Long Term Affordability Formula Working Session

On October 16th and October 17th, 2019, the Residential Real Estate Development team hosted two formula working sessions University of Minnesota Research and Outreach-Engagement Center (UROC). The goal of the events was to gather suggestions, comments, concerns, and questions as part of the City's Long Term Affordable Housing Policy Study. Overall, 27 developers, lenders, advocates and City staff participated over two days. Feedback was collected, and participants were asked questions about resale formula models regarding LTA.

Question 1: Is there a model that sticks out to you? Why?

Shared Appreciation
- If just one model, makes the most sense. It ensures that the concern of not owning the land isn't an issue like it is with the Land Trust and is probably most replicable. However, there are concerns about how it's not really a L-O-N-G term affordable model because the sales prices will slowly creep up and become unaffordable. Possibly do a resale analysis of this model at different shared equity amounts over time to try to get at a figure that maximizes both affordability and wealth building
- Seems most fair
- CLCLT has used this successfully

Appraisal Based Resale & Fixed Index
- Based on current understanding of options presented these models seem to adequately blend logic around home ownership affordability and property as a tool for wealth building. With additional wrap-around program mechanisms that can help support homeowner's ability to remain in their home through life fluctuations, these models provide a more direct pathway to ownership that deals more squarely with the fact that market rate homes are outside of the reach of many income levels.

Fixed Index Formula (Fixed 2%)
- Simplest, guaranteed wealth creation, easiest for City to administer
- New to me
- It is a safer model for everybody

Fixed 2%/ Land Trust/ Habitat
- Limits on speculative gains – return for others to access pathways to ownership

Fixed Index Formula & Forgivable Loan
- The risk is minimal

Shared Appreciation & Area Median Income Index
- For balance of wealth generation and affordability in theory

Question 2: What model do you like best? Why?

Shared Appreciation Model
- If just one model, makes the most sense. It ensures that the concern of not owning the land isn't an issue like it is with the Land Trust and is probably most replicable. However, there are concerns about how it's not really a L-O-N-G term affordable model because the sales prices will slowly creep up and become unaffordable. Possibly do a resale analysis of this model at different shared equity amounts over time to try to get at a figure that maximizes both affordability and wealth building
- Proven, long term affordability, builds both community and individual wealth

Appraisal Based Resale
- I support further investment in the ABR model because of the existence of the City of Lakes Community Land Trust (CLCLT). The fact that an affordability-centric organization already exists in this market with a proven track record of assisting persons with accessing below market rate homes, it makes sense to look at how to deepen investment in this current approach. This might occur with either more direct investment of CLCLT or the City making the funds available to an organization capable of constructing a program similar to CLCLT that seeks to specifically target low-income communities that also identify as POCI.

Fixed Index Formula (Fixed 2%)
- City has limited capacity to administer – this is most realistic
- It's a newer model, but it seems more equitable than other models

Forgivable Loan with Fixed Index

Land Trust
- Given the need to hold on to affordable units since this will be an ongoing problem

Question 3: What was the most interesting or concerning thing seen?

Concerning
- There isn't a model that really achieves our varied goals
- The groups' collective unwillingness to explore the deeper systemic constraints of the current housing paradigm in the US. Linking affordable housing discussions to thoughts around (a) Area Median Income (AMI), (b) single family home ownership, (c) property as wealth building tools, and (d) speculative asset valuation moves thought leaders further away from how to support models that center around housing as a human right. Sustainable and safe shelter is simply a foundational need to all determinants of health.
- Surprised by the idea of stacking programs and concerned about capacity to administer a more complicated Habitat or CLCLT style model
- Prioritizing individual household wealth building over community wealth and long-term affordability
- Need to focus more on other benefits not just ROI
- Too many assumptions made through non-underrepresented individuals' lens. These types of assumptions tend to farther marginalize some communities
- Even at 6% increase, the numbers are staggering

Interesting
- I like that the community spoke up and stood firm on their opinions

Question 4: Is there anything that you hadn't thought of before that you are now thinking about?

- The idea of an LTA program being the primary mechanism for reparations wasn't at the forefront of my mind. Wealth building as a way to address racial inequity was, but specifically not reparations. If it is the mechanism I wonder if that means only the lucky enough to actually purchase a home get the benefit.
- Stacking programs – especially given concern around a sizable 2nd mortgage
- Fixed index approach
- Great array of options
- I realized policies are still being made within a model of imperial expansion, that assumes families will live in single family home or that is their goal in life
- Thinking through alternative models that will raise higher equity
- The rate of appreciation used in the modeling and how that has an enormous impact on the projected ROI (and perceptions about safeguarding public resources vs. providing opportunities for wealth creation).

Question 5: Do you think this program is the best way to serve the people you represent or community you're apart of?

- I understand and recognize the merits of this discussion and possible program. However, I do not believe this is the best way to serve members of the community that I serve where housing instability is a reality.
- I think it's important for the City to look at subsidizing people/providing access more through ownership programs – this is a way to get there.
- Think the Land Trust model is the best approach
- It's an important part of the housing spectrum – also to complement with rehab for single family for asset management
- Not at all, because of these policies are not made for anyone in my neighborhood
- I'm not sure if it's the best but if doable I do feel that it is a viable option but needs to be highly subsidized
- Until a sea change occurs, it is the best bridge

Question 6: What additional training or information would be helpful?

