Expanding the Availability of Shared-Equity Homeownership

Overview

Shared-equity homeownership is an approach to affordable homeownership that enables low- and moderate-income households to purchase homes at a below-market price while ensuring that the subsidies invested in the homes to make them affordable are retained to help one homebuyer after another. This is accomplished through a legal arrangement in which the purchasing household and the sponsoring organization (such as a nonprofit or municipality) agree to share the benefits of any home price appreciation. The homebuyer receives a share of home price appreciation plus the principal accumulated through paying down their mortgage, which together provide a sizable opportunity for wealth accumulation. The balance of the home price appreciation stays in the home (or is returned to the sponsoring organization) to help ensure the home is affordable to the next purchaser.

Shared-equity homeownership is a particularly important tool in the context of gentrifying neighborhoods. With a shared-equity approach, the home remains affordable even after the initial owners sell, offering a long-term affordable housing option within the neighborhood even as home prices rise. Wider availability of shared-equity homes could also meet an important gap in the market for households that want to purchase a home but cannot afford the price of homes for sale in the market. Such households tend to have lower incomes and less wealth, and are more likely to be Black or Hispanic than households that can afford to purchase homes at market prices.

Currently, there is a very limited supply of shared-equity homes in the U.S. Expanding the supply would require financial resources and changes in public policy. By ensuring durable affordable housing opportunities in gentrifying neighborhoods and expanding homeownership and wealth-building opportunities for low-income households, shared-equity homeownership helps promote racial and health equity.

Challenge: rapidly rising home prices put homeownership out of reach for many

The core challenge giving rise to the need for shared-equity homeownership is a large gap in many markets between the costs of purchasing a home and the amount that low- or moderate-income households can afford to pay. While it may be feasible to close a $5,000 or $10,000 gap with a grant or a loan that is forgiven over time, rapidly rising home prices have led to gaps in many communities that are $50,000 or more. Many communities have determined that they cannot afford to spend this much on every household that they wish to help purchase a home. Moreover, many communities are concerned that, if this assistance were provided in the form of a grant or a forgivable loan, the family who purchases the home could turn around and sell the home to a higher-income purchaser and pocket the subsidy, undermining the program's goals and limiting the long-term benefit to the community.

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As the amount of subsidy needed to help a family at the target income level access homeownership has risen, many communities have looked for ways to provide a more durable investment that both expands access to homeownership and creates a lasting asset for the community. These twin goals are particularly important in neighborhoods experiencing gentrification or at risk of gentrification. Without a mechanism for ensuring that homes made affordable through public subsidies stay affordable over time, the original beneficiary of an investment in affordable homeownership in a gentrifying neighborhood would be able to sell the home to incoming residents at a hefty profit. This would undermine the goal of ensuring that low- and moderate-income households can continue to afford homes in the neighborhood even as home prices rise.

Solutions: using shared-equity mechanisms to ensure ongoing affordability

To address these challenges, many communities have sought out ways to ensure that their investments in housing affordability are retained over time to help multiple families. One way to accomplish this is to invest in affordable rental housing properties rather than homeownership. By using subsidies to reduce the amount of debt needed to finance a new rental development, communities can help create rental homes that provide affordable housing opportunities to one household after another. But while rental housing is unquestionably important and necessary, many communities have an interest in supporting a diverse array of housing options and have sought ways to make investments in affordable homeownership that are similarly retained over time to benefit the community.

This is where shared-equity homeownership comes in. As with an investment in affordable rental housing, an investment in a shared-equity home creates an opportunity to use a single subsidy to help one family after another afford their housing costs. But unlike affordable rental housing, it also provides many of the benefits of homeownership, including an opportunity for the home purchasers to build wealth, the benefits of a fixed monthly housing cost that does not increase appreciably over time, and the ability to customize the home to meet their needs. Shared-equity homeownership investments can also be structured in a way that ensures specific homes remain affordable over time, providing guarantees that low- or moderate-income households will be able to live in a gentrifying neighborhood even after home values rise sharply.

