



Homeownership Today and Tomorrow: Building assets while preserving affordability

By Miriam Axel-Lute, Associate Director, National Housing Institute
for the Cornerstone Partnership, a program of NCB Capital Impact



NATIONAL
HOUSING
INSTITUTE



Cornerstone Partnership
Keeping Homes Affordable & Communities Strong

Written by Miriam Axel-Lute, Associate Director, National Housing Institute for the Cornerstone Partnership, a program of NCB Capital Impact

The National Housing Institute is an independent nonprofit research and education organization driven by a belief in the ability of all communities to be healthy and thriving. NHI supports community revitalization by empowering residents of low-income neighborhoods and strengthening the work of community builders through public policy and programmatic analysis, development, and promotion. For more information visit www.nhi.org.

This report draws heavily on the research report “Balancing Affordability and Opportunity: An Evaluation Of Affordable Homeownership Programs With Long-Term Affordability Controls,” prepared by the Urban Institute for NCB Capital Impact. For the full details on methodology and complete comparative results of that research, see the original report at <http://www.urban.org/sharedequity>.

All research and reporting for the case studies in this report was conducted as original work and undertaken separately from the Urban Institute’s research.

The author wishes to acknowledge Kenneth Temkin, Brett Theodos, David Price, John E. Davis, Rick Jacobus, Jim Gray, Harold Simon and Matthew Brian Hersh.

*This report was created with support from the Ford Foundation and the Surdna Foundation.
Copyright Cornerstone Partnership, October 2010 www.affordableownership.org*



A New Path to Homeownership

Federal, state, and local governments spend billions of dollars every year on programs designed to promote wider access to homeownership for low- and moderate-income families. But the recent housing crisis has led some to question the wisdom of continued investment in homeownership—especially for lower income families. Critics suggest that perhaps housing policy should focus instead on providing affordable rental housing.

What works best for housing low- and moderate-income families: rental housing or homeownership? While this debate has a renewed urgency it has a long history.

The question is so persistent because for many households, neither of those options is quite right.

Rentals are a crucial part of an affordable housing continuum. For many families—including most of the lowest income families, as well as many others who choose them for a range of lifestyle reasons—renting probably will always continue to make the most sense.

But for those working families who have modest incomes but are not in extreme poverty, being forced to face perpetual renting versus owning amounts to being locked out of one of the most common ways Americans move up economically - building equity in a home.

This is more than a matter of abstract fairness. Assets can make a greater difference than higher pay in a low-income household's ability to transform its circumstances or make it through a problem like a job loss or illness without ending up in crisis. And yet living with no cushion, whether it's savings or home equity, called "asset poverty," is far more widespread than income poverty, and the gaps between the asset-rich and the asset-poor are much greater¹.

On the other hand, as the past several years have demonstrated all too clearly, pushing low-income families into homeownership often backfires. Without any savings in the bank or cushion in their income, these families are often blindsided by maintenance or repair problems they can't address, or are only a few weeks of unemployment away from defaulting on their mortgage payment. With lower credit scores, they are often saddled with higher interest rates and unsustainable loan terms.

Some studies have found that only half of all low-income first-time homebuyers are still homeowners five years later.²



Long-term affordable homeownership programs offer homeowners a predictable path from renting to traditional homeownership and offer communities a smarter way to make the most of scarce housing resources for lasting results.

And of those who left homeownership, many did not walk away better off. Lower income families can often only afford to buy in struggling neighborhoods where price appreciation is less predictable, making the likelihood of their building a nest egg more tenuous. Stagnant or falling values can make it hard to sell at all, tying them to a neighborhood that may not increase their opportunities for employment or other improvements in their lives.

Moreover, traditional homeownership programs that provide public subsidy to help homebuyers achieve homeownership are resource intensive, since they provide one-time grants or forgivable loans that help only one lucky family, with no subsidy recaptured.

Given the very real risks of homeownership for lower-income families, it is not obvious that continued investment in standard homeownership programs will produce meaningful social benefits.

Not surprisingly, then, the resulting debate around affordable rental versus homeownership long has been presented as a choice between two equally important values: preserving affordability to serve more families and make the most efficient use of public funds through rental on the one hand and offering life-altering opportunities for asset building through homeownership on the other.

It's a hard choice.

But a third option with a growing presence exists. A number of innovative local affordable homeownership programs around the country have found ways to make ownership accessible and also much safer and more sustainable, while concurrently achieving long-term affordability. These programs ensure that that public investment in affordable homeownership can serve multiple generations of homebuyers in the same way that investments in affordable rental housing do. However, in addition these programs offer homeowners a predictable path from renting to traditional homeownership and offer communities a smarter way to make the most of scarce housing resources for lasting results.

Preserving Affordability for Lasting Impact

There are hundreds of local affordable homeownership programs that preserve affordability over the long term. They use a wide variety of different legal and financial structures and are referred to by a variety of different names.³ Community land trusts, limited-equity cooperatives, and owner-occupied homes with durable affordability covenants are all mechanisms that preserve affordability and recycle public investment by restricting the resale price of a home. Other programs use deferred payment second loans that require homeowners to repay a share of future price appreciation. New hybrids and permutations of these older models appear nearly every year.

The common thread across long-term affordable homeownership programs regardless of their affordability mechanism is that they all strike a balance between individual and community benefits. In each case, a government or nonprofit agency partners with the homebuyer. The agency invests some subsidy in a property to make it affordable to low- or moderate-income buyers and works with owners over the long term to ensure they are financially responsible, keep up the property, and protect the public investment. The homeowner has an opportunity to build wealth and in return keep the home affordable for the next buyer—passing on the benefit of the public investment when selling the home.

In a community land trust (CLT) for example, the nonprofit community based organization (the trust) keeps ownership of the land while the homeowners own the house that's on the land. The CLT extends owners a 99-year renewable ground lease that offers most of the benefits of traditional homeownership. However, CLT owners must agree to occupy their home as their primary residence and they agree to resell the home at a price set by an affordability formula spelled out in their ground lease.

