CITY OF MINNEAPOLIS

Shared Equity Homeownership

An analysis of resale restricted deed models as tools to promote long-term affordable housing

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August 2, 2017

What is Shared Equity Homeownership?

The Core Features

Owner-occupancy of residential property

Fair allocation of equity between generations of lower income homeowners

Sharing of rights, responsibilities & benefits of property between homeowners and the interests of a larger community

The Different Forms

CITY OF LAKES COMMUNITY LAND TRUST

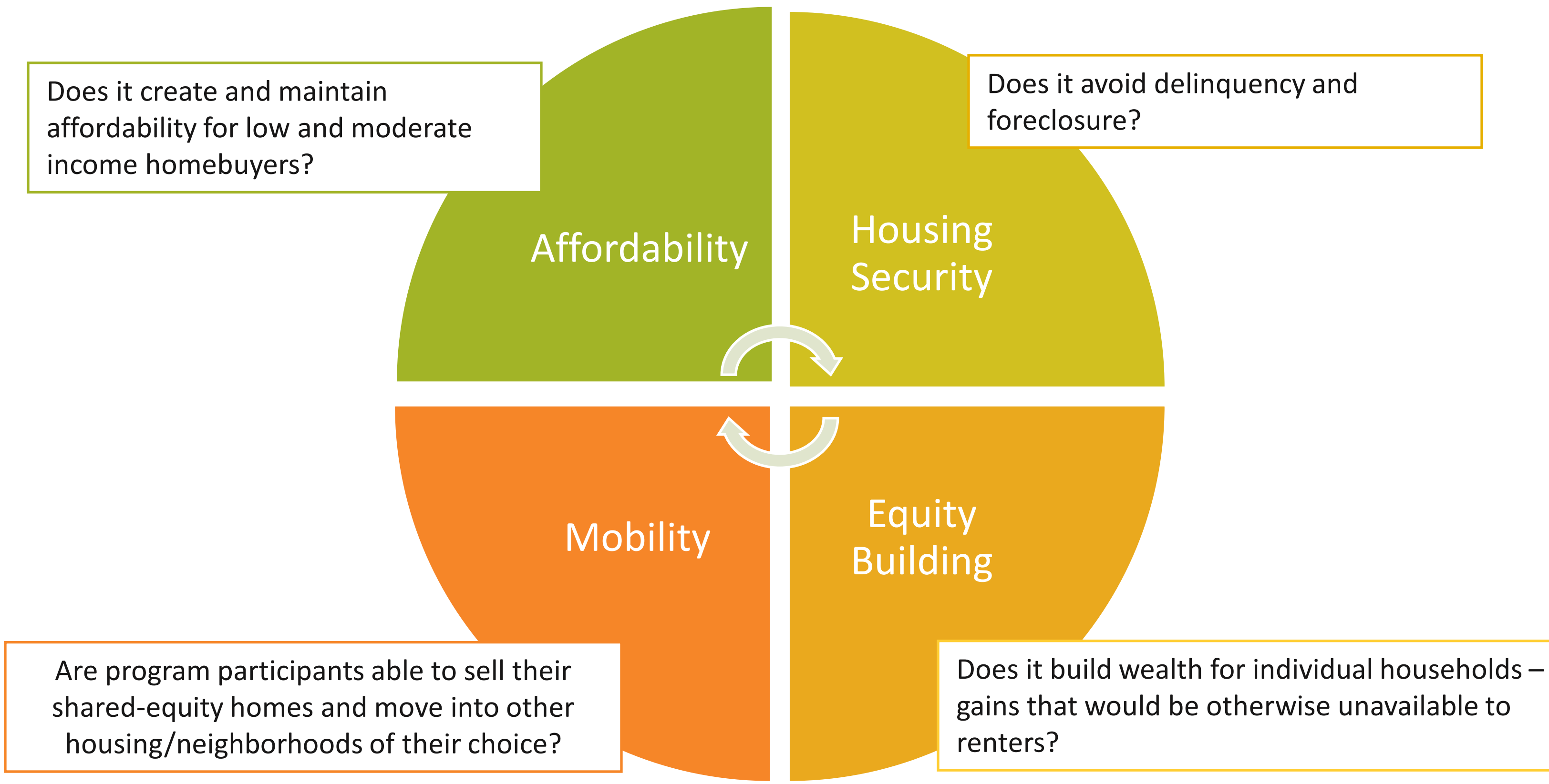
Community Land Trust

Limited Equity Cooperatives

NOKOMIS SQUARE COOPERATIVE

Deed Restricted Housing

Principles of Evaluation



Methodology

Research different cities' resale restricted LTA programs.

Compare different resale formulas using Minneapolis-specific data.