In shared-equity homeownership, a nonprofit, municipality, or other sponsoring organization provides a subsidy to make a home affordable to an income-qualified homebuyer. In exchange, the homeowner agrees to sell the home at an affordable price to the next homebuyer based on a formula designed to balance the homeowner's ability to build wealth with the community's interest in retaining affordability over the long term. Common subsidy sources include the federal HOME Investment Partnerships program, local housing trust funds and philanthropic contributions.

Figure 1 outlines an illustrative shared-equity homeownership purchase and resale, in which a family pays $250,000 for a home ($50,000 below its market value) and sells it for $275,000 seven years later. Under this example, the resale formula provides that the family can sell the home for what they paid for it initially plus 25 percent of the increase in market value.[1]

Figure 1

Example of Shared-Equity Homeownership Purchase and Resale

At initial home purchase:	
Market value of home:	**$300,000**
Family's downpayment:	**$15,000**
Family's first mortgage:	**+ $235,000**
Total family contribution:	**$250,000**
Program subsidy:	**$50,000**
At resale:	
Market value of home:	**$400,000**
Resale price = original family contribution plus 25% of increase in market value = $250,000 + (0.25 x 100,000) =	**$275,000**
Family's net proceeds	
Sales price	**$275,000**
Less administrative fee:	**($8,250)**
Less repayment of mortgage	**($204,511)**
Family retains:	**$62,239**

The $275,000 resale price ensures the home remains affordable to the next purchaser, even as its market value has risen to $400,000. Meanwhile, if the mortgage had a fixed interest rate of 4.5 percent, and the program charges a 3 percent administrative fee at resale (half of a standard broker's fee) the family would net about $62,000 from the sale – a large increase over their $15,000 downpayment – which they could apply to a downpayment on a conventional home or use for another purpose of their choice.[2] The family's net proceeds would be even higher if they had purchased a home through one of the many shared-equity programs that does not charge an administrative fee.

There are a number of different approaches to implementing shared-equity homeownership. One approach is to use deed restrictions to require the family to sell the home at an affordable price as determined by the program's resale formula. This is often accompanied by a provision giving the program the right of first refusal to repurchase the home. A second approach is to establish a community land trust that retains ownership of the land and provides the family with a long-term ground lease that includes the legal restrictions on resale. Traditionally, community land trusts are governed by a board comprised of shared-equity homeowners and representatives of both nonprofit and government stakeholders, which ensures the land trust both remains focused on its mission and is responsive to the needs of home purchasers. Community land trusts can be established to focus narrowly on a specific neighborhood or community or more widely address the needs of an entire city or region. A third approach – a limited equity cooperative – allows residents of the community to govern the program themselves but runs the risk that cooperative members may decide to end or curtail the resale restrictions in the future.

While shared-equity homeownership has many strengths, some argue that it is unfair to restrict the wealth-building potential of home purchasers, particularly given the history of discrimination in the housing markets that has curtailed wealth-building opportunities for Black and Hispanic households. This is an important argument that merits a more complete examination than is possible in this policy brief. In a 2009 paper, Rick Jacobus and Ryan Sherriff address this and other concerns about shared equity, drawing on a convening sponsored by the Annie E. Casey Foundation.[3] The authors note that in designing an affordable homeownership program, communities will need to strike a balance between two potentially competing goals: increasing homebuyers' opportunities to build wealth and preserving long-term affordability to help future homebuyers. Different communities

may balance these goals in different ways and the shared-equity homeownership model is flexible enough to allow the resale formula to be tailored to weight outcomes toward one or the other of these objectives. As Jeffrey Lubell notes in a 2014 paper, with a fixed amount of funding, a community can help two to five times as many families over thirty years with a shared-equity approach than a grant or forgivable loan, so the use of one of these latter approaches has the disadvantage of being able to create far fewer homeowners in a resource-constrained environment.[4]

It is important to note that shared-equity homeownership may not be the best solution for everyone. Households who can afford to purchase a market-rate home and wish to retain the full potential to profit from housing price increases, may not be good candidates for shared-equity homeownership. By structuring programs to reach lower income households who could not afford to purchase a home without the assistance of shared-equity homeownership, and by clearly and carefully describing how it works, programs can minimize the likelihood that participating households develop expectations for the program that cannot be fulfilled.

