing mortgages provided through state housing finance agencies, when the latter’s regulations mirror those of the Federal Housing Administration. SEH practitioners have been negotiating with FHA staff over the course of several presidential administrations to remove this obstacle, but to no avail. It is long past time to get it done, if SEH is to be given a fair chance of going to scale.⁹⁶
- **DUTY TO SERVE:** Shared-equity homeownership has been included in the Federal Housing Finance Agency’s Final Rule on Duty to Serve. Government Supported Enterprises, or GSEs, should prioritize this regulatory activity. Aspects of the selling guides of GSEs need updating and clarification in order to be more supportive of SEH programs. Greater standardization is needed among the GSEs in how they will handle mortgages under various forms of shared-equity homeownership.
- **PROMOTE EQUITABLE TAXATION OF RESALE-RESTRICTED HOMES:** Proponents and practitioners of SEH do not seek to exempt homes with affordability controls from paying local property taxes. They ask only that the assessment of these homes reflect the durable contractual limits that are placed upon their use and price, so that homes are not rendered unaffordable by forcing low-income households to pay taxes on value they will never

realize. Some states have already enacted laws that provide for the equitable taxation of resale-restricted homes. In a few others, the state's supreme court has rendered a verdict, requiring shared-equity homes to be taxed at the contractually restricted price. Other states should follow suit.⁹⁷

- **PROMOTE ACCURATE APPRAISALS OF RESALE-RESTRICTED HOMES:** The regular updating and refinement of standards and practices among licensed appraisers has not kept pace with the number and diversity of programs using one or more models of SEH. As a result, accurate appraisals for resale-restricted homes are hard to get in many communities, interfering with the ability of SEH programs and homeowners to obtain adequate financing from private lenders.⁹⁸

ENHANCE STEWARDSHIP AND EVALUATE PERFORMANCE OF SHARED-EQUITY HOMES

- **DIVERSIFY FUNDING FOR STEWARDSHIP:** Part of the cost of protecting the affordability, durability and security of shared-equity housing is borne by the families who own this housing. Low-income homeowners cannot be expected to pay for stewardship entirely by themselves, however. Other beneficiaries of the protections provided by the sponsors and stewards of SEH include state and local governments wanting subsidized units and inclusionary units to remain affordable; private lenders wanting their mortgages to avoid default; and neighboring homeowners and renters wanting SEH to remain in good repair. It is reasonable to ask those who benefit from stewardship to share in covering some of its costs.⁹⁹

- **COMPILE AND EVALUATE PERFORMANCE DATA:** Does stewardship always and everywhere deliver the benefits promised by advocates and practitioners of shared-equity housing, along all three dimensions of affordability, quality and security? The best way of knowing is to collect and to analyze data on the actual performance of SEH housing. This should be done not only for individual SEH programs, but also for the SEH sector as a whole. Wider use of HomeKeeper, a data management and reporting system developed by Grounded Solutions Network, would be a step in the right direction.
- **RESEARCH AND DISSEMINATE BEST PRACTICES:** Grounded Solutions Network has developed an exemplary set of Stewardship Standards for Homeownership Programs (described previously in Chapter 3). These standards provide a solid foundation for identifying “best practices” when it comes to implementing and operating an effective stewardship regime. Much more research remains to be done, however, to document and to assess what works well – and what does not – when SEH programs endeavor to perform the multiple duties of stewardship over a long period.

LEARN FROM OTHERS OPERATING SEH PROGRAMS

- **PROMOTE INFORMATION SHARING:** Shared-equity homeownership is widely practiced. Hundreds of nonprofit organizations and cooperative housing corporations have amassed years of experience with shared-equity housing. Several dozen Habitat affiliates are also using various mechanisms to ensure the lasting affordability



HomeKeeper is a web-based application developed by Cornerstone Partnership (now Grounded Solutions Network) for homeownership programs with lasting affordability controls and long-term stewardship responsibilities.¹ It was designed by shared-equity homeownership practitioners to track resale-restricted homes, to improve transparency and efficiency, and to aid in evaluating the performance and impact of SEH programs.

HomeKeeper allows information to be stored in one place. Members of a local organization's staff can enter and access data about their own portfolio of SEH homes. Built on a Salesforce platform, HomeKeeper's main capabilities include:

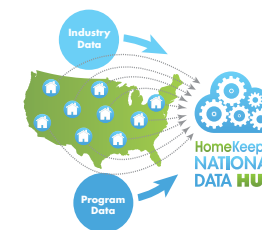
- Management of workflow, homebuyer applications, and project pipeline.
- Intake data on homebuyer eligibility and demographics.
- Tracking of transactions, both initial purchases and later resales.

- Monitoring of homeowner compliance with use and resale restrictions.
- Tracking of grants, loans and subsidies for each home.
- Documentation and evaluation of program performance.

In a 2016 blog posted on *Markets for Good*,² Lauren Shaughnessy, director of measurement and learning at Habitat for Humanity of Greater San Francisco in California, recounted “the frustration of trying to work from a myriad of Excel spreadsheets, an outdated Access database, paper files, and more, just to piece together a simple data request.” This led Habitat of Greater San Francisco to adopt HomeKeeper. Lauren writes:

Having migrated all of our homeownership data into (HomeKeeper and) Salesforce, we are now able to ask more complex questions like, “What kind of overlap are we seeing between our financial education classes and who ultimately applies for our homes? In terms of readiness for homeownership, how does that population compare to those who don’t attend our classes?” Being able to answer more sophisticated questions that get at our desired impact is entirely made possible thanks to the systems that now allow us to better analyze our own data.