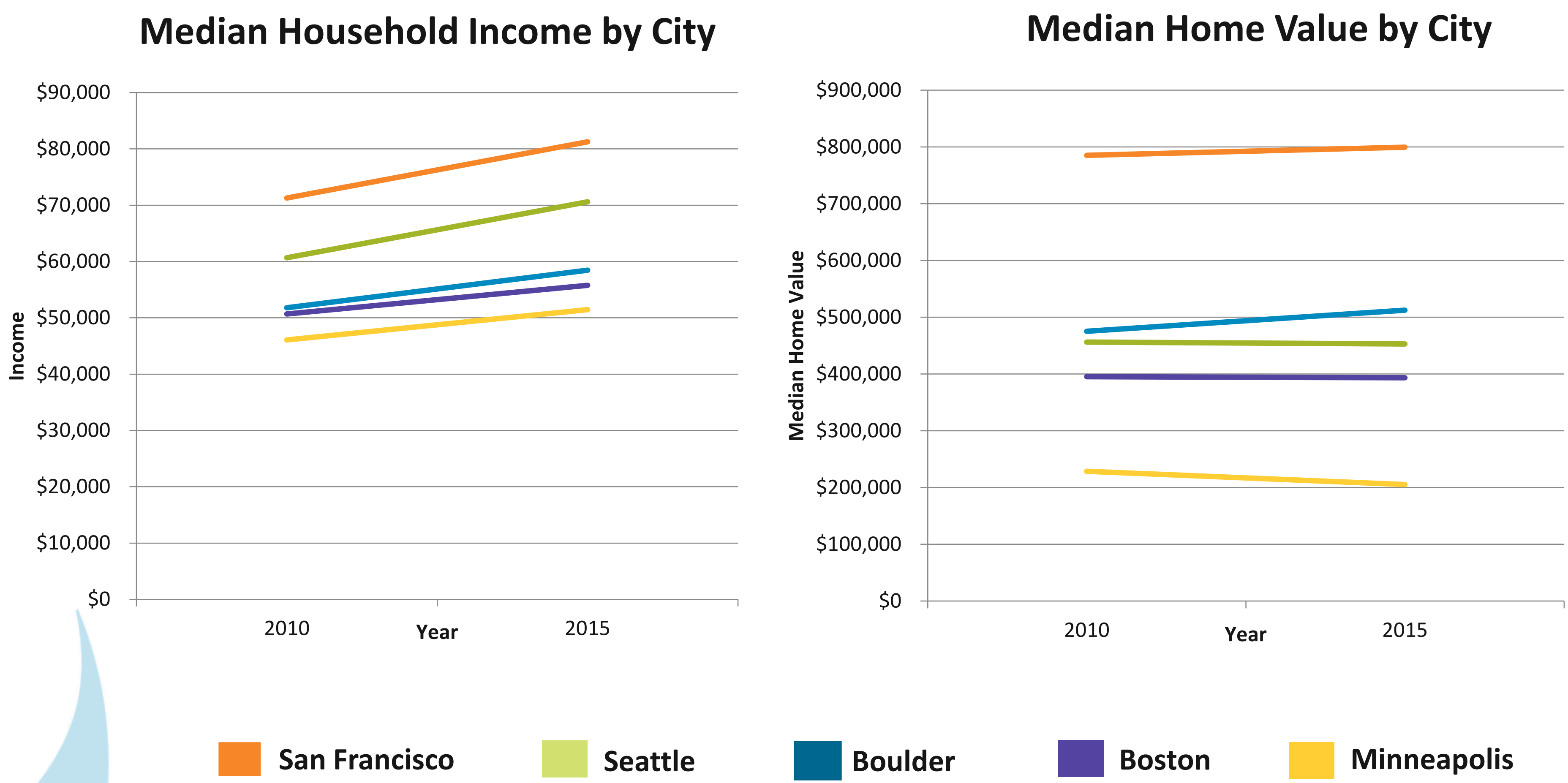
Analyze how each formula impacts the four principles, primarily affordability and equity.

- Boulder, Colorado
- King County, Washington
- Boston, Massachusetts
- San Francisco, California

- Compare how formulas impact resale price in upward and downward trending housing market periods (2006-11 and 2011-16)
- Compare formulas using data at 3 different geographic scales
  - HUD 13-county
  - City of Minneapolis
  - North Minneapolis

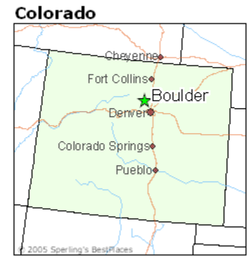
- Assess the return on investment/equity built from original purchase price to resale
- Assess the affordability of home price over time from original purchase price to resale
- Analyze the difference in price changes between formula-determined prices and market rate prices

Housing Markets in Context

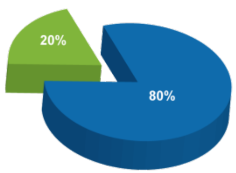


Data from the US Census, collected from PolicyMap.com

Boulder, Colorado



Boulder's Inclusionary Zoning Regulations



- **20%** of units in any newly constructed residential project of 5+ units must be permanently affordable for households earning ≤ 80% Boulder median income

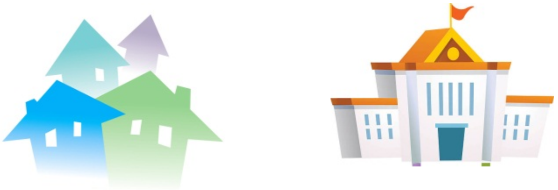
- Gives developers the option to provide off-site permanently affordable units or to make **an in-lieu-of-production** cash contribution to the City's housing trust fund.
  - $1.5 million collected from these payments from 50 developers.

HomeWorks Inclusionary Housing

- Homeowners must occupy the property as their primary residence
- Restricts property's resale price through a "Permanently Affordable Housing Covenant"

- The City is the mortgagee – homeowners cannot transfer, finance, or refinance their properties without City approval
- City gets first option to purchase every HomeWorks property

HomeWorks Inclusionary Housing



Administering the Model

Developer Compliance

- Monitor performance of residential developers in meeting their inclusionary obligations

Marketing & Resales

- Municipal staff monitor sale/resale of HomeWorks properties, verifying buyer eligibility, calculating resale formula, overseeing marketing, and running bidding lottery system

Asset Management

- Oversee owner-initiated capital improvements, refinancing, and the preparation of annual compliance letters and annual resale price notices

Financing Affordability

(Includes both rental & homeownership units)

8/10 of 1% of property tax

+

Housing excise tax on new residential & commercial development

→

$1 million for Boulder Community Housing Assistance Program

+

$15 million in Colorado Housing Trust Fund

Evaluating the Model

380 affordable homes constructed since 2000

Sell between **$112,000** and **$185,000**

No HomeWorks property has ever been lost to the market; **all remain affordable**

On average, families **recover 18%** of the market appreciation when they sell

Formula 1: Boulder, Colorado

(Original Purchase Price) (OPP) + **Year 1** OPP x % change CPI or AMI (whichever is less) + **Year 2** OPP x % change CPI or AMI (whichever is less) + **Year 3** OPP x % change CPI or AMI (whichever is less) + …

Calculating the Yearly Appreciation Credit

- Multiply the Original Purchase Price with the % change in AMI or CPI, whichever is less, calculated for each year of homeownership.
- **The maximum increase for any given year is 3.5% and the minimum increase is 1.0%.**

2011 AMI	$82,700.00
2012 AMI	$83,900.00
% Change AMI	1.4%
2011 CPI	224.9
2012 CPI	229.6
% Change CPI	2.1%
2011-12 Appreciation Credit	**1.4%**

Additional Variables:

- Add the cost of approved Capital Improvements up to the time of listing the home for sale.
- Deduct the amount of any excessive damage discovered during inspection that the owner is unwilling to repair.
- Add the amount of sale commission paid by the Owner.