Similarly, shared-equity homeownership is not equally appropriate for all communities. In general, shared-equity homeownership models are more important in communities with high or rapidly rising home prices and less necessary in communities with low, stable home values, where a greater share of potential homebuyers can purchase homes using conventional financing. In such markets, shared-equity homeownership can nevertheless be used to bring homeownership within reach of lower-income populations, but it may be less important to the community's policy objectives to preserve the affordability of specific homes. An alternative approach could be to provide families with shared-appreciation mortgages that help them afford homes of their choice and are repaid to the program sponsor on resale, providing funds to help the next homebuyers.[5] Relative to models that focus on preserving the affordability of specific housing units, this has the advantage of increasing participants' housing choices.

Ultimately the goal of a shared-equity homeownership program is to expand the range of families' housing choices. By creating a supply of homes that sell at prices well below those of the conventional market, communities essentially create a third tenure choice between rental housing and conventional market that gives the families who cannot afford to purchase a home on the private market an alternative to rental housing. While shared-equity homeownership currently constitutes a tiny share of the overall housing market – a 2018 estimate identified around 250,000 shared-equity homes in the entire U.S.[6] – some proponents of shared-equity homeownership ambitiously aspire to a future in which shared equity homeownership might comprise five or even 10 percent of all homes in a market; such a market would be much better able to meet residents' housing needs than one in which their choices are limited to traditional rental and ownership models.

Actions: Opportunities to expand the availability of shared-equity homeownership

The following steps could help expand the supply of shared-equity homes.

1. ***Invest in initial subsidies to launch and scale shared-equity initiatives.***
   Key actors: policymakers, advocacy organizations, philanthropic actors

Shared-equity programs require a subsidy to reduce the initial cost of a home to an affordable level. These subsidies can come from any level of government – federal, state or local – or from philanthropic or private actors. Some shared-equity homeownership programs are funded through the federal HOME Investment Partnerships program, but this funding is very limited and not sufficient to meet all of the housing needs of local communities. A small share of federal Housing Trust Fund may also be used for shared-equity homeownership. Some localities have funded shared-equity homeownership through housing bond issues, housing trust funds and other locally generated funding sources. Some shared-equity homes are supported by grants from philanthropic actors or major employers such as universities.

Policymakers at the federal, state, and local levels could increase the availability of subsidies for shared-equity homeownership through legislative action. Advocacy efforts could help increase the likelihood that such funding is made available, either through increased funding for existing programs like HOME that are used for shared-equity homeownership or for new dedicated funding sources. Philanthropic actors could similarly increase funding for shared-equity homeownership in specific communities through grants. (See also item 4 for a discussion of options for using program-related investments.)

Example

Grounded Solutions' CLT Accelerator Fund provides capital grants for shared-equity projects, supported with a $1 million investment from Citi Community Development.

2. ***Expand the use of shared-equity homeownership in local inclusionary zoning programs.***
   Key actors: local policymakers, advocacy organizations

In addition to funding shared-equity homeownership through direct subsidies, localities can fund shared-equity homeownership indirectly by requiring that a share of newly developed units be affordable and that affordability be maintained over the long term either as affordable rental housing or as shared-equity homeownership. In adopting an inclusionary zoning policy, it is important to preserve the ability of developers to make a good return on their investment, as overly restrictive policies could otherwise lead to a reduction in the overall supply of housing. According to a census of inclusionary zoning policies, some 90 percent of inclusionary zoning policies that apply to owner-occupied housing use shared-equity mechanisms to maintain long-term affordability.[7]

3. ***Build capacity among organizations that provide oversight and management of shared-equity homeownership programs.***
   Key actors: nonprofit housing organizations, local policymakers, philanthropic actors

Shared-equity models require ongoing stewardship to enforce resale restrictions, determine the eligibility of subsequent buyers, and manage other legal and financial requirements. These tasks can be labor intensive and often require specialized training. Grants that provide operating support and technical assistance for community land trusts, non-profit developers, and other organizations that manage shared-equity programs can help them scale up their programs and ensure effective long-term management. Another approach is to facilitate and encourage the collection of a transaction fee at resale that sponsoring organizations can use to fund their stewardship of the homes.