HomeKeeper organizations share performance data with the HomeKeeper National Data Hub (myHomeKeeper.org), which aggregates data and generates individualized social impact reports for each SEH program. These reports give practitioners insight into how their programs are performing and how they compare to similar programs across the country.



of Habitat homes. Facilitating the transfer of knowledge across the silos that separate practitioners using different SEH models in different parts of the country is a strategy for enhancing the quality of practice and for expanding the quantity of shared-equity housing. This silo-busting work has already begun, with Habitat for Humanity International and Grounded Solutions Network offering peer-to-peer webinars, small working groups, place-based trainings and national conferences that enable SEH practitioners to share best practices, innovations, model documents, successes and challenges.

- **GATHER LESSONS FROM ABROAD:** In other countries, the steady loss of affordable housing is as great a problem as it is in the United States. Experimentation with unconventional forms of tenure is just as common. As SEH practitioners look for ways to expand their portfolios of permanently affordable housing and to improve the performance of their programs, there are lessons to be learned across the globe from people who are acting and innovating to make homes last and to keep communities inclusive.

Solid Ground

Imagine being evicted for no reason, without notice. What if you couldn't own property because you're a woman? Or perhaps you could, but only in a cramped home with a leaky roof and no water. And how would you recover from a disaster if you couldn't return to the land where you once lived?

Recognizing that these situations are reality in many places around the world, Habitat for Humanity has launched Solid Ground, a global advocacy campaign to change policies and systems to improve access to land so that more people can live in decent housing.

Solid Ground focuses on four areas:

- Improving land rights.
- Fighting for gender equality in land.
- Upgrading slums.
- Creating disaster-resilient communities.

To learn more and donate your voice for change, go to solidgroundcampaign.org.



United Nations Declaration
Habitat III Conference
Quito, Ecuador, October 2016

“We will encourage developing policies, tools, mechanisms, and financing models that promote access to a wide range of affordable, **sustainable housing options including rental and other tenure options, as well as cooperative solutions such as co-housing, community land trust, and other forms of collective tenure**, that would address the evolving needs of persons and communities, in order to improve the supply of housing, especially for low-income groups and to prevent segregation and arbitrary forced evictions and displacements.”

End notes

¹ “Protected classes” is a term with a specific meaning in fair housing law. The Fair Housing Act of 1968 (42 U.S.C 3601-3619), as amended in 1974 and 1988, prohibits discrimination in the sale, rental and financing of dwellings and in other housing-related transactions because of “race, color, religion, sex, familial status, national origin, or handicap.” Many states, counties and cities have passed their own fair housing laws, adding one or more “protected classes” to the seven named in federal law. Common additions include sexual orientation, gender identity, marital status and military/veteran status.

² See, for example, Morris A. Davis, *Questioning Homeownership as a Public Policy Goal, Policy Analysis No. 696* (Washington, D.C.: Cato Institute, 2012) and Richard Florida, *The Great Reset: How New Ways of Living and Working Drive Post-Crash Prosperity* (New York, New York: HarperCollins, 2010).

³ United States Housing Act of 1937 (Pub. L. 75-412, 50 Stat.888).

⁴ American Housing Act of 1949 (Title V of Pub. L. 81-171).

⁵ An earlier version of this argument can be found in John Emmeus Davis, “Plugging the Leaky Bucket: It’s About Time,” posted in *Rooflines*, Jan. 23, 2015.

⁶ A sample of publications documenting and discussing this imbalance: Peter Dreier, “Federal Housing Subsidies: Who Benefits and Why?” Pp. 105-138 in Rachel G. Bratt, Michael E. Stone and Chester Hartman (eds.), *A Right to Housing: Foundation for a New Social Agenda* (Philadelphia, Pennsylvania: Temple University Press, 2006); Robert Collinson, Ingrid Gould Ellen and Jens Ludwig, *Low-Income Housing Policy*, NBER Working Paper No. 21071, (Washington, D.C.: National Bureau of Economic Research, April 2015); and Richard Florida, “The U.S. Spends Far More on Homeowner Subsidies Than It Does on Affordable Housing,” *CityLab*, April 17, 2015.

⁷ Two recent summaries of the promised benefits of homeownership can be found in William M. Rohe and Mark M. Lindblad, “Reexamining the Social Benefits of the Homeownership after the Foreclosure Crisis,” Chapter 3 in Eric Belsky, Christopher Herbert and Jennifer Molinsky (eds.), *Homeownership Built to Last* (Washington, D.C.: The Brookings Institution, 2014) and Alan Mallach, *Building Sustainable Homeownership: Rethinking Public Policy Toward Lower-Income Homeownership* (Federal Reserve Bank of Philadelphia, 2011).

⁸ “Stable” or “secure” is often substituted for “safe” in order to emphasize what has been called the “right to stay put.” (Chester Hartman, “The Right to Stay Put,” Pp. 302-318 in Charles C. Geisler and Frank J. Popper (eds.), *Land Reform, American Style*, (Totowa, New Jersey: Rowman and Allanheld, 1984)). Safety, in this meaning of the term, is a measure of the ongoing security and stability of a family’s living situation, the assurance that they will be able to “stay put” in a home that is theirs. Alternatively, safety may refer to the absence of dangerous structural defects or protection against personal harm. The first meaning is discussed here, interpreting safety as security of tenure. The second meaning of safety is folded into the discussion of housing quality that follows.

⁹ William Apgar, *Rethinking Rental Housing: Expanding the Ability of Rental Housing to Serve as a Pathway to Economic and Social Opportunity* (Cambridge, Massachusetts: Harvard Joint Center for Housing Studies, Working Paper Series, W04-11, 2004).

¹⁰ James H. Carr and Katrin B. Anacker, *Long-Term Social Impacts and Financial Costs of Foreclosure on Families and Communities of Color: A Review of the Literature* (Washington, D.C.: Annie E. Casey Foundation, National Community Reinvestment Coalition, 2012: 3).

¹¹ Center for Responsible Lending, *The Spillover Effects of Foreclosures* (Washington, D.C.: Center for Responsible Lending: Aug. 19, 2013).

¹² James H. Carr and Katrin B. Anacker, op cit.; Center for Responsible Lending, op cit.