Formula 1: Boulder, Colorado

($142,000) +
(2011 OPP)

Year 1
$142,000 x 1.4%
= $3,258

+

Year 2
$142,000 x 1.5%
= $3,324

+

Year 3
$142,000 x 1.6%
= $3,565

+ ...

2016 Resale Price = $151,635.65

Calculating the Yearly Appreciation Credit

- For each year of homeownership, multiply the Original Purchase Price with the % change AMI or CPI of that one specific year, whichever value is less.
- **The maximum increase for any given year is 3.5% and the minimum increase is 1.0%.**

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King County, Washington

A Regional Coalition for Housing (ARCH)

- Municipally funded, multi-jurisdictional agency serving a high growth area immediately east to Seattle
- Created in 1992, it is a voluntary coalition of 15 cities in eastern King County
- Creation was a result of the County setting the high target of housing affordability at 40% of projected housing growth being affordable

Regional Housing Trust Fund

- Provides subsidies for the development of moderately priced homes to achieve a geographic balance of affordable housing throughout county
- Some homes created through regulatory powers of ARCH members (inclusionary zoning, density bonuses)
- ARCH homes reserved for households earning ≤80% AMI

A Regional Coalition for Housing (ARCH)

 

Administering the Model

Sale Approval
- Approves both the purchase price and eligibility of the buyer

Resale Facilitation
- Does *not* repurchase the home itself
- Facilitate confirmation of income eligibility as part of paperwork process

Emergency Support
- After 30 years, all controls lapse and any excess proceeds are claimed by city & placed in Housing Trust Fund
- Same process occurs during foreclosure cases; City & ARCH buy back the property, giving homeowner same equity as would have received

Financing Affordability

(Includes both rental & homeownership units)

$30 Million

in Regional Housing Trust Fund

Community Development Block Grant (received by HUD or the state)

+

11 ARCH cities' own funds raised locally

Evaluating the Model

Over **600** affordable homes created since 1992

Lost approx. **20-30 homes** during recession, but City bought back many of these foreclosed homes

Some difficulty working within **FHA guidelines** under a resale-restricted model

Simple administration process; requires only **2 staff members** to coordinate the program

Formula 2: King County, Washington

$$(\text{Original Purchase Price}) + \left(\text{Original Purchase Price} * \left(\frac{\%\ \text{Change AMI} + \%\ \text{Increase in Average Sales Price}}{2}\right)\right)$$

Calculating the Appreciation Factor

- Based on the average of:
  - Increase in Median Income, as published by HUD
  - Increase in the Average Sales Price of Single Family & Condominium Resales
- ***The % increase in Average Sales Price will always be a positive value.***
  - Should the Sales Price decrease, 0% will be the value inputted for this variable.

2011 AMI	$82,700
2016 AMI	$85,800
% Change AMI	3.7%
2011 Median Sales Price	$167,000
2016 Median Sales Price	$251,000
% Change Sales Price	50.3%
Appreciation Factor	(3.7% + 50.3%)/2 **27%**

Additional Variables:

- Add incurred home improvement expenses
- Deduct compensation for deferred maintenance costs

Formula 2: King County, Washington

$$(\$142{,}000) + (\$142{,}000) * \left(\frac{3.7\% + 50.3\%}{2}\right)) = \$180{,}374$$

Calculating the Appreciation Factor

- Based on the average of:
  - Increase in Median Income, as published by HUD
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Appreciation Factor	(3.7% + 50.3%)/2 **27%**

Additional Variables:

- Add incurred home improvement expenses
- Deduct compensation for deferred maintenance costs

Massachusetts

MA Comprehensive Permit (Chapter 40B)

- MA law that allows developers to **bypass land-use restrictions** in town where <10% of the housing meets the state's definition of affordable

- Developers who set aside a quarter of their units for low/moderate income residents can receive **exemptions and subsidized loans**

Local Initiative Program (LIP)

- Provides technical assistance to facilitate Chapter 40B developments and locally produced affordable units

- Allows communities to work cooperatively with developers to create affordable housing w/o state and federal financial resources
- Administered by the state's Department of Housing and Community Development (DHCD)

Local Initiative Program (LIP)

Administering the Model

To become part of DHCD's Subsidized Housing Inventory, municipality submits an application with the developer to DHCD.

When the homeowner is ready to sell their house, a Monitoring Agent from DHCD performs resale calculations for the property.

DHDC contracts a third party resale agent to coordinate marketing with the seller.

Monitoring Agent reviews all final sales, including buyer eligibility. Closing attorney provides Seller and Buyer with all necessary documents.

Staff allotment:

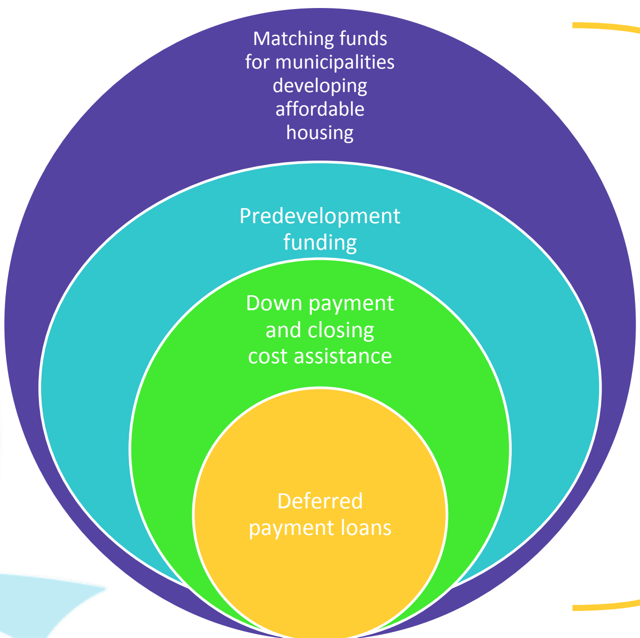
- One dedicated full-time LIP coordinator
- Two DHCD staff persons
- One closing attorney