4. ***Research options for investing private- and philanthropic equity in shared-equity homeownership.***
   Key actors: research organizations, philanthropic actors, private firms

A number of for-profit companies offer equity investments in homeownership as a way to help homebuyers afford the costs and diversify their investments. While there is a substantial risk of consumer abuse in light of the complexity of these arrangements and the lack of a clear regulatory structure,[8] in theory, it might be possible for a privately funded venture to provide funding for home purchases using a shared-equity arrangement that is fair to consumers. Research is needed to better understand the potential of existing and proposed private-sector models to expand the availability of shared-equity homes. Research is also needed to better understand the potential of program-related investments from philanthropic actors to expand shared-equity homeownership. Among other questions to consider: Can program-related investments be successful in expanding shared-equity homeownership, and in what market conditions? How long would it take for such programs to repay the initial investment? What are the risks of loss of capital and how could the risks be mitigated?

Other Resources

- A 2006 report from the National Housing Institute, Shared Equity Homeownership: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing, provides a detailed overview of the main shared equity models.
- The Grounded Solutions Network provides information on shared equity homeownership and tools to help shared equity homeownership programs track their portfolio and impact.
- The Local Housing Solutions website provides overviews of three shared equity homeownership models: community land trusts, deed-restricted homeownership, and limited equity cooperatives.
- The Urban Institute has completed a series of studies of shared equity homeownership.
- A 2019 report from the Lincoln Land Institute, Tracking Growth and Evaluating Performance of Shared Equity Homeownership Programs During Housing Market Fluctuations, draws on administrative data from 58 shared-equity homeownership programs to describe who the programs are serving and how much equity they accumulate.

For More Information

- This brief is part of a research series that explores how homeownership can be used to advance health and racial equity. To review the other resources in this series, visit https://www.abtassociates.com/HomeownershipEquity.

Endnotes

1 Many shared equity homeownership formulas also allow families to recapture their investments in capital improvements as part of the sales price.

2 This is calculated as follows: A 3 percent fee on the $275,000 home is $8,250, which leaves the family with net proceeds of $266,750. Due to the paydown of their principal balance through regular monthly payments, the family would owe approximately $204,511 on its mortgage, leaving a net balance to the family of $62,239. Not all shared-equity homeownership programs charge a fee at resale; some programs cover these costs through grants instead.

3 Jacobus, R. and Sherriff, R. (2009). *Balancing Durable Affordability and Wealth Creation: Responding to Concerns about Shared Equity Homeownership*. Prepared for the Annie E. Casey Foundation by the Center for Housing Policy.

4 Lubell, J. (2014). *Filling the Void Between Homeownership and Rental Housing: A Case for Expanding the Use of Shared Equity Homeownership*. in Belsky, Herbert and Molinsky (eds), *Homeownership Built to Last*. Joint Center for Housing Studies, Harvard University and Brookings Institution Press.

5 Shared-appreciation mortgages can be structured in many different ways, including in ways that lead to a similar level of retained assets by the homebuyer (and a similar level of affordability to the next purchaser) as the example noted earlier in this brief. While some people consider this approach a form of shared-equity homeownership, others prefer to limit shared-equity homeownership to situations in which the subsidy is retained in a specific unit to make that home affordable to future purchasers.

6 Thaden, E. (2018). The State of Shared-Equity Homeownership. Shelterforce.

7 Thaden, E. (2018).

8 Sherriff, R. and Lubell, J. (2009). *What's in a Name? Clarifying the Different Forms and Policy Objectives of "Shared Equity" and "Shared Appreciation" Homeownership Programs*. Center for Housing Policy.