¹³ David Dayden, *Chain of Title* (New York NY: New Press, 2016). Dayden cites one laughable but apocryphal case of a bank suing itself in a foreclosure case and hiring a law firm to represent itself in a lawsuit against itself (Kindle location 2479).

¹⁴ Discussions of the state of repair of homes purchased by lower-income families can be found in: Josephine Louie, Eric S. Belsky, and Nancy McArdle, *The Housing Needs of Lower-Income Homeowners*, Working Paper W98-8, (Cambridge, Massachusetts: Harvard Joint Center for Housing Studies, 1998); Nicolas P. Retsinas, “Lower Income Homeowners: Struggling to Keep the Dream Alive,” *Housing Facts & Findings* V.1, No. 3 (Fall 1999); and Howard Karger, “The Homeownership Myth,” *Dollars & Sense* (Spring 2007).

¹⁵ One study of low- and moderate-income homeowners who had purchased market-priced homes with the assistance of a NeighborWorks affiliate reported that 56 percent of these new homeowners had encountered unexpected repairs, and 20 percent had been unable to make such repairs, even to roofs or foundations. (Susan Saegert, Francine Justa, and Gary Winkel, *Success of Homeowner Education and Emerging Challenges*, New York: CUNY Graduate Center, 2005). See also: William M Rohe, Roberto G. Quercia, Shannon Van Zandt, and Gretchen Kosarko, *Individual and Neighborhood Impacts of Neighborhood Reinvestment’s Homeownership Pilot Program* (Washington, D.C.: Neighborhood Reinvestment Corp., 2003).

¹⁶ Matthew Furman, *Eradicating Substandard Manufactured Homes: Replacement Programs as a Strategy* (Cambridge, Massachusetts: Harvard Joint Center for Housing Studies, 2014).

¹⁷ *The State of the Nation’s Housing, 2016* (Cambridge, Massachusetts: Harvard Joint Center for Housing Studies, 2016).

¹⁸ Habitat for Humanity International provided an excellent introduction to the need for greater energy efficiency in the homes being constructed and renovated for lower-income families in its 2015 Shelter Report: *Less Is More: Transforming Low-Income Communities Through Energy Efficiency*.

¹⁹ Alan Mallach, *Building Sustainable Homeownership: Rethinking Public Policy Toward Lower-Income Homeownership* (Philadelphia, Pennsylvania: Federal Reserve Bank of Philadelphia, 2011).

²⁰ Christopher E. Herbert, Daniel T. McCue, and Rocio Sanchez-Moyano, "Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households?" Chapter 2 in Eric Belsky, Christopher Herbert, and Jennifer Molinsky (eds.), *Homeownership Built to Last* (Washington, D.C.: The Brookings Institution, 2014).

²¹ Donald R. Haurin and Stuart S. Rosenthal, *The Sustainability of Homeownership: Factors Affecting the Duration of Homeownership and Rental Spells*. (Washington, D.C.: Office of Policy Development and Research, U.S. Department of Housing and Urban Development, 2004; Carolina Katz Reid, *Achieving the American Dream? A Longitudinal Analysis of the Homeowner Experiences of Low-Income Households* (Center for Social Development, Working Paper 05-02, 2005); and Christopher E. Herbert and Eric S. Belsky, "The Homeownership Experience of Low-Income and Minority Households: A Review and Synthesis of the Literature," *Cityscape* V. 10, No. 2: 2008.

²² The success rate among some groups of newly minted homeowners may be higher. Christopher E. Herbert, Daniel T. McCue and Rocio Sanchez-Moyano found that "more than 60 percent of minority and low-income households who became owners after 1999 were able to sustain ownership through 2013 during the most tumultuous housing market since the Great Depression." *Update on Homeownership Wealth Trajectories Through the Housing Boom and Bust* (Cambridge, Massachusetts: Harvard Joint Center for Housing Studies, February 2016).

²³ Wenli Li and Fang Yang, "American Dream or American Obsession? The Economic Benefits and Costs of Homeownership," *Business Review* (Philadelphia, Pennsylvania: Federal Reserve Bank of Philadelphia, 2010).

²⁴ Peter Dreier, Saqib Bhatti, Rob Call, Alex Schwartz and Gregory Squires, *Underwater America* (Berkeley, California: Haas Institute, 2014).

²⁵ James H. Carr and Katrin B. Anacker, *Long-Term Social Impacts and Financial Costs of Foreclosure on Families and Communities of Color: A Review of the Literature* (Washington, D.C.: Annie E. Casey Foundation, National Community Reinvestment Coalition, 2012: 3). Over half of the spillover effect from the foreclosure crisis has been concentrated in communities of color as well, where over \$1.1 trillion in home equity has been wiped out. See *Center for Responsible Lending, 2013 Update: The Spillover Effects of Foreclosures* (Aug. 19, 2013).

²⁶ Sarah Burd-Sharps and Rebecca Rasch, *Impact of the U.S. Housing Crisis on the Racial Wealth Gap Across Generations*, American Civil Liberties Union, June 2015. Table 5 appears on page 13.

²⁷ Matt Hern's observation is relevant here: "The American 'ownership society' model imagined to be a paragon of self-reliance and individualism is in fact built on the backs of the commonwealth: massive public support and a subsidy that according to the Congressional Joint Committee on Taxation . . . add(ed) up to \$700 billion in lost (U.S.) government revenue over the five-year period through 2014." (M. Hern, *What a City Is For: Remaking the Politics of Displacement*, Cambridge, Massachusetts: The MIT Press, 2016: 142.)"