Financing Affordability

(Includes both rental & homeownership units)

No direct funding for LIP, but the resale restriction tool provides technical support for the creation of affordable housing units funded through the:

Massachusetts Affordable Housing Trust Fund



$35 million

Evaluating the Model

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Several homes foreclosed during recession

Older resale formula did not maintain affordability

\+

Administers 1,000 units since 1980s

Updated resale formula - homes are sustainably affordable and expected to remain

* Older formula was indexed to amount of subsidy received, revised formula indexed to % change AMI

Formula 3: Massachusetts

$$(\text{Current AMI}) \quad * \quad \left(\frac{\text{Original Purchase Price}}{\text{Base Income Number}} \right)$$

Calculating the Formula:

- Divide the original purchase price of the house by the Base Income Number at the time of initial sale and multiply by the current AMI
  - **The Base Income Number is defined as *the income for a 4-person household at 100% AMI*, determined by HUD guidelines**

Additional Variables:

- Sales prices are set so a household earning 70% of AMI would have to pay no more than 30% of their income for housing
- Housing costs *not* factored into the formula include: condo fees, property taxes, insurance, mortgage fees, etc.
- A maximum of 70% of units may be local preference units for those who have a connection to the community (as defined by community)

2016 AMI (Current AMI)	$85,800
Original Purchase Price	$142,000
2011 AMI (Base Income Number)	$82,700

Formula 3: Massachusetts

$$(\$85{,}800) * \left(\frac{\$142{,}000}{\$82{,}700} \right) = \$147{,}322$$

Calculating the Formula:

- Divide the original purchase price of the house by the Base Income Number at the time of initial sale and multiply by the current AMI
    - **The Base Income Number is defined as *the income for a 4-person household at 100% AMI*, determined by HUD guidelines**

Additional Variables:

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2016 AMI (Current AMI)	$85,800
Original Purchase Price	$142,000
2011 AMI (Base Income Number)	$82,700

San Francisco, California

Section 415: Below Market Rate (BMR) Program

- Requires new private housing developments with 10 or more units to pay a fee or include in the project a selection of affordable units (BMR units)
- To comply, developers can choose one of the following options:
  - **Affordable Housing Fee:** Calculated based on # of units in the project & estimated affordability gap
  - **On-Site Units:** Up to 12% of total units on-site must be affordable
  - **Off-Site Units:** Build off-site affordable units at 20% of total principal project
  - **Combination:** Any combination of the above options
- **Fee Deferral Program:** As a revision to the Inclusionary Affordable Housing Ordinance, it allows developers to defer a number of development impact fees, including 80-85% of affordable housing fees.

Section 415: Below Market Rate (BMR) Program

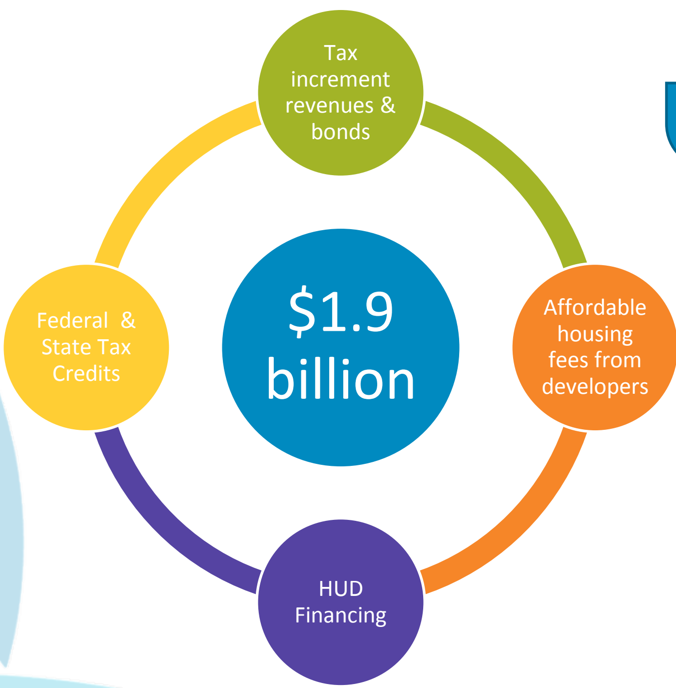
Administering the Model

MOHCD
- Implements inclusionary housing program
- Tracks properties
- Determines fee levels
- Monitors marketing and sale of BMR units

City Planning
- Implements permitting and approval of units that fall under policy after developments are constructed
- Enforces Inclusionary Zoning Ordinance

Realtor
- Contracted by BMR owner to list BMR unit on MOHCD listing server
- Markets the unit and provides MOHCD with a list of applicants for public lottery
- Works with lottery winner to secure a loan and close

Financing Affordability
(Includes both rental & homeownership units)



Evaluating the Model

- Robust resale monitoring process among owner-occupied housing

- Less robust process for renter-occupied housing → many vacancies
- More developers choosing to pay the fee changes the type of housing that's constructed & delays city use of revenue
- Falls short of low & moderate income housing goals

Formula 4: San Francisco

(Original Purchase Price) + (% change AMI * Original Purchase Price)

or

(Original Purchase Price) + (% change CPI * Original Purchase Price)

Formulas Different Across Deeds:

- Most re-sale units purchased before 2007 are repriced according to either the % change in CPI or a formula using the 11th District Cost of Funds Index (not included here).
- Recently purchased units use a resale formula indexed to % change in AMI.