Many local government agencies play a similar role in deed-restricted homeownership programs (also known as deed covenants). They offer homes for sale at below-market prices to income-qualified homebuyers and attach enforceable affordability agreements to the deed to the property. These agreements, like the CLT leases, require homeowners to occupy the homes and to resell at a price determined by an affordability formula.

Similarly, limited-equity cooperative owners buy shares in the co-op association, which gives them a lease on their particular unit. The co-op share prices are also controlled by a resale pricing formula.

Regardless of the organizational and legal structure, these programs require consistent oversight and management by a public or nonprofit agency that serves as the long-term steward of the public investment.



All long-term affordable homeownership programs strike a balance between individual and community benefits.

These sorts of housing options are not new—some programs have been around for decades. But only recently have people begun to look at them together, as a unified housing sector, and begun to talk seriously about what it would take to provide this kind of housing at a larger scale.

Cornerstone Partnership

The Cornerstone Partnership is a new a peer network for homeownership programs that preserve long-term affordability and community stability, helping more hard-working people buy homes today, maintain those homes, and keep them affordable in the future.

Charter members in the partnership include Habitat for Humanity International, The Housing Partnership Network, The National Association of Local Housing Finance Agencies, the National Community Land Trust Network, NeighborWorks America and NCB Capital Impact. The partnership is funded by the Ford Foundation and managed by NCB Capital Impact.

The partnership has been built around a set of “Stewardship Principles” developed through a series of daylong workshops with 100 experienced affordable homeownership practitioners. Participants identified general principles and specific practices that make the most of public investment in affordable homeownership and avoid many common problems.

Alongside this process, NCBCI built a library of hundreds of program documents from established long-term affordable homeownership programs around the country and engaged a team of consultants to identify common elements and key features of them. Drawing on these documents, NCBCI created an assessment tool that establishes the extent to which a program is implementing over 100 different best practices.

Draft Stewardship Principles

These principles are intended to guide the implementation of programs that invest public or philanthropic resources to reduce the cost of homeownership and seek to preserve this public investment for maximum impact. The draft principles fall into six categories. The full list of principles is available at www.affordableownership.org.

1. Impact-Driven: Set & Track Goals that Reflect Community Priorities

Affordable homeownership programs should reflect a thoughtful and informed balance of community priorities grounded in a careful analysis of objective data on market conditions and needs.

2. Targeted: Focus on Buyers Who Need Help but Are Likely to Succeed

Scarce public resources for affordable homeownership should be targeted toward households that would be unable to afford ownership without support, but are in a strong position to succeed in ownership over time.

3. Balanced: Build Wealth for Owners While Preserving the Community Interest

Every program should attempt to maximize the impact of public funding by balancing the interests of individual homeowners and the broader community.

4. Managed: Steward the Public Investment to Ensure Long Term Benefit

Public investment in affordable homeownership should be actively and professionally managed for maximum community benefit over the long term.

5. Safe: Ensure Sound Mortgage Financing

Every program should ensure that private mortgage financing is safe, appropriate, and consistent with the goals of the program. In addition to helping buyers make informed decisions, the program should protect the public interest by preventing predatory loan products and avoiding foreclosures whenever possible.

6. Understandable: Educate Buyers on Program Requirement

Every program should provide written materials and training to help buyers understand program requirements and should actively verify homeowners' understanding prior to sale.

The researchers found that each program generated both sustainable affordability and low-risk wealth creation for their owners in ways that rentals or traditional homeownership couldn't have.

New Research

Growing interest in long-term affordable homeownership has led to a need for more concrete data about the impact that these programs are having. Among the key questions:

1. Can programs realistically maintain affordability for future generations of lower income homebuyers without ongoing investment of new public resources?
2. Can programs that preserve long-term affordability offer meaningful wealth-building opportunities for buyers; if wealth building is limited can it still be life-altering?
3. Do buyers of affordable homes become trapped in these homes, or are they able to move out and into traditional homeownership?
4. Do these programs offer greater stability for owners and neighborhoods by preventing foreclosures?

In 2009, NCB Capital Impact contracted with Kenneth Temkin, Brett Theodos, and David Price from the Urban Institute to investigate these questions. They analyzed data on home sales and subsequent resales through 2008 from seven affordable homeownership programs that seek to preserve long-term affordability—three community land trusts, two limited-equity cooperatives, and two deed-restricted affordable housing programs—and compared it with data for the population at large and owners of market-rate homes in the same areas.

While each of the programs had a different emphasis—serving different target income ranges in different markets, tilting the affordability/wealth creation scale one way or the other—the researchers found that they were all able to strike an impressive balance, generating both sustainable affordability and low-risk wealth creation for their owners in ways that rentals or traditional homeownership couldn't have.

Long-Term Affordable Homeownership Programs

The following programs were included in the Urban Institute's study, **Balancing Affordability and Opportunity: An Evaluation of Affordable Homeownership Programs with Long-term Affordability Controls**. To read the full report, see www.urban.org/sharedequity.

ARCH (A Regional Coalition for Housing)

Type: Deed-restricted
Location: East King County, Washington
Founded: 1992
Size: 722 sales; 186 resales
% of area median family income served: 60
Appreciation formula: Has varied. Sales prices based on metropolitan area median income and a local real estate index.

Champlain Housing Trust

Type: Community Land Trust
Location: Burlington, Vermont
Founded: 1984 as Burlington Community Land Trust. Merged with Lake Champlain Housing Development Corporation in 2006
Size: 682 sales; 450 units
% of area median family income served: 52
Appreciation formula: Up to 25% of market appreciation times % of market price owner paid. (Full 25% of market appreciation for condo owners.)

Dos Pinos Housing Cooperative

Type: Limited-equity cooperative
Location: Davis, California
Founded: 1985
Size: 276 sales; 60 units
% of area median family income served: 73
Appreciation formula: Share prices increase by prime rate at the beginning of the year.