²⁸ Two leading indicators for the rarity and brevity of such controls come from homeowner assistance programs funded by the Home Investment Partnerships Program, or HOME, or by state housing trust funds. In 2004, a HUD-sponsored study of the HOME program, conducted by Abt Associates, found that two-thirds of the homebuyer assistance programs funded by cities and states using HOME did not require affordability to last longer than the minimum affordability periods required by federal law — that is, five to 15 years, depending on the level of HOME assistance (Jennifer Turnham et al., *Study of Homebuyer Activity Through the HOME Investment Partnership Program*, "Cambridge, Massachusetts: Abt Associates, 2004). All 50 states have established a housing trust fund, but only 20 of them impose affordability requirements for the owner-occupied housing they assist, a control period that ranges from five to 25 years. Only one, the Vermont Housing and Conservation Board, requires assisted owner-occupied homes to remain affordable forever. (Housing Trust Fund Project, *The Status of State Housing Trust Funds*, (Washington, D.C.: Center for Community Change, March 2013)).

²⁹ Alexander von Hoffman, *To Preserve Affordable Housing in the United States: A Policy History* (Cambridge, Massachusetts: Harvard Joint Center for Housing Studies, 2016). Hoffman writes: "In general, the reformers, practitioners, investors and legislators interested in the issue of 'preservation of affordable housing' define 'affordable housing' as government-subsidized, privately owned rental apartments inhabited by low-income households. . . . The term 'preservation,' as used by people in this field, refers to acting to ensure that such properties remain affordable to low-income households."

³⁰ See Introduction, FN 2, supra.

³¹ Stephanie Moulton and Roberto G. Quercia, "Access and Sustainability for First-Time Homebuyers: The Evolving Role of State Housing Finance Agencies," Chapter 8 in Eric Belsky, Christopher Herbert and Jennifer Molinsky (eds.), *Homeownership Built to Last* (Washington, D.C.: The Brookings Institution, 2014).

³² What we are calling "homes that last" Alan Mallach has called "sustainable homeownership," which occurs, according to his definition, "when owning a home confers social and economic benefits on the owner at a cost that does not impose unreasonable financial stress and where the risk of an involuntary end to the homeownership spell has been significantly reduced." Mallach, *Building Sustainable Homeownership: Rethinking Public Policy Toward Lower-Income Homeownership* (Federal Reserve Bank of Philadelphia, 2011: 19).

³³ John Emmeus Davis, *Shared Equity Homeownership: the Changing Landscape of Resale-Restricted, Owner-Occupied Housing*. (Montclair, New Jersey: National Housing Institute, 2006.)

³⁴ Consideration of these comparative advantages, examining the pros and cons of each model of SEH, is beyond the scope of the present report. Such comparisons can be found in several publications, including J.E. Davis, *ibid.*; John Emmeus Davis, "Beyond the Market and the State: The Diverse Domain of Social Housing," Chapter 2 in J.E. Davis (ed.), *The Affordable City: Toward a Third Sector Housing Policy* (Philadelphia, Pennsylvania: Temple University Press, 1994); Rick Jacobus and Jeffrey Lubell, "Shared Equity Homeownership: An Effective Strategy for Balancing Affordability and Asset-Building Objectives" (Washington, D.C.: Center for Housing Policy, 2007); and Jeffrey M. Lubell, "Filling the Void Between Homeownership and Rental Housing: A Case for Expanding the Use of Shared Equity Homeownership," Chapter 6 in Eric S. Belsky, Christopher E. Herbert, and Jennifer H. Molinsky (eds.), *Homeownership Built to Last: Balancing Access, Affordability, and Risk after the Housing Crisis* (Cambridge, Massachusetts: Harvard Joint Center for Housing Studies, 2014).

³⁵ This will depend on the program's particular pricing formula and on economic conditions within their neighborhood.

³⁶ Many SEH programs also cap the amount of rent that homeowners may charge should they decide to lease out any part of their property. Some programs go further and allow no leasing or subletting in order to prevent absentee ownership.

³⁷ Jonathan Morduch and Rachel Schneider have argued that the volatility of income among lower-income families must be taken into account in designing housing policies and programs — a factor as important to consider as the limited wealth and limited income of these families. ("Is Financial Unsteadiness the New Normal?" *Rooflines*, Posted on July 25, 2016). They note with approval a strategy proposed by Ellen Seidman for coping with this financial reality: "Housing tenure choices that involve stewardship concepts ... may provide opportunities to mitigate the impact of income volatility. These concepts, which have proven successful at small scale, include community land trusts, shared equity programs, and limited equity cooperatives." (Ellen Seidman, "Solving for Shelter: Matching Income Volatility with Housing Stability," *Stanford Social Innovation Review*, Jan. 26, 2016.)

³⁸ In the case of condominiums, it is the "unit deed" or mortgage for the individual condominium that is encumbered with these resale restrictions. In another variation, some SEH programs use mortgages or promissory notes instead of covenants to impose conditions on the resale of houses, townhouses or condominiums.

³⁹ There are restrictions on use, as well, requiring occupancy of the property as the homeowner's primary residence and regulating the property's upkeep, improvement and financing.

⁴⁰ Discussions of the complicated legal issues surrounding the longevity and enforceability of deed covenants used in affordable housing can be found in David Abromowitz, "An Essay on Community Land Trusts," Pp. 213-231 in C. Geisler and G. Daneke (eds.), *Property and Values: Alternatives to Public and Private Ownership*, (Washington, D.C.: Island Press, 2000); David Abromowitz and Kirby White, "Deed Restrictions and Community Land Trust Ground Leases: Two Methods of Establishing Affordable Homeownership Restrictions," Pp. 327-334 in J.E. Davis (ed.), *The Community Land Trust Reader* (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2010); and James J. Kelly, "Homes Affordable for Good: Covenants and Ground Leases as Long-Term Resale-Restriction Devices," *Saint Louis University Public Law Review* 29 (2009: 9).

⁴¹ Instead of repurchasing every home at resale, stepping back into the chain of title, some CLTs allow a direct seller-to-buyer transaction, with the CLT overseeing the transfer to make sure that the SEH home is resold to an income-qualified buyer at the formula-determined price.