Additional Variables:

- The cost for **capital improvements** and **sales commission** are also added onto the resale price.
- Units are resold at a restricted price to a household that meets the **first-time homebuyer** and **income qualifications** of the program.
- Most units are repriced at a level affordable to households earning **90% or 100% of AMI**.

2011 AMI	$82,700
2016 AMI	$85,800
% Change AMI	3.7%

2011 CPI	224.9
2016 CPI	240
% Change CPI	6.7%

Formula 4: San Francisco

($142,000) + (3.7% * $142,000) = $147,333

or

($142,000) + (6.7% * $142,000) = $151,534

Formulas Different Across Deeds:

- Most re-sale units purchased before 2007 are repriced according to either the % change in CPI or a formula using the 11th District Cost of Funds Index (not included here).
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Shared Homeownership in the UK

Shared Ownership (New Build HomeBuy)

- Mortgage for 25-75% of the property
- Rent at an "affordable rate" and pay service charges to landlord for the remaining share

Simultaneously own and rent your home

If age 55 or over, once you own 75% of your home you won't pay rent on the rest.

- Option to buy additional shares and 'staircase' up to full ownership

Of the estimated **145,000** shared ownership properties sold in England, **27,908** have been staircased to a level of 100% since 2001.

- Properties are sold and bought through government-sponsored housing associations across UK

About 200,000 UK households live in shared ownership homes.

- Eligible homebuyers must earn £80,000 a year or less (£90,000 if you're in London)

The average incomes of first-time buyer shared owners in 2015-16 were £45,000 in London, and £24,000-£34,000 in the rest of the country.

Shared Homeownership in the UK

Shared Equity (Open Market HomeBuy)

Take an "equity loan" on part of the property and a conventional mortgage on the rest

- **OwnHome:** Take up to 40% of property value in an equity loan; pay nothing for first 5 years, then interest gradually increases
- **MyChoiceHomeBuy:** 50% the value of the property as an equity loan; split half of equity made upon resale with loan provider

Loans given through a private-public partnership. I.e. Yorkshire Building Society offers a 15% equity loan & Government offers a 17.5% equity loan.

Own 100% of the property and make any capital improvements as you wish

Launched in October 2006, program has helped 2,000 first-time buyers on to the property ladder.

Do not need to sell or buy into the housing association's roster

Not all are qualified to receive shared equity loans, however – must be housing association tenant, a key work (ie. Public sector), or on waiting list for social housing

Applying Minneapolis Data

Inputted Minneapolis-specific data into each city resale formula

(For N. Minneapolis data, I needed to project yearly changes in AMI based off of the % change in AMI from HUD data)

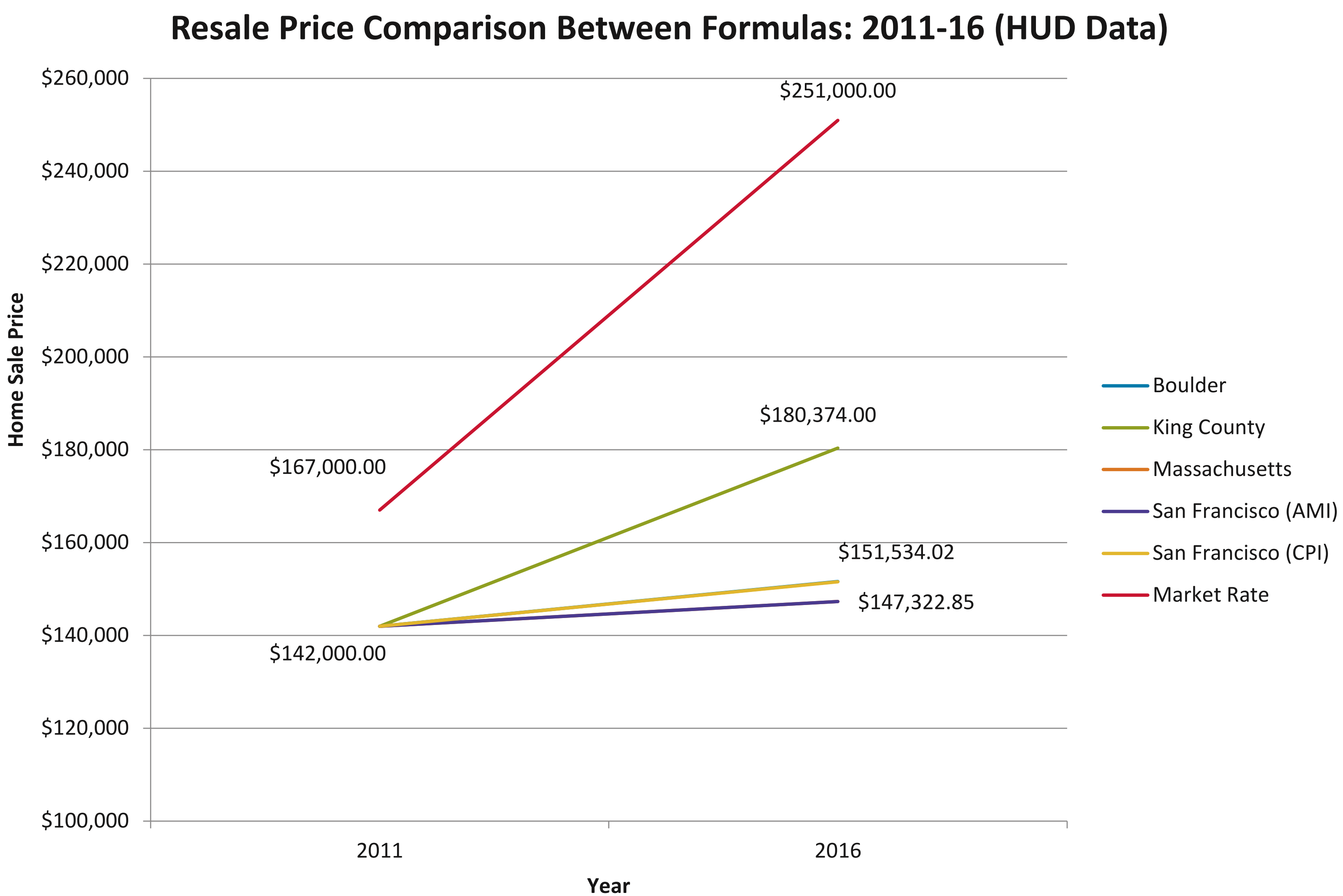
Used 3 different sets of geographic data:

- 13-county HUD
- City of Minneapolis
- North Minneapolis

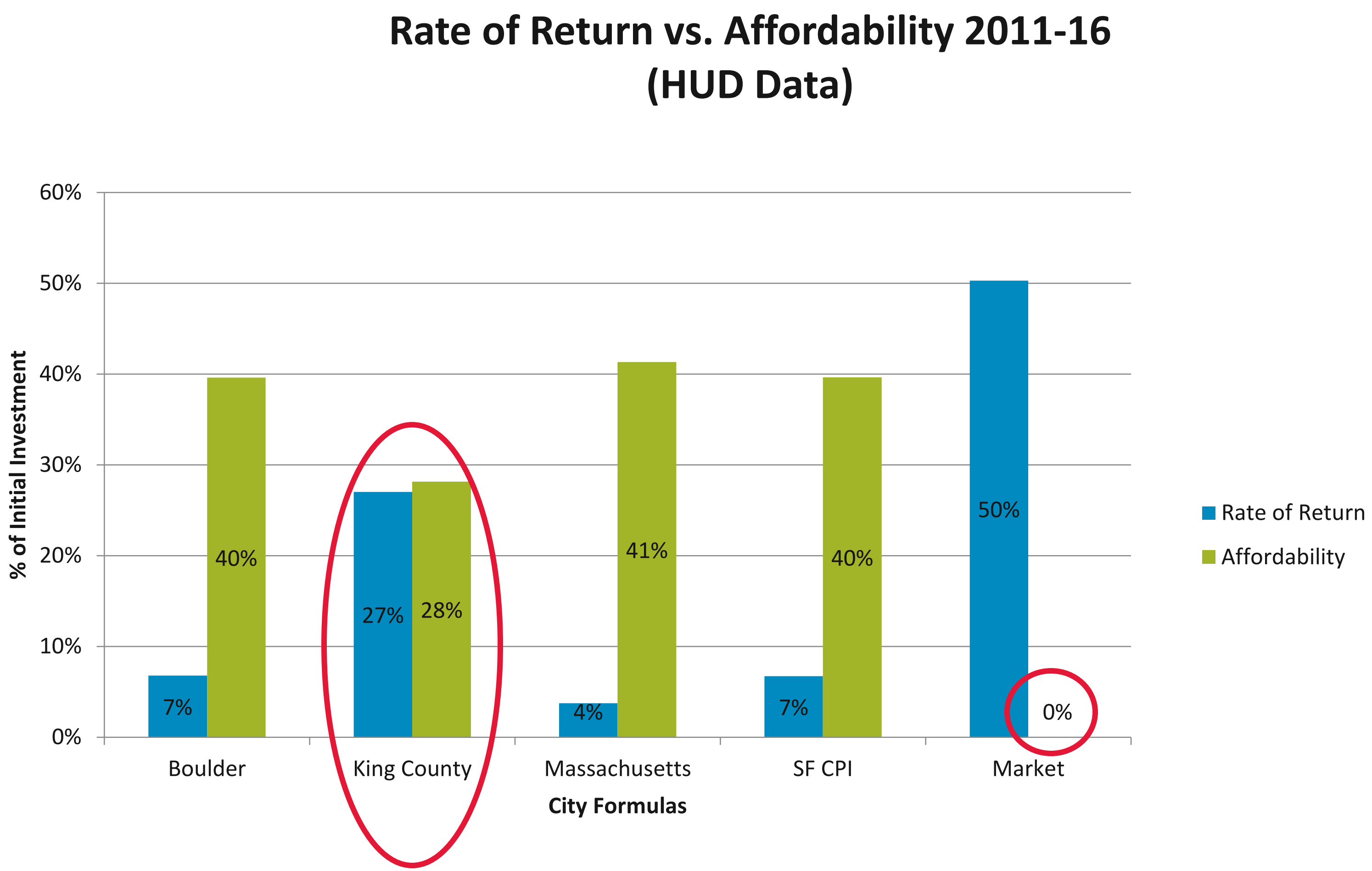
Inputted data for two time periods to show how the formula would respond in both an appreciating (2011-2016) and depreciating (2006-2011) market

Original Purchase Price (OPP): Assuming that the government subsidy for each affordable unit was $25,000, the OPP was calculated by subtracting $25,000 from the Median Home Value at the time of initial purchase