Northern Communities Land Trust

Type: Community land trust
Location: Duluth, Minn.
Founded: 1994
Size: 232 sales; 47 resales
% of area median family income served: 48
Appreciation formula: 30% of market appreciation

San Francisco Citywide Inclusionary Affordable Housing Program

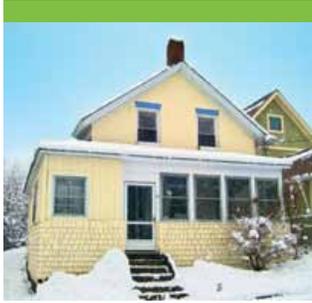
Type: Deed-restricted
Location: San Francisco
Founded: 1992
Size: 800 units; generates 100/year
% of area median family income served: 63
Appreciation formula: Has varied. Currently sales price is indexed to area median income.

Thistle Community Housing

Type: community land trust
Location: Boulder County, Colorado
Founded: 1996
Size: 172 sales; 69 resales
% of area median family income served: 45
Appreciation formula: 25% of market appreciation times % of market price owner paid.

Wildwood Park Towne Homes

Type: limited-equity cooperative
Location: Atlanta
Founded: 1968-1971
Size: 268 units; 140 resales since 1972
% of area median family income served: 35
Appreciation formula: Share price increases by a set amount per year.



Keeping Homes Affordable

Can we realistically maintain affordability for future generations of lower income homebuyers without ongoing investment of new public resources?

The homes sold by all seven of the programs that the Urban Institute studied initially sold for far less than average home prices in their region. They were modest homes, with appraised market values half to two-thirds of the market average for their area, but each program also sold their homes for 25 to 50 percent less than the home's appraised value. In San Francisco, homes sold for an average of \$270,000 less than their market price. In Duluth, homes were sold for \$30,000 less than their market price.

These prices brought homeownership safely and sustainably within reach for lower income buyers. While several programs identified a maximum income for eligible buyers—generally 80 or 100 percent of median income⁴—their prices for the most part made their homes affordable to buyers earning far less. The researchers calculated the minimum income that a potential buyer would have to earn if they were to spend no more than 35 percent of their income on housing, including mortgage, taxes, and insurance. In Atlanta, a family earning \$21,011 in 2008 dollars (only 28 percent of the Atlanta-area median income) could have afforded a co-op unit in Wildwood Park. San Francisco's inclusionary homeownership units were affordable to families earning an average of \$83,836 or more (86 percent of the San Francisco median). The other programs fell between these two extremes, with prices affordable to buyers earning between 35 and 62 percent of median income.

For the most part the programs' actual buyers earned more than the minimum income but less than the program's income eligibility limit. For example, Thistle Homes restricts sales to buyers earning less than 80 percent of the median income. Thistle's homes were, on average, affordable to buyers earning only 39 percent of median; their average buyer earned 45 percent of median.

Down payments are also often a barrier to ownership. For four of the six programs that gave data on them, down payments were relatively modest, ranging from \$1,100 to \$6,000. The Dos Pinos co-op had a higher average—\$18,000—but that actually covered the entirety of the share purchases, so it was not just a down payment in the usual sense. The highest amount, in San Francisco, was usually financed by a second mortgage, which, in many cases, was provided by a different city program.

But what makes these programs different from a typical low-income homeownership support effort is that the houses not only start affordable—they stay affordable.

The homes sold by all seven of the programs that the Urban Institute studied initially sold for far less than average home prices in their region.

When a traditionally subsidized house is sold, the owner can walk away with some, or all of the subsidy that was originally put into the house, as well as all of the appreciation. In the types of homeownership programs covered in this study, however, the subsidy always stays with the unit, usually along with a percentage of the appreciation, in order to keep units affordable to a next round of low-income owners.

Each time a unit is resold, the difference between the appraised value and the sales price represents a renewed subsidy, recycled (and often even grown) by the program. As a result these programs were able to offer homes at below-market-rate, affordable prices to a second and third generation of buyers without adding additional public subsidy.

During a time when the housing market fluctuated drastically, the prices in all seven of these programs were remarkably stable, as were the income groups that could afford them. Some programs were able to serve slightly lower income buyers at resale while others experienced a small increase in what their buyers needed to earn, but with very few exceptions the homes in these programs remained affordable to the same class of low-income buyers that they initially served.⁵

One program, ARCH, did experience significant numbers of homes being resold for prices that required minimum incomes more than 10 percent higher than the original buyers. Nonetheless, the homes remained affordable to buyers earning far less than the median income, and ARCH has modified their overly generous resale pricing formula to better preserve affordability in the future.



CASE STUDY

26 North Street, Winooski, Vermont

Winooski is a former mill town of 6,500 people at the mouth of the Winooski River, near the popular and expensive city of Burlington. In 2002, 26 North Street, a smallish home built in 1870 and a little the worse for wear, went on sale for \$117,000.

The house caught the eye of Cathy Resmer and her partner Ann-Elise Johnson. At the time, the couple was living at a boarding school where Cathy was working. Ann-Elise was a self-employed urban farmer in Burlington, and Cathy's compensation was partially in free room and board. Their incomes were very low, but so were their costs. With few bills, they were actively saving. They wanted to buy a home when Cathy left the boarding school, but "we figured no one would want to lend us money," says Cathy. And even with their savings, they knew there was no way they could afford to buy a house in Burlington, where the prices were high and continuing to climb.

The couple was aware of the Champlain Housing Trust, having lived in co-ops owned by CHT when they met. So when they chanced to drive through Winooski and see 26 North Street, they thought maybe with the help of the land trust they could take a chance on a new community. The land trust applied a \$20,000 grant to bring the property into their portfolio, bringing the cost down to \$97,000. Six months before Cathy's job ended the couple purchased the house with a modest down payment and invested the rest of their savings in capital improvements including updating the wiring and putting in new sheetrock.

Cathy admits that as much as she loved the idea of a land trust house, she had reservations too. "I always assumed we weren't going to be

able to leave," she says. "Over the years I felt a little bit of 'It's not really ours.' But it turned out to be a great thing that the land trust was our partner in owning this house."