⁴² The standard method of mortgage financing in an LEC is for the cooperative to obtain a blanket mortgage, secured by the property the cooperative housing corporation owns. Nearly all of the mortgage debt is collectively held by the LEC. In rare cases, an LEC is financed in the same manner as most market-rate cooperatives, where share loans incurred by individual members cover most (or all) of the cost of acquiring the real estate.

⁴³ The cooperative corporation is enabled but not obligated to exercise this pre-emptive option. If the co-op chooses not to repurchase homeowners' shares, the homeowners are forced to find buyers on their own. They still may not resell their ownership interest for more than the maximum transfer value, however. In some LECs, members resell their shares and walk away with a significant increase in personal wealth, even as their shares remain relatively affordable for subsequent buyers. In other LECs, member-owners walk away with minimal wealth because of little demand for co-op housing or because of a resale formula that is highly restrictive. Cooperatives that adopt resale formulas that restrict the transfer value of members' shares to no more than their value at the time of purchase are called "par value," "zero equity" or "non-equity" cooperatives.

⁴⁴ See, for example, Meagan Ehlenz, *Limited Equity Coops by Community Land Trusts: Case Study and a Feasibility Assessment for the Hybrid* (Portland, Oregon: National Community Land Trust Network, 2013).

⁴⁵ Except for the description of the property, the content of this covenant may be nearly identical to the terms and conditions found in ground leases the CLT may use in its other projects.

⁴⁶ Pioneered by the Manufactured Housing Park Program of the New Hampshire Community Loan Fund, this co-op model of resident ownership is now promoted nationwide by ROC USA® (rocusa.org). ROC USA has helped over 150 parks, containing 10,000 homes, transition to resident ownership.

⁴⁷ A more detailed review of these options for resident ownership can be found in Renia Ehrenfeucht, *Moving Beyond the Mobile Myth: Preserving Manufactured Housing Communities* (Portland, Oregon: Grounded Solutions Network, 2016).

⁴⁸ Rick Jacobus, *Inclusionary Housing: Creating and Maintaining Equitable Communities* (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2015). The synergy between inclusionary housing and shared-equity housing also is explored in Robert Hickey, Lisa Sturtevant, and Emily Thaden, *Achieving Lasting Affordability Through Inclusionary Housing*, Working Paper WP14RH1 (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2014).

⁴⁹ There are also over 300 housing trust funds in New Jersey. Created to promote fair housing, they are certified by the state's Council on Affordable Housing. The state's governor, Chris Christie, has been trying since 2010 to abolish the council and has been trying since 2012 to balance the state's budget by taking money away from the housing trust funds, but he has been blocked by the New Jersey Supreme Court and Appellate Courts (nj.com). Housing trust fund counts for states, cities and counties come from the Housing Trust Fund Project (housingtrustfundprojects.org) and the Community Preservation Coalition (communitypreservation.org).

⁵⁰ Housing Trust Fund Project, *The Status of State Housing Trust Funds*, (Washington, D.C.: Center for Community Change, March 2013). Jim Libby, "The Challenge of Perpetuity," pp. 552-561 in J.E. Davis (2010), op cit.

⁵¹ There has been an ongoing debate among shared-equity homeownership advocates as to whether shared appreciation loans really are a category of SEH. Jeffrey Lubell, for one, has argued that they are (see: Lubell, op cit. 2014; also Jacobus and Lubell, op cit. 2007). Other SEH advocates, however, see scant similarity between forms of tenure that remove homes from the marketplace and forms of financing that depend on homes being resold to the highest bidder. They argue, moreover, that the main advantage of tenure models like deed-restricted homes, CLTs and LECs is their liberation from the risky and costly "creative financing" that dominated homeownership assistance programs in the past. Instead of crafting lower payments for a commodity that is exchanged for whatever the market will bear, SEH redefines affordability in terms of lower prices for a resource that is dependably and durably insulated from the market. (See, for example, Tim McKenzie, "The Case for Plan B." *Shelterforce* 29 (3), 2007.)

⁵² Affordability covenants, in particular, were often proclaimed to be "self-enforcing" in the past. The assumption was that a lender, closing attorney or title company would notice a violation in the terms of a covenant — for example, reselling the home for a market price to an over-income buyer — and halt the transaction. These covenants proved less reliable in practice. Homeowners ignored them, lenders overlooked them, and shenanigans surrounded them. Sellers connived to extract more profits from properties that were supposed to stay affordable — but often did not.

⁵³ As observed several years ago in a manual advising community land trusts on the many duties they must perform to make shared-equity homes last and to help their owners succeed: "All of these activities will be easier to accomplish, more effective, and possibly more economical when carried out in situations where homeowners are actively involved with the organization and have positive relationships with staff and others in the organization. More than anything else, it is this kind of engagement that will prevent stewardship from becoming something that necessitates legal enforcement." Kirby White (ed.), "Post-Purchase Stewardship," Chapter 23 in *The CLT Technical Manual* (Portland, Oregon: National Community Land Trust Network, 2011). Available at groundedsolutions.org/resources.

⁵⁴ The first reference to the "three faces" of stewardship appeared in John Emmeus Davis, "Homes That Last: The Case for Counter-Cyclical Stewardship," *Shelterforce* (Winter 2008). The Cornerstone Partnership, now a part of Grounded Solutions, framed the issue in a similar way, saying that stewardship protects the subsidy by monitoring compliance, curing defaults and assisting in resales; protects the home by monitoring its condition and helping with repairs and improvement; and protects the homeowner by preparing families for the responsibilities of homeownership and then supporting them during their tenure in a shared-equity home.

⁵⁵ This short discussion draws on a more detailed treatment of the same topic in Kirby White (2011) op cit., along with the stewardship course originally developed by the National CLT Academy and currently delivered by Grounded Solutions Network.