Applying Minneapolis Data

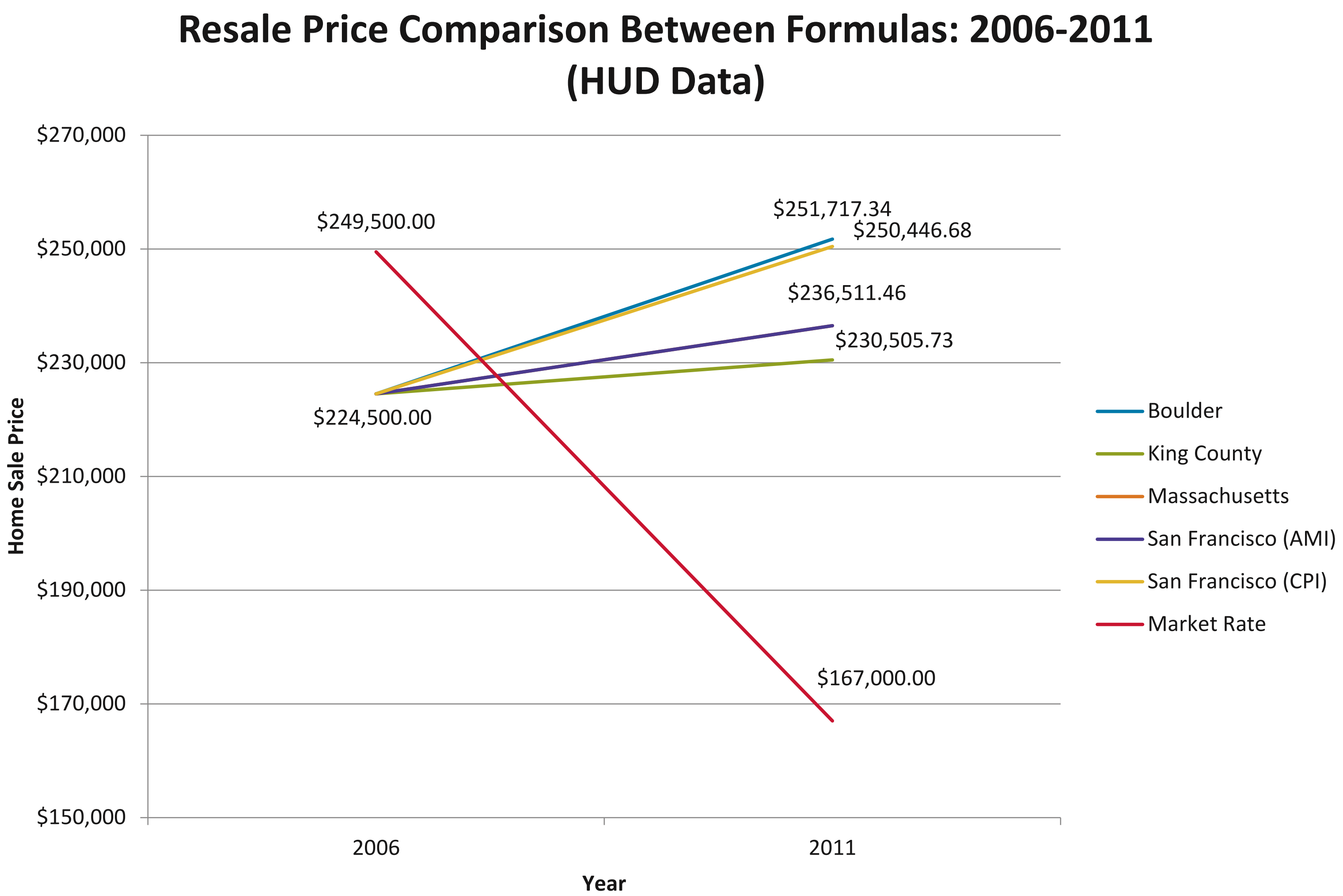


Applying Minneapolis Data



Rate of Return: (Difference Between OPP and Resale Price) / OPP
Affordability: 100% - (Resale Price/Appraised Market Price)

Applying Minneapolis Data



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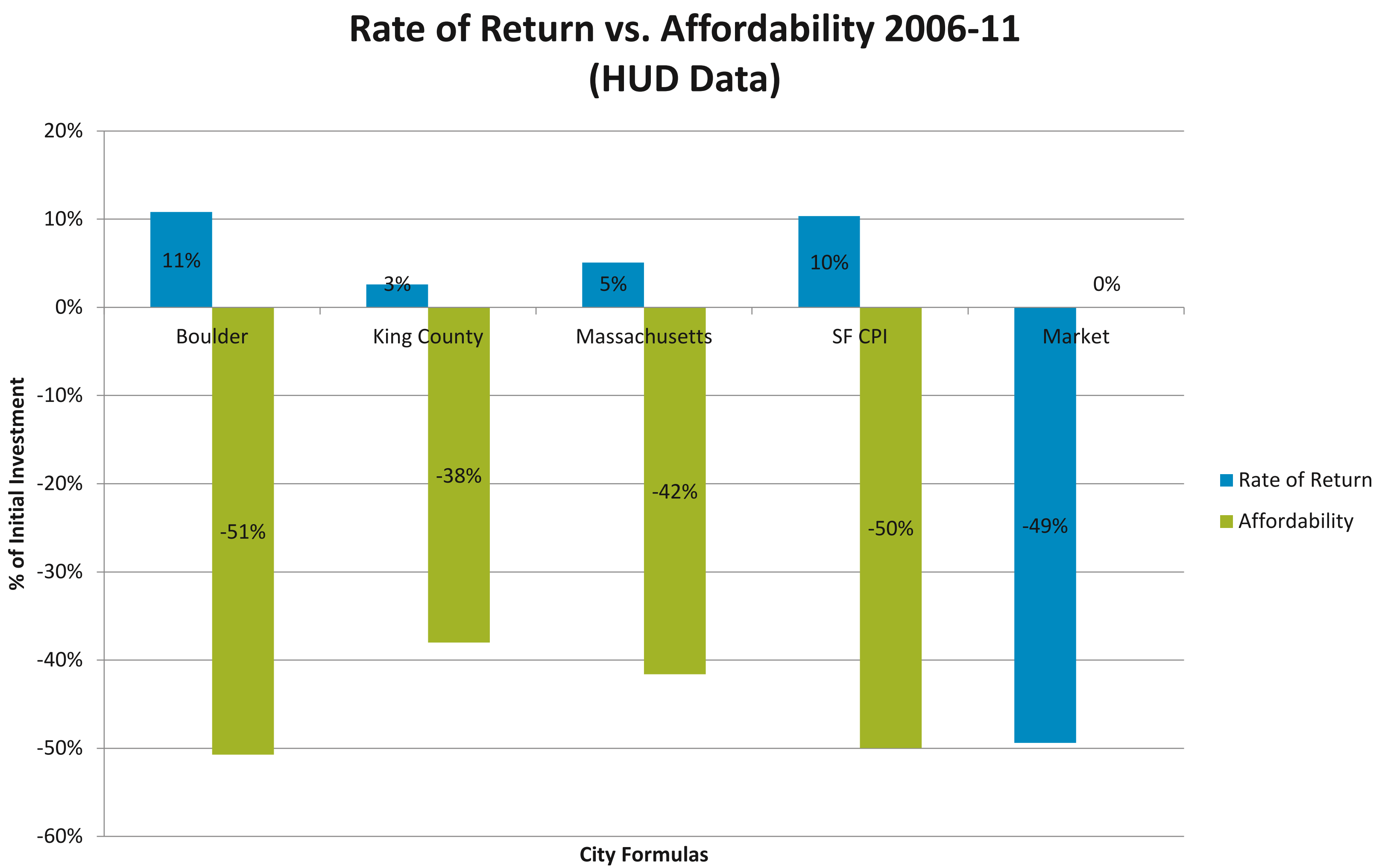