In the winter of 2005, coming home from a trip to Montreal for furniture, with Ann Elise seven months pregnant, they discovered their boiler had broken. They didn't have money to replace it, especially since there was asbestos removal and repiping that had to happen first. Plumbers wouldn't call them back and they couldn't get a loan. That month of space heaters and constant phone calls was the "most horrible time in our lives," says Cathy. In desperation, they turned to the land trust, which gave them a very low-interest loan for not only a new energy efficient boiler, but also a new energy efficient water heater and other energy efficiency improvements to the house.

By 2010, Resmer and Johnson's income had risen enough to afford a market-rate home in their neighborhood, and with a growing family they wanted a larger house. Counting their capital improvement credit, they would get \$35,000 in appreciation on resale, which was enough to let them enter the traditional housing market in Winooski. At the same time, Kari Hoose and her husband Julian Portilla were looking for a house. "We were living in a really small apartment with one little boy and one on the way," recalls Hoose. "We wanted a different kind of space. We really wanted a yard the guys could play in. We wanted a place that we could make our own." Both educators—she teaches high school, he teaches at a small college—who had worked abroad in their 20s, they had little savings, and couldn't afford to buy a home in the overheated Burlington market. They had looked throughout the whole region, but with two kids and student loans, "even condos were out of our reach," says Hoose.

CASE STUDY — CONTINUED

A colleague connected them with CHT, and they put an offer on 26 North Street a week after Cathy and Ann-Elise decided to sell. The market value of the house had soared to \$199,000, but even after giving Cathy and Ann-Elise significant capital improvement credits and their share of the appreciation and taking a stewardship fee, the land trust was able to offer it to Kari and Julian for \$154,000, a smaller percentage of the appraised value than Cathy and Ann-Elise had paid.

But then the sale ran into trouble—a day before closing, their mortgage broker called them in tears to say the company was going bankrupt. They had to start over. Right before the second closing, a new appraisal came back too low—a result of a recent foreclosure sale in the neighborhood—and the second bank refused to approve the mortgage.

Expecting the first closing to go through, Cathy and Ann-Elise had already packed and were now camped out in one room of their house, paying rent to store their things to the owners of the house they were trying to buy, and worrying that the purchase of their dream home was going to fall through if they couldn't close soon.

Although CHT does take brief possession in the process of resale, it ordinarily buys and sells in the same transaction, so it doesn't have to bring cash or financing to the table. But given the limbo 26 North Street was now in, CHT took the unusual step of drawing on organizational reserves to buy it from Cathy and Ann-Elise and hold it until Kari and Julian got their mortgage on the third try, taking the risk that they would have to carry the property until they found another buyer if Kari and Julian gave up. "We would not be here in our [new] house if it were not for the land trust," says Cathy.

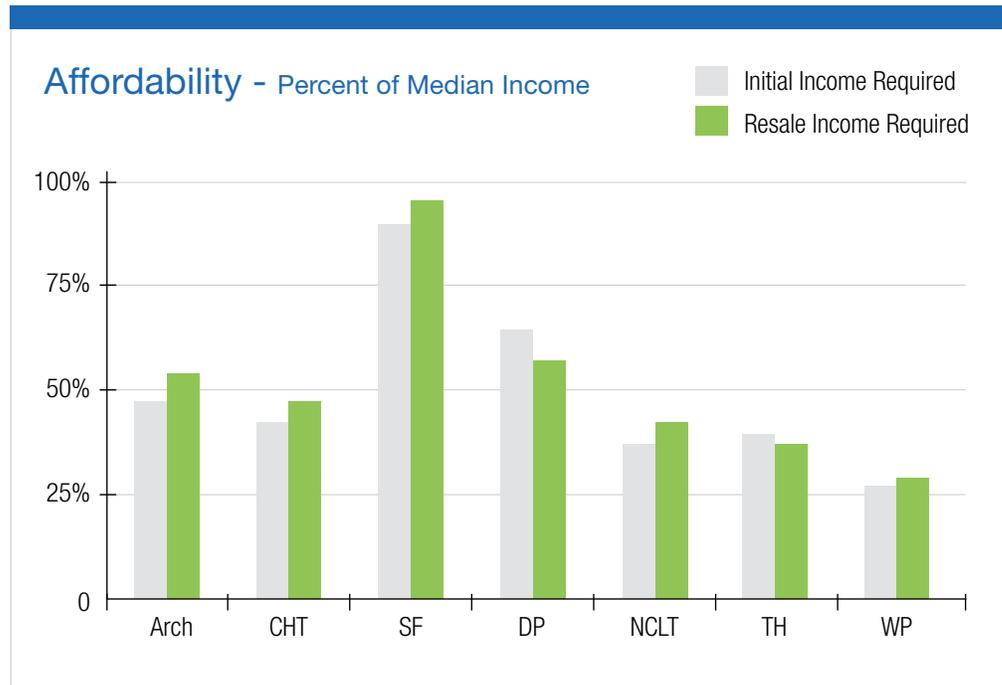
Kari and Julian did not give up, finally getting a mortgage on the third try. Kari is glad they stuck with it. "We're in a fantastic neighborhood. We love having our own space," she says. "Philosophically, we really like the idea that the money stays with the home. Having been in a position where we really couldn't afford anything, we really like the idea that there's always going to be this home for someone."

Homeowner Asset Building

Affordable Purchase Price (2002)	97,000
Downpayment and Closing Costs (estimated)	2,910
Affordable Resale Price (2010)	154,000
Seller's Share of Appreciation	11,413
Principal Payments (debt retirement)	9,300
Capital Improvement Credit	24,000
Total Owner Equity at Resale	44,713
Estimated Annual Return on Investment	19%

Preservation of Affordability

	2002	2010
Appraised Value	117,000	199,000
Subsidy	20,000	
Covenantor Option Price (what owners receive)		132,413
Affordable Purchase Price (option price + transaction and stewardship fees)	97,000	154,000
New value of original subsidy		45,000



Building a Nest Egg

Can programs that preserve long-term affordability offer meaningful wealth-building opportunities for buyers? If wealth building is limited can it still be life altering?