⁵⁶ This issue of supervision versus independence is especially challenging, not only for SEH programs, but also for all homeownership assistance programs investing a sizable per-unit subsidy to help low-income families purchase homes. It is sometimes couched as finding a reasonable balance between "watching over the investment" versus "leaving the homeowners alone." Some programs tilt one way. Some tilt the other.

⁵⁷ Quoted in Emily Thaden, Andrew Greer and Susan Saegert, "Shared Equity Homeownership: A Welcomed Tenure Alternative Among Lower Income Households," *Housing Studies* V. 28, No. 8 (2013).

⁵⁸ Replacement funds or "stewardship funds" are standard practice among limited-equity cooperatives and are becoming common among community land trusts as well. They are rare among other SEH models and programs. There has been a reluctance among Habitat affiliates, in particular, to create such reserves — even among those committed to the lasting affordability of Habitat homes. Habitat for Humanity International has traditionally discouraged affiliates from doing so, believing that a replacement escrow undercuts the empowerment of homeowners, introduces a degree of subjectivity into the administration of these funds, and exposes the affiliate to claims from homeowners who might want to use escrowed funds in a family emergency for something other than the improvement of their home.

⁵⁹ Many mission-driven builders, including Habitat for Humanity, are equally committed to durability and energy efficiency, even when they are not intending to buy back an assisted home or to compel its repeated transfer to a succession of low-income buyers. Compared with the shorter time horizon of for-profit developers, however, whose business model is based on building, selling and moving on, the longer horizon of organizations developing housing intended to be permanently affordable alters the incentives and calculations in choosing the kinds of building materials to use and the kinds of energy systems to install.

⁶⁰ John Emmeus Davis and Alice Stokes, *Lands in Trust, Homes that Last*. (Burlington, Vermont: Champlain Housing Trust, 2009). The performance evaluation focused on 424 resale-restricted houses and condominiums that were developed by CHT between 1984 and 2008.

⁶¹ Kenneth Temkin, Brett Theodos and David Price, *Shared Equity Homeownership Evaluation* (Washington, D.C.: Urban Institute, 2009). Seven case studies and a summary report were published as part of this data-rich evaluation. Two excellent and accessible overviews of this research were produced by Miriam Axel-Lute, *Homeownership Today and Tomorrow: Building Assets while Preserving Affordability* (Montclair, New Jersey: National Housing Institute and Cornerstone Partnership 2010) and by Kenneth Temkin, Brett Theodos and David Price, "A Promising Way Forward for Homeownership: Assessing the Benefits of Shared Equity Programs," *Community Investments*, V. 23 (1), Spring 2011: 12-32.

⁶² It is important to note that many shared-equity housing programs repurchase the ownership interest when a homeowner announces his or her intent to leave. Many others refer income-qualified buyers to the owners of shared-equity homes when they want to sell. Either way, this is a valuable service, supporting homeowner mobility. Sellers are provided with a ready buyer and quicker access to equity they have earned. Rather than being "stuck" in homes that are slow to sell, especially in a down market, owners of shared-equity homes may be able to move relatively fast.

⁶³ Jeffrey Lubell, "Filling the Void Between Homeownership and Rental Housing: A Case for Expanding the Use of Shared Equity Homeownership," Chapter 6 in Eric Belsky, Christopher Herbert and Jennifer Molinsky (eds.), *Homeownership Built to Last* (Washington, D.C.: The Brookings Institution, 2014: 220). He assumed in his hypothetical that 10,000 new units of housing are constructed every year with outside subsidies sufficient to bring them into the reach of income-qualified homebuyers. After 30 years, if homeowners are allowed to claim all of those subsidies for themselves when reselling their homes, along with all of the appreciation, 300,000 families would be lifted into homeownership; after 50 years, it would be 500,000 families. By contrast, under a SEH program, 662,500 households would be served after 30 years and 1.5 million after 50 years, if homeowners move once every 12 years. If homeowners move once every six years — the average length of occupancy for homeowners in the United States — 1 million households would be served by the SEH program after 30 years, and 2.5 million would be served after 50 years.

⁶⁴ The same can be said about the online presentation designed by Rick Jacobus, *Understanding Subsidy Retention* (burlingtonassociates.com). This interactive animation not only explains the difference between subsidy recapture and subsidy retention; it also allows viewers to input their own data, calculating the number of families served through shared-equity housing versus the number served through conventional homeownership assistance programs. Under practically every scenario, the retention of subsidies in homes that are kept permanently affordable performs better, boosting more families into homeownership over time.

⁶⁵ Davis and Stokes, op cit., pp. 27-29.

⁶⁶ Kenneth Temkin, Brett Theodos and David Price (2009, 2011), op cit. and Miriam Axel-Lute, op cit.

⁶⁷ Emily Thaden, *Outperforming the Market: Making Sense of the Low Rates of Delinquencies and Foreclosures in Community Land Trusts*, Lincoln Institute Working Paper WP10ET1 (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2010) and Emily Thaden, *Stable Home Ownership in a Turbulent Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts*, Lincoln Institute Working Paper WP11ET1 (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2011).

⁶⁸ David Imbroscio, "Beyond Mobility: The Limits of Liberal Urban Policy," *Journal of Urban Affairs* 34 (1), 2012: 1-20.

⁶⁹ Not only is it unrealistic to expect shared-equity housing to prevent the in-migration of more affluent households, it is rarely in the best interests of low-income residents to do so. The goal of an SEH program is never to discourage new investment in a distressed neighborhood, nor to exclude all newcomers. The goal is development without displacement, ensuring that the most economically vulnerable of a neighborhood's residents are beneficiaries of a neighborhood's improvement, not its victims.

⁷⁰ Lance Freeman and Frank Braconi, "Gentrification and Displacement: New York City in the 1990s," *Journal of the American Planning Association* 70 (1), 2004: 51.