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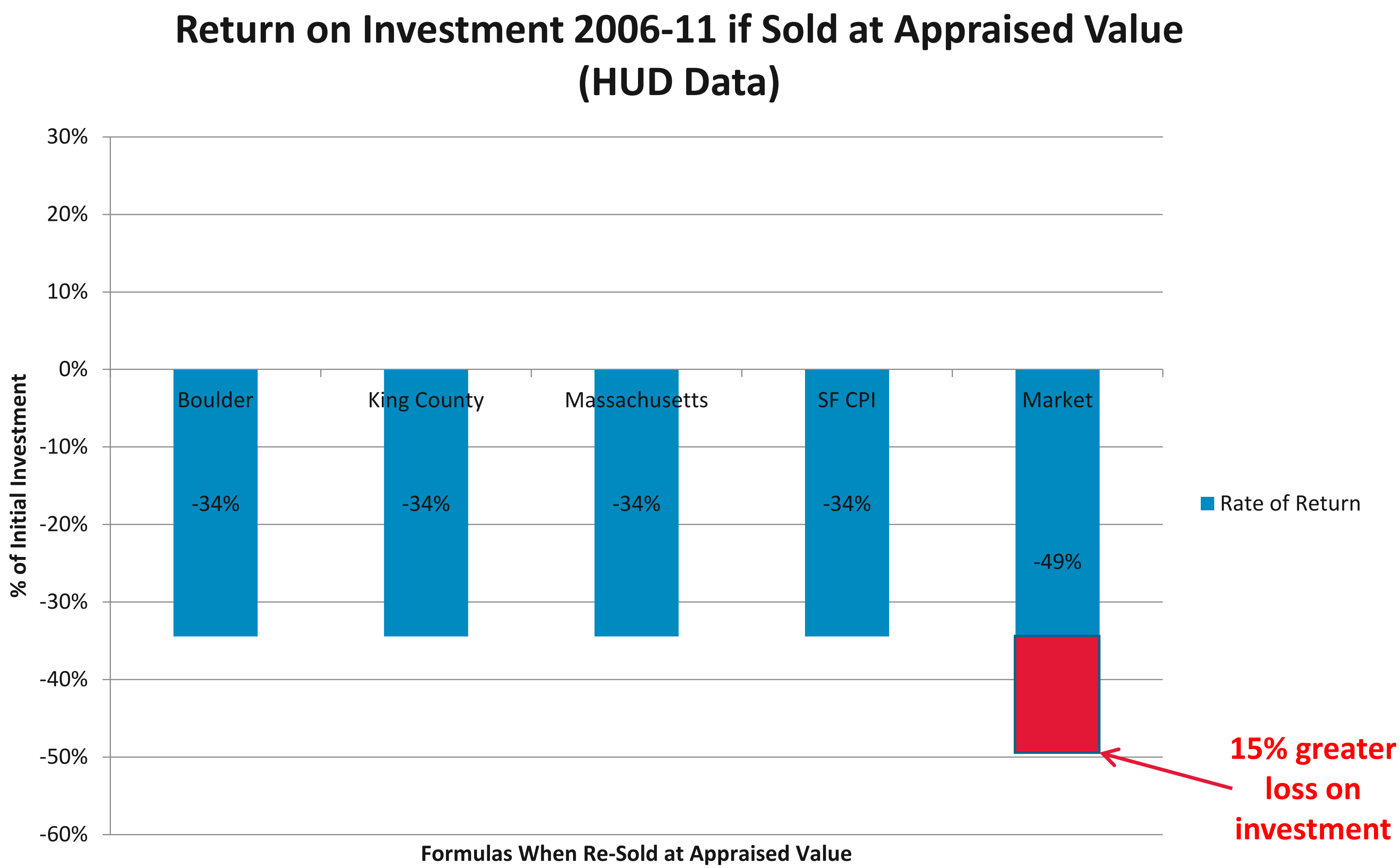

Important Take-Aways

- **Affordability:**
  - In rapidly appreciating markets, LTA programs can significantly lower home prices and keep homes affordable
  - In drastically depreciating markets, LTA programs *can* help protect a homeowner from significant loss (less of a loss than if purchased at market price)
  - Extreme market crashes could challenge a LTA model

- **Equity Building:**
  - In an appreciating market, all models generate a return on initial investment
  - King County's model consistently results in the highest rate of return for homeowners (but in exchange for affordability)
  - Remaining four models operate similarly in an appreciating market
  - AMI based formulas can have a more sig. rate of return if AMI levels change

Important Take-Aways

- ?**Housing Security:**
  - Homeowners are substantially more secure than renters, due to a fixed rate mortgage and immunity from rising rent prices
  - The King County and Massachusetts models lost several homes due to foreclosure during the recession (Boulder did not)
  - Many factors influencing housing security; unclear how independently LTA models can prevent foreclosures during severe market crashes

- ? **Mobility:**
  - Unclear whether LTA homeowners eventually move up the property ladder to market-price homeownership:
    - Only UK shared equity loan model allows for homes to purchased at market-price (still split profits with lender, however)
  - Income eligibility restrictions (paired with mortgage disqualifications) may narrow the pool of prospective buyers
    - King County gives a 60 day window for income eligibility; after which, they may sell to anyone

Moving Forward

- What data are we using?
- *Who* are we trying to affect?
- How large is the affordability gap?
  - How is the affordability projected to change over time?
  - Does the equity acquired upon resale keep pace with changes in affordability gap?
- The benefits (and costs) of homeownership cannot be explained solely through numbers.

Any questions?

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