When an owner in one of these programs sells, she walks away from the closing table with net proceeds that came from four places—the down payment she originally put down; the “forced savings” of principal payments on her mortgage; some portion of the value of any capital improvements she put into the property; and some degree of appreciation on the property, as determined by program’s affordability restrictions.

The amount of net proceeds owners in these programs leave with varies widely, but it can be substantial. The average proceeds to sellers ranged from \$6,277 in the Atlanta cooperative to \$70,495 in San Francisco. The portion of those sales proceeds that resulted from appreciation ranged from \$2,015 to \$42,524. Because, for the most part, homeowners made small initial investments and sold after three to six years, this appreciation tended to represent a very high annual return on investment. For example, in Boulder, Colo., the average Thistle CLT homebuyer invested \$6,080 in down payment and closing costs when they purchased. The Boulder sellers moved after an average of 3.4 years and earned an average of \$8,107 in appreciation. This

rate of growth represents an internal rate of return of 22 percent. In other words, these buyers earned the equivalent of 22 percent annual interest on the money that they invested to buy their affordable homes.

	Arch (King County)	Champlain Housing Trust (Burlington)	Citywide Inclusionary Affordable Housing Program (San Fran)	Dos Pinos (Davis)	NCLT (Duluth)	Thistle Homes (Boulder)	Wildwood Park (Atlanta)
Median total proceeds	n/av	\$17,501	\$70,495	\$19,585	\$7,989	\$13,043	\$6,277
Median appreciation realized by seller	\$42,524	\$6,578	\$17,321	\$4,171	\$4,297	\$8,107	\$2,015
Median down payment and closing costs	n/av	\$2,749	\$40,533	\$18,363	\$1,075	\$6,080	\$1,249
Median amount of principal paid on mortgages (forced savings)	n/av	\$3,051	\$3,951	n/ap	\$2,420	\$3,065	\$2,564
Program internal rate of return (IRR)	59.6%	30.8%	11.3%	6.5%	39.0%	22.1%	14.1%
S&P 500 Index Fund IRR	n/av	8.5%	3.2%	10.6%	2.8%	-0.1%	7.8%
10-year Treasury Bonds IRR	n/av	6.0%	4.4%	7.8%	4.7%	5.9%	5.7%

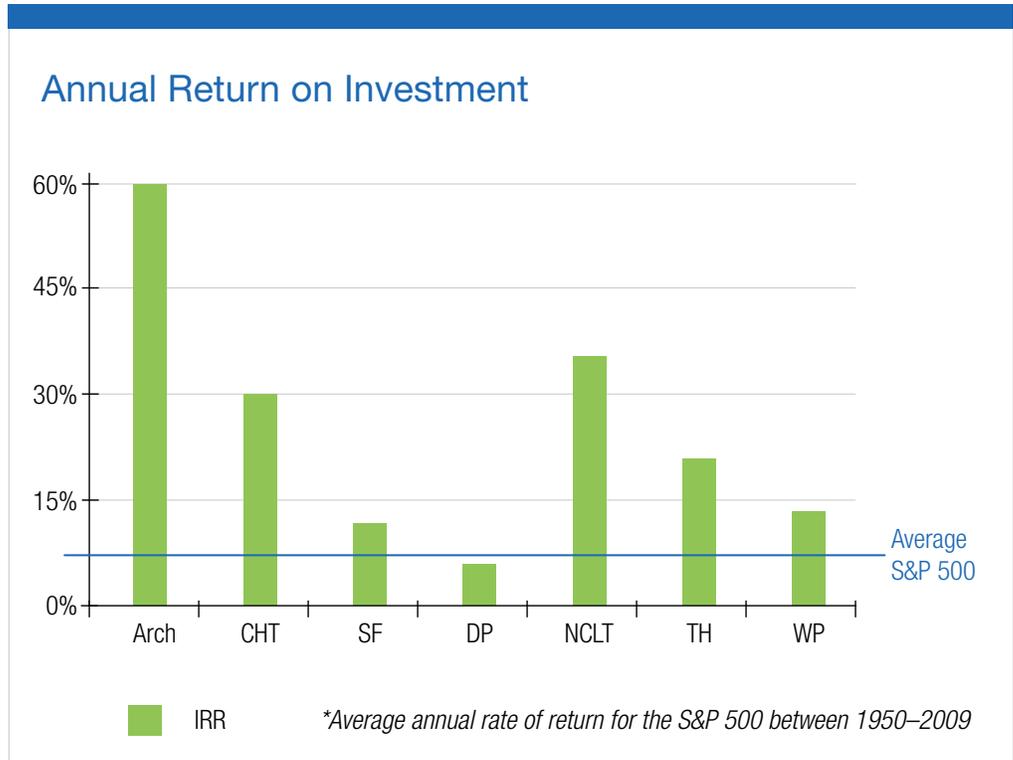
Participants' internal rates of return based on the money they invested ranged from 6.5 percent to 59.6 percent. In all but one case, they built more equity than they would have if they had placed their down payment in an S&P 500 index fund or a 10-year Treasury Bond.⁶

It is possible for buyers in these affordable homeownership programs to experience losses if a home's value declines significantly. However, because they are purchased at well below market prices to begin with, this is less



common than on the open market, and losses are reduced under these programs just as gains are limited.

Much as with market rate homeownership, gains and losses are much bigger for those who sell in a few years, and more predictable and more likely to represent a modest gain for those who stay in the homes for longer.



CASE STUDY

Northern Communities Land Trust: Michael and Charlotte Karsh

When Michael and Charlotte Karsh's children were small they began to look for a home to buy. They were renting month to month, and they wanted something more settled, something with a yard, nearer to the parks where their children liked to play. They wanted to stay in their general neighborhood, but there was nothing there they could afford. To buy a house it looked like they would have to move to the far west end of Duluth, far away from Michael's work and Charlotte's grad school. The kids would have had to switch schools and the family would have had to get a second car or spend hours on buses, making the prospect of buying a home even more out of reach.