⁷¹ See Robert J. Chaskin and Mark Joseph, "Positive' Gentrification, Social Control and the 'Right to the City' in Mixed-Income Communities: Uses and Expectations of Space and Place," *International Journal of Urban and Regional Research* 37 (2), 2013: 480-502; and Kate S. Shaw and Iris W. Hagemans, "Gentrification Without Displacement and the Consequent Loss of Place: The Effects of Class Transition on Low-income Residents of Secure Housing in Gentrifying Areas," *International Journal of Urban and Regional Research* 39 (2), 2015: 323-341.

⁷² In both places, shared-equity homes being offered for sale must pass the "kitchen table test." They must be seen by prospective homebuyers as being a much better deal than conventional homes selling in the same area, the latter of which come with none of the restrictions on use and resale that encumber a shared-equity home.

⁷³ Other indicators of a strong-market neighborhood – or of one that is undergoing steady improvement – include high or suddenly rising property taxes, high or noticeably improving public safety, good or noticeably improving public schools, and high or suddenly increasing investment in public infrastructure and social services.

⁷⁴ The criticism of shared-equity models is often based on two misunderstandings. Critics believe that SEH homeowners are prevented from accumulating wealth and that resale-restricted homes prevent weak-market neighborhoods from improving. Typical, in this regard, is the response of a staff member at one Habitat affiliate who declared that his organization is “not in favor of a CLT model or permanent affordability past the life of our first mortgage. We are not interested in building enclaves of poverty and feel the opportunity of appreciation and equity accumulation is one of the huge benefits of homeownership.”

⁷⁵ The most compelling look at the buildup of social capital in limited-equity cooperatives and the importance of this hidden asset in bettering the lives of low-income co-op residents is to be found in Jacqueline Leavitt and Susan Saegert, *From Abandonment to Hope: Community-Households in Harlem* (New York: Columbia University Press, 1990). Social capital is not confined to this single form of shared-equity housing, however. Some community land trusts, for example, like the City of Lakes CLT in Minneapolis, have made resident solidarity and resident engagement a prominent part of their programs.

⁷⁶ Dudley Street Neighborhood Initiative (Boston, Massachusetts), T.R.U.S.T. South LA (Los Angeles, California), Time of Jubilee CLT (Syracuse, New York), the Albany CLT (Albany, New York), and Durham Community Land Trustees (Durham, North Carolina) are examples of organizations that instituted shared-equity homeownership programs in weak-market neighborhoods – before those areas began to improve.

⁷⁷ In Richmond, Virginia, for example, the first homes to be developed by a new CLT may allow a 50-50 split, which will be dialed back in a few years to 25 percent as prices escalate in the neighborhood.

⁷⁸ This is the strategy being employed by the Women’s Community Revitalization Project in Philadelphia. The 36 newly constructed units in the project’s Grace Townhomes development will be owned and operated as rental housing for 15 years. The tenants will then have an option to purchase their units as limited-equity condominiums. See Jake Blumgart, “Community Group Turns to Land Trusts in Kensington,” *PhillyVoice* (Posted Sept. 4, 2015). Available at phillyvoice.com/community-group-turns-to-land-trusts-in-kensington/.

⁷⁹ Except where otherwise noted, all quotes in this chapter from Clarence Jordan come from his 1968 “Letter to Friends of Koinonia,” outlining the “partnership principles” on which the Fund for Humanity – and, later, Habitat for Humanity – were founded. Joe Gatlin has suggested this letter may have been co-written by Millard Fuller (see Gatlin’s essay, “No Profit, No Interest, and Clarence Jordan,” Sept. 14, 2014), but it is more likely that Fuller was one of several advisers consulted by Clarence as he drafted his letter. Within the worldwide Habitat family, the Rev. Jordan is referred to familiarly by his first name only. The same is true for Millard Fuller. That convention is followed here.

⁸⁰ Clarence’s partnership principle of land being held in trust, rather than being sold to individual homeowners, gradually fell by the wayside. Millard Fuller had become a millionaire at an early age largely because of his marketing acumen. As he endeavored to bring the Habitat “brand” into the mainstream, he likely considered community-owned land and long-term ground leasing to be a “hard sell,” too big a departure from the way that homeownership is normally done. Instead of providing land for free, therefore, most affiliates either folded the cost of acquiring the land into the purchase price of the house, covered by the first mortgage, or added that cost into the “affordability subsidy,” often covered by a silent second mortgage.

⁸¹ Since 2014, Habitat for Humanity International has endorsed the practice of mixing 0 percent financing from the Fund for Humanity with interest-bearing loans from private lenders or governmental agencies, yielding an affordable mortgage for Habitat’s low-income homebuyers.

⁸² These are structured as non-interest-bearing liens, payable in full in the event of sale, default, transfer of title, or refinancing of the first mortgage by a third-party lender.

⁸³ The shared appreciation mortgage, or SAM, used by some affiliates applies a fixed percentage to all homes, regardless of the purchase price of a home or the amount of subsidy poured into it. Other affiliates use a SAM where the percentage of appreciation is tied to the homeowner’s share of the total development cost, or TDC. For example, a homeowner whose purchase price and first mortgage covers 75 percent of the TDC would claim 75 percent of the home’s appreciation at resale. The remaining 25 percent would be claimed by the affiliate.

⁸⁴ Clarence Jordan’s preference for community-owned land was probably inspired as much by his friendships with Slater King and Bob Swann as by his reading of Leviticus. They were two of the 15 trusted advisers whom Clarence invited to Koinonia Farm in 1968 to discuss the ideas he and Millard Fuller had been hatching for a new direction for Koinonia. At the time of that meeting, King and Swann had just returned from Israel, where they had made a study of cooperative agricultural settlements (*kibbutzim* and *moshavim*) on land leased from the Jewish Fund. They were already hard at work creating the blueprint for New Communities Inc., a prototype community land trust. Koinonia Farm as a seedbed for both Habitat for Humanity and the CLT movement is explored in greater detail in John Emmeus Davis, “Braided Lives,” *Rooflines* (posted March 28, 2013) and in John Emmeus Davis, “Origins and Evolution of the Community Land Trust in the United States,” Pp. 3-47 in *The Community Land Trust Reader* (Cambridge, Massachusetts: Lincoln Institute of Land Policy, 2010).