- How does a significantly reduced appreciation rate impact return on investment (ROI)?
- Banking and lending for these affordable homes?
- Data that represents the reality of immigrant, Native and Black Americans better, outside of units and profit
- Additional time to present information and obtain feedback; 2 hours
- The City of Minneapolis being willing to lead or commission a body of work that aims to calculate the cost of pursuing housing as a human right.

Conclusion

- Participants that provided feedback expressed that the workshop was somewhat to very helpful
- Participants appreciated the team's thoughtful approach to understanding the nuance and likely success of existing affordable housing programs that can be used as benchmarks.
- Participants commented that additional funds towards this focus is needed.

Participating Organizations

- Minnesota Housing
- Minnesota Homeownership Center
- Family Housing Fund
- City of St. Paul Planning and Economic Development Department
- City of Minneapolis Community Planning and Economic Development
- Local Initiatives Support Corporation (LISC) Twin Cities
- Hope Community, Inc
- The Alliance
- Powderhorn Park Neighborhood Association
- Hawthorne Neighborhood Association
- Jordan Area Community Council
- Build Wealth MN
- PRG, Inc
- American Indian Community Development Corporation
- Black Women's Wealth Alliance
- Twin Cities Habitat for Humanity
- City of Lakes Community Land Trust
- Old National Bank
- Project Sweetie Pie

Attachment: Formula Handout

Minneapolis Homes Long-Term Affordability (LTA) Resale Options Workshop

Minneapolis Renter Demographics

As we think about what populations and incomes the city's homeownership and more specifically LTA program(s) should target it will be helpful to have the socioeconomic and ethnic breakdown of Minneapolis' renters.

Race	Total Renters	%of Renters	Below 30% AMI		30%-50% AMI		50%-80% AMI		80%-100% AMI		>100% AMI	
			#	%	#	%	#	%	#	%	#	%
White alone, non-Hispanic	49865	56%	12070	24%	8280	17%	8985	18%	6000	12%	14530	29%
Black or African-American alone, non-Hispanic	21810	24%	13905	64%	4060	19%	2260	10%	700	3%	885	4%
Hispanic, any race	7605	9%	2610	34%	2210	29%	1305	17%	705	9%	765	10%
Asian, non-Hispanic, including Pacific Islander	5093	6%	2079	41%	714	14%	735	14%	450	9%	1115	22%
American Indian or Alaska Native alone, non-Hispanic	1175	1%	620	53%	195	17%	190	16%	30	3%	140	12%
Pacific Islander alone, non-Hispanic	18	0%	4	22%	14	78%	0	0%	0	0%	0	0%
other (including multiple races, non-Hispanic)	3740	4%	1440	39%	890	24%	475	13%	425	11%	510	14%
POC (All non-white)	39441	44%	20658	52%	8083	20%	4965	13%	2310	6%	3415	9%
Total	**89285**	**-**	**32724**	**37%**	**16349**	**18%**	**13950**	**16%**	**8310**	**9%**	**17945**	**20%**

Summary of Resale Formulas Discussed

1. **Shared Appreciation Mortgage**
    - Second mortgages that require no payments until the home is sold.
    - The home is sold at its full market price but the family is required to repay the original loan plus a share of home price appreciation instead of interest.
    - Some programs require buyers to repay a share of appreciation based on the amount of initial subsidy.
        o For example, if a buyer received subsidy for 20% of the purchase price, when they move they must repay the loan plus 20% of any increase in the home price.
    - *Twin Cities Habitat for Humanity uses a version of this formula where the share of appreciation that a homeowner owes starts high and declines for every year that they own the home.*

2. **Appraisal-based Resale Formula**
    - Homes are sold at a below market price and then the resale price is limited to a portion of the change in the market price of the home.
    - For example, the affordable price might be allowed to increase by 25% of the increase in the market value of the home.
    - Similar to the shared appreciation loans, but they require the home to sell at a below-market price.
    - *City of Lakes Community Land Trust uses a version of this formula where homeowners receive 25% of the increase in the home's appraised value.*

3. **Area Median Income (AMI) Index Formula**
    - Homes are sold at an affordable price and then the price can only increase as fast as incomes int the area rise.
    - Price is adjusted each year based on the change in the Area Median Income published by HUD.
    - A new buyer with the same income profile should be able to purchase the home for this price without any need for additional subsidy.
    - *The City of San Francisco uses this resale formula*

4. **Mortgage Based Resale Formula**
    - Homes are sold at below market prices and then resold at prices affordable to a target income group (ie. 60% of AMI).
    - At the time of sale, the city calculates the maximum price that a homeowner at that income level would be able to afford given the current mortgage rates, and cost for taxes and insurance, etc.
    - This approach, and only this approach, guarantees that assisted homes will always remain perfectly affordable to the target income group without any additional subsidy
    - But, when interest rates rise, homeowners may experience little or no wealth building.
    - *Many Redevelopment Agencies in California used this formula.*

5. **Fixed Index Formula**
    - Homes are sold at an affordable price and then the resale price is allowed to increase by exactly 2% (or some other fixed number) each year.
    - Owners wealth building is not based on variables outside of their control – it is almost totally predictable.
    - The program can give buyers a table showing what the resale price would be years in the future – removing the guess work about how much wealth building they will experience.
    - *The City of Houston, TX just launched a new program using this formula*