Through the Northern Communities Land Trust's Homeland program, however, the Karshes were able to find a home in their neighborhood that fit the bill. It was, says Michael, fantastically affordable, and near "all the things important to us," allowing him to walk the kids to preschool and snowshoe to work in the winter. "We were able to do things in our lives with ease, lack of stress—those intangibles made significant contributions to our family's quality of life," he says. They put the money they saved on housing into Charlotte's progress toward a degree in social work.

To the Karshes, being a land trust homeowner felt distinctly different than renting. They were reassured by the predictability of their costs and knowing they would be able to stay as long as they wanted to. "We became pretty good

friends with our neighbors," says Michael. "It's a different experience when you know you're going to be next to someone, maybe for a decade. That settledness was a big piece for us." Being gardeners, they put a lot of effort into transforming the "wasteland" of a yard into a pleasant place to spend time, and improved the house as well, often turning to the land trust for referrals to good contractors. Charlotte served on NCLT's board for nine years, and as president for two.

Michael says they would probably still be in their land trust home if his mother-in-law had not wanted to sell her home to a family member when she moved into assisted living. After 10 years, they had built enough equity through the land trust to be able to buy in a more expensive neighborhood, make some repairs to the new house, and pay off credit card debt, putting themselves in a better cash flow situation even with a bigger mortgage payment.

Michael still talks up the land trust and is excited that several of his coworkers have become NCLT owners as well. The CLT ownership model was, from beginning to end, "a trade off worth making," he says.



Moving on and Moving Up

Do buyers of affordable homes become trapped in these homes, or are they able to move out and into traditional homeownership?

One of the most difficult questions in the asset-building field is “How much wealth is enough?” How much wealth creation is necessary to be transformative—to lift someone out of poverty, to stabilize someone in hard times, or to enable someone to access the housing market unassisted?

There’s no fixed number, but the results from these long-term affordable homeownership programs suggest that windfall profits on rapidly appreciating homes aren’t necessary. The modest level of asset-building that these programs offer is enough to support sustained homeownership and give households who originally couldn’t access the wider housing market the means to move on to buy a market-rate home.

As part of their research, the Urban Institute surveyed those who had sold affordable homes that they had purchased through one of these programs. Of the four programs that participated in the questionnaire, a significant majority of sellers went on to buy owner-occupied market-rate housing without any further public subsidy. Boulder had the highest rate, with 78 percent of sellers using their affordable unit as a stepping stone to market-rate homeownership.⁷

Concerns that some people have expressed about affordable homeownership programs locking homeowners to a particular property and keeping them from moving up the housing ladder were not borne out by the study. The annual turnover rate for the programs studied—5.5 to 8.6 percent—was comparable to national turnover rates for first-time single-family homeowners in the first 10 years of ownership.

In most of the programs, those who moved left for the same reasons that market-rate homeowners moved—change in marital status or job-related issues, rather than dissatisfaction with their house or neighborhood.

CASE STUDY

Thistle CLT: Essrea Cherin

Essrea Cherin never expected to become a homeowner. As a single mother, working and going to school in Boulder, Colorado, she knew the only homes for sale she would be able to afford were far from the city, and were not walkable or bikeable, where buses rarely ran to her work and school. It wasn't worth it to her.

And yet, renting bothered her. She didn't like the idea of building up someone else's equity with every rent payment. And she couldn't even afford to rent her own place, but the pressures and politics of shared living, on top of the demands of being a parent, student, and employee, were overwhelming her.

So when she heard about a colleague, whom she knew made no more than she did, buying a home in Boulder, she was shocked, and curious. Her colleague had purchased through Thistle Community Land Trust. "It was a huge awakening," says Essrea, to think that she might be able to purchase a home too and she started the process immediately.

She set her sights on the newly built Buena Vista community, which consisted of 57 townhomes, condos, and single-family homes, 49 of which are permanently affordable through Thistle. Essrea liked the prospect of being around neighbors who had benefited from the same program. She also really liked the central common green space, since her son was three at the time. It was close to his school, and to two bus lines.

In 2000 she moved in. "It was a huge relief to have my own place for the first time in my adult life," she recalls. Thistle checked in on her from time to time, and helped her market the home when she later sold it. She did voluntarily forgo a capital improvement credit she could have applied for on the 35 sq. feet of space she added because she didn't want to bother getting appraisals before and after (since then a new Thistle procedure only requires one appraisal for the credit). "I didn't mind," says Essrea. "I just wanted the space."

Essrea sold her Thistle home after nine years, when she decided to move in with a partner. Though she had built enough equity (through principal payments and receiving 18 percent of her home's \$71,000 appreciation) to purchase a market-rate townhome, her partner prefers a detached house and they are currently renting as they look for a place that meets both of their needs and their budget.

"It really struck me," says Essrea, "that a lot of my neighbors [at Buena Vista] worked at the local university in staff positions, were teachers in public schools, or nurses, or fire fighters. The people who are homeowners here are serving the community of Boulder. Without programs like this, the people serving the community couldn't afford to own. I was surprised to learn that programs like this weren't more common, weren't in every city. They're so essential."



Safe at Home

Do these programs offer greater stability for owners and neighborhoods by preventing foreclosures?

Being a homeowner is challenging. Unexpected repairs or maintenance needs can wreak financial havoc for those with tight budgets and little savings. Selling a home is more difficult and time-consuming than leaving a rental unit for owners who face drops in income from things like unemployment, health problems, or divorce. It's especially hard if the home has decreased in value. And, as we know all too well after the past few years, mortgages themselves, if made with predatory or unsustainable features or badly underwritten, become financial time bombs.

So it is not surprising that previous studies have found that about half of all low-income people who become homeowners are no longer homeowners five years later.⁸ Such statistics help us see that standard programs to help low-income people build assets through homeownership are having less success than their purchase rates would suggest, especially since leaving homeownership through foreclosure or short sale can leave a household worse off than it started.