⁸⁵ There was a biblical basis for both. Free land: “The land shall not be sold in perpetuity, for the land is mine; for you are strangers and sojourners with me” (Leviticus 25:23). Free capital: “Take no interest from him or increase, but fear your God; that your brother may live beside you. You shall not loan him your money at interest, nor give him your food for profit” (Leviticus 25:36-37); also “If you lend money to any of my people with you who is poor, you shall not be as a creditor, and you shall not extract interest from him” (Exodus 22:25).

⁸⁶ In the early 1990s, an unidentified member of Habitat's staff in Americus, Georgia, penned a memo titled *Community Land Trusts and Habitat for Humanity Affiliates: Issues in Working Together*. It read in part: "There is no current policy of Habitat for Humanity which governs the sharing of the equity and long-term appreciation. In fact, there is a broad spectrum of choices. There is, however, a strong tradition in Habitat which favors releasing this equity to the family."

⁸⁷ The mission statement that emerged out of the meeting called by Millard Fuller in 1976 to discuss forming a new organization read: "Habitat for Humanity would be a Christian housing ministry, working in partnership with people everywhere, from all walks of life, to develop communities for God's people in need by building and renovating houses so that people could live in decent houses in decent communities and grow into all that God intended." Bettie B. Youngs, *The House that Love Built* (Charlottesville, Virginia: Hampton Roads Publishing, 2007: 92). This mission statement changed very little over the next two decades. By 1993, it read: "Habitat for Humanity works in partnership with God and people everywhere, from all walks of life, to develop communities with God's people in need by building and renovating houses so that there are decent houses in decent communities in which people can grow into all that God intended." Jerome P. Baggett, *Habitat for Humanity: Building Private Homes, Building Public Religion* (Philadelphia, Pennsylvania: Temple University Press, 2001: 50).

⁸⁸ Jonathan T.M. Reckford, "Neighborhood Investment Doesn't Have to Mean Displacement," *Rooflines* (posted Sept. 14, 2015).

⁸⁹ Bob Lupton, "Gentrification with Justice," posted in *byFaith, the web magazine of the Presbyterian Church in America* (byfaithonline.com), Issue 9, June 2006.

⁹⁰ This argument is developed in greater detail in John Emmeus Davis, "Common Ground: Community-Owned Land as a Platform for Equitable and Sustainable Development," *University of San Francisco Law Review* 51 (1), Winter 2017.

⁹¹ Such an assertion is highly speculative, of course. Clarence died of a heart attack one year and one week after sending out his 1968 epistle to some 2,000 friends of Koinonia, outlining the "partnership principles" that were to become the foundation on which Habitat was built. We can never know for sure how he might have applied those principles to the work that Habitat is now doing in distressed neighborhoods.

⁹² This phase, contained in Clarence's 1968 letter, is milder than the language he sometimes used when admonishing the wealthy to share their surplus with the poor. He could sound at times like one of the Old Testament prophets he so admired, as in the passage with which he concluded his letter: "Augustine once said, 'He who possesses a surplus possesses the goods of others.' That's a polite way of saying that anybody who has too much is a thief. If you are a 'thief,' perhaps you should set a reasonable living standard for your family and restore the 'stolen goods' to humanity, either through the Fund [for Humanity] or by some other suitable means."

⁹³ As noted in Chapter 1, only a third of the jurisdictions receiving a HOME allocation have adopted affordability periods for HOME-assisted units that last longer than the federal minimum.

⁹⁴ Housing Trust Fund Project, *The Status of State Housing Trust Funds* (Washington, D.C.: Center for Community Change, March 2013).

⁹⁵ Since the focus of this Shelter Report is on permanently affordable homeownership, the recommendations in this chapter center mainly on policies and programs that help low-income and moderate-income families become homeowners. Many SEH programs are also developing rental housing, however, some of which will be converted to SEH homeownership in the future. Doing more to persuade state and municipal agencies to extend affordability requirements for rental housing can indirectly support the expansion of SEH housing. Particularly important, in this regard, is building a priority for long-term affordability into a state's qualified allocation plan, ensuring that Low Income Housing Tax Credits are not frittered away in projects that remain affordable for income-qualified households for only 15, 20 or 30 years.

⁹⁶ For a discussion of the decades of difficulties faced by SEH programs in accessing FHA mortgages, see Edwin Stromberg and Brian Stromberg, "The Federal Housing Administration and Long-Term Affordable Homeownership Programs," *Cityscape*, V. 15, No. 2 (2013). As a result of the latest round of negotiations with Grounded Solutions Network, HUD commissioned a third-party analysis of SEH loan performance. Finding that the Mutual Mortgage Insurance Fund would not be adversely affected by granting access to shared-equity homebuyers, HUD planned to roll out a pilot program to provide FHA insurance in SEH. This pilot was tabled, however, before it began.

⁹⁷ More detailed discussions of the taxation of resale-restricted homes can be found in Ryan Sherriff, "Shared Equity Homeownership: State Policy Review," *Journal of Affordable Housing and Community Development Law* V. 19, Nos. 3&4 (Spring/Summer, 2010: 287-290) and John Emmeus Davis and Rick Jacobus, "Taxing CLT Property," *The City-CLT Partnership* (Lincoln Institute of Land Policy, 2010: 23-27).

⁹⁸ Appraisals for resale-restricted homes on land leased from a CLT have been particularly problematic, despite the publication of guidelines for appraising such properties that were issued by Fannie Mae in 2001.

⁹⁹ This recommendation is focused on state and local support for stewardship. It should be noted, however, that HUD programs sometimes prevent jurisdictions or subgrantees from charging fees to cover the cost of post-development stewardship.



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