But the experiences of owners in the affordable homeownership programs in this study tell a markedly different story. At the three sites able to provide data about the percentages of their owners who remained owners after five years, the results are dramatic: 91 to 95 percent of buyers were still homeowners five years later, whether in the program or in the conventional housing market.

These programs achieve this security in several ways. First, because they are involved in the initial purchase, and often require homeownership education and other related services, very few owners in the programs end up with high-cost loans or houses they can't afford. All of the buyers in these programs were able to purchase at reduced prices that ensured that their housing costs amounted to no more than 35 percent of their income. None of the participants in the programs studied had prepayment penalties, for example, and their rates of high-cost loans were 3 to 35 percent the rates of their surrounding areas.

Often the sponsoring organizations stay involved after the purchase as well, encouraging purchasers to come to them when they run into financial problems and helping them with emergency repairs, payment plans, rehab loans, and budget counseling. Some of the programs have the right to receive notice when a homeowner defaults on their mortgage and the right to step in

to cure a default before it leads to foreclosure. Whether or not they have this legal right, these programs are often able to help owners refinance or otherwise restructure their financing in order to avoid foreclosures. This commitment to a proactive, long-term approach to preserving the quality and affordability of the homes in their programs is known as “stewardship.”

Stewardship works. Despite the much lower median incomes of their owners, the homeownership programs studied had delinquency and foreclosure rates that were either similar to or significantly lower than their surrounding county averages (see table).

	Arch (King County)	Champlain Housing Trust (Burlington)	Citywide Inclusionary Affordable Housing Program (San Fran)	Dos Pinos (Davis)	NCLT (Duluth)	Thistle Homes (Boulder)	Wildwood Park (Atlanta)
% Currently seriously delinquent	0.4%	1.6%	n/av	0.0%	2.7%	1.0%	0.0%
% Currently seriously delinquent in county	3.8%	1.4%	n/ap	6.6%	2.5%	2.0%	8.3%
% Currently in foreclosure	0.4%	0.5%	n/av	0.0%	1.1%	0.0%	0.0%
% Currently in foreclosure in county	1.2%	1.0%	n/ap	3.4%	4.4%	1.1%	5.6%
% Ever in foreclosure	0.6%	2.2%	n/av	0.0%	3.0%	0.6%	0.0%
Number of units lost from program due to foreclosure	1	0	0	0	0	1	0
% Remaining homeowners after five years	n/av	91.8	n/av	n/av	95.0%	91.2%	n/av

CASE STUDY

ARCH: Renae and Dryke Martin

“We were always worried that our landlord was going to sell,” says Renae Martin, describing why she wanted to own her own home. “I didn’t want to start a family when things felt that uncertain.”

The Martins learned about ARCH’s deed-restricted housing program from friends who were planning to sell their ARCH home. They got pre-approved for a mortgage and then the friends decided not to sell after all. Their mortgage broker, recalls Renae, was very aggressive, saying, “There are plenty of other homes you can afford!” But that was with what the broker thought they could afford, she says, with adjustable rate mortgages and balloon payments, and the houses were all fixer-uppers. “I didn’t feel comfortable with that, with student loans, and the possibility of having to pay for a roof,” she says. Looking back, she says she feels like they dodged a bullet by not getting sucked into the loan terms being offered.

But a few years later, when another ARCH home came up for sale at a price that did make sense for them, they went for it. Two years after that, having just had a baby, they sold that small two-bedroom cottage and bought their neighbor’s larger house, also an ARCH program home.

Renae says the shared-equity component of the program never worried her. “It feels fair,” she says. “We’re getting a good deal now; we shouldn’t be able to later profit in spades. It would make it harder for someone else.

Anyway, she adds, “while we can’t expect to get a huge windfall, the home does increase in value in accordance with the other homes in the area. We’re not going to lose.”

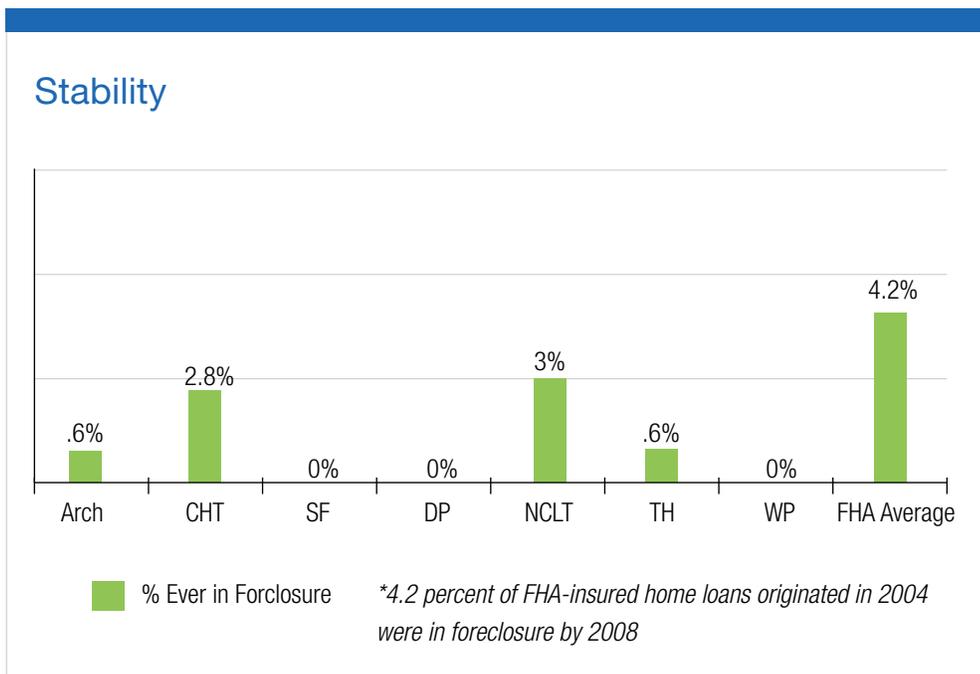
And in the meantime they are living in an area that seems to her to be the best of both worlds. “Our small development includes ARCH homes, market-rate homes, two low-income apartment complexes and a senior apartment complex,” says Renae. “There are several older ladies who walk by our home each day and stop to talk to my children. The development itself seems to appeal to recent immigrants—on our street we have neighbors who are from Croatia, China, and Mongolia. Many of the other homes are owned by Microsoft employees who are typically higher-income younger couples. For Woodinville, that kind of diversity is fairly unusual, so it’s really nice to see.”

Woodinville has great schools and great parks and the location gives them tolerable 20- to 45-minute commutes. “I know people who routinely commute an hour and a half because they can’t afford housing near the Bellevue/Seattle area,” she says.

The Martins expect to stay where they are for the long term. “We rented for 12 years before we could buy our own home,” says Renae. “We’re very happy here and this is a really wonderful program.”

These low foreclosure rates indicate that these programs were able to offer homeownership to low-income and low-wealth households without requiring those families to take on additional financial risk. These buyers faced no greater risk of foreclosure than the average homebuyer and far less than the typical lower income buyer faces.

For comparison, a full 15 percent of FHA loans originated in 2004 had been delinquent at some point by 2008, and 4.2 percent of them were in foreclosure.





Balancing Act

Affordability and Wealth Creation

Affordable homeownership programs maintain long-term affordability by limiting the price appreciation that buyers can realize—but they do allow owners to realize meaningful gains, whether a fixed increase or a percentage of the market price appreciation.

How these appreciation formulas are constructed and how they interact with changing home prices and interest rates have a lot to do with how much equity owners accumulate versus just how affordable homes remain.

Formulas that give owners a larger percentage of the appreciation lead to increases in the minimum income required to buy a property. ARCH, for example, allows owners to keep 100 percent of the appreciation on their homes—their owners built the most equity of all the programs, but on resale the minimum income needed to purchase an ARCH home had increased by more than 10 percent for 66 percent of their units.

On the other hand, under formulas like San Francisco used before 2007, which limit resale prices to be affordable to those making 100 percent of area median income, when prices and interest rates rise, many units must be resold for less than their original purchase price. Owners in the program have a lower rate of return on their investments—an average of 11.3 percent as compared to 60 percent for ARCH—but it maintains stronger affordability, with the minimum income to purchase increasing by more than 10 percent for only 26 percent of resales.

No one formula seems to be perfect for every circumstance. But the study showed that these programs were able to respond in a timely manner when they found that their affordability formulas were not generating the right balance between asset building and affordability. ARCH initially based its formula on changes in the area's housing prices, but when they noticed that rapid price increases were eroding affordability they switched to a formula that ties resale prices to the average of the change in area housing prices and the change in the area median income. San Francisco, on the other hand, was using a formula that preserved affordability perfectly but resulted in too little appreciation for owners. In order to offer more predictable asset-building opportunities, they switched to a formula that tied prices to the change in the area median income.

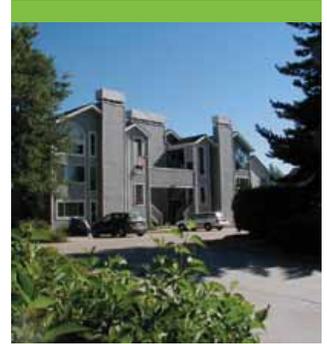
Mobility and Stability

Traditional homeownership can tie owners to a depreciating property or destabilize them through foreclosure. Low-cost rentals sometimes offer unstable housing as well. Efforts to reduce high-cost and predatory loans and to cure delinquencies increase stability in affordable homeownership programs, while the below-market costs, assets built, and sales assistance from the programs keep families mobile when they are ready to move on.

A Model that Works

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.



Endnotes

¹ Caner, A., and E. N Wolff. "Asset Poverty in the United States: Its Persistence in an Expansionary Economy." Public Policy Brief 76 (2004): n. pag. Print.

² Herbert, Chris and Belsky, Eric. "The Homeownership Experience of Low-income and Minority Households: A Review and Synthesis of the Literature." Cityscape 10 (2), 2008; and <http://frpo.org/Document/Topics&Issues/Renting%20vs.%20Owning/Achieving%20American%20Dream%20Katz%20Reid.pdf>.

³ Common names include "below market rate homeownership," "permanently affordable ownership," "limited-equity homeownership," and "shared-equity homeownership." (See John E. Davis, Shared Equity Homeownership: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing, National Housing Institute, 2006, http://www.nhi.org/research/522/shared_equity_homeownership/)

⁴ All references to percent of median income, unless otherwise specified, refer to the median family income for the metropolitan area.

⁵ San Francisco's homes remained affordable to buyers earning exactly the same inflation-adjusted household income, but at resale this level of income technically represented a higher percentage of median (as shown in the graph), due a change in HUD's calculation that lowered the official area median family income.

⁶ In the one exception, Dos Pinos Cooperative, members didn't finance their share purchases, and share prices increased very slowly.

⁷ Paul Emrath, "How Long Buyers Stay in Their Homes," National Association of Homebuilders, 2009, table 2. <http://www.nahb.org/generic.aspx?sectionID=734&genericContentID=110770&channelID=311>.

⁸ Chris Herbert and Eric Belsky. "The Homeownership Experience of Low-income and Minority Households: A Review and Synthesis of the Literature." Cityscape 10 (2), 2008; and <http://frpo.org/Document/Topics&Issues/Renting%20vs.%20Owning/Achieving%20American%20Dream%20Katz%20Reid.pdf>.



The Cornerstone Partnership is a peer network for homeownership programs that preserve long-term affordability and community stability, helping more hard-working people buy homes today, maintain those homes and keep them affordable

in the future. The Cornerstone Partnership is a program of NCB Capital Impact. For more information, visit our website at

www.affordableownership.org