

# PERMANENTLY AFFORDABLE HOMEOWNERSHIP

## THE PROBLEM

Homeownership is one of the main ways that Americans build transformational, generational wealth. But in many places, the cost of a home is out of reach for low- and moderate-income individuals and families. Jurisdictions, in response, offer one-time development subsidies or down-payment assistance loans in order to help make homeownership more affordable and accessible.

In a traditional development subsidy model, the jurisdiction gives a one-time subsidy to a developer in order to help write down the cost of creating the homeownership opportunity. In a traditional down-payment assistance model, a grant or forgivable loan is made to buyers to help cover the gap between what they can afford and the market rate price of their home.

In either case, there is usually an affordability period of five to fifteen years during which, if the homeowner sells, he or she must return a portion of the grant or loan to the jurisdiction. If the homeowner remains in the home beyond the affordability period, he or she is able to capture the full market value of the home upon sale. This creates an above-market rate of return on the home—a windfall for the lucky few who are able to participate in the program.

This model of short-term affordability periods creates a hamster wheel of affordable housing development where jurisdictions spend staff time and money to create new opportunities just to compensate for existing opportunities that expire to the market. Jurisdictions are so focused on trying to keep pace that they can't make a dent in their community's needs.

As funding for affordable housing declines and the cost of subsidizing homes increases, these short term programs force jurisdictions to make difficult decisions. Without access to growing funds, will the program make fewer investments? Will it try to serve the same number of people, but through smaller subsidy awards, thereby serving only higher-income homebuyers?

## THE SOLUTION

Knowing that they need to use their resources more efficiently, many jurisdictions are now creating *permanently* affordable home-ownership opportunities.

Permanently affordable homes serve generation after generation of income eligible homebuyers. Rather than making a grant or a loan to an individual, jurisdictions use one-time subsidies to write down the cost of the home to a price that is affordable to the initial purchaser. In return for being able to purchase a below market rate home, the buyer agrees to resale restrictions that cap the sales price at a level that is affordable to the subsequent buyer while also providing a fair return to the seller.

The most common models of permanently affordable homeownership include deed-restricted housing, community land trusts, and limited-equity cooperatives. In all of these models, the affordability restrictions are secured through a deed-covenant, ground lease, or proprietary lease (in the case of a limited-equity cooperative) that sets forth income and/or price requirements for subsequent buyers. In successful programs, the homes are “stewarded” by either the jurisdiction or a nonprofit. The steward is responsible for ensuring that the home remains affordable and that the homeowner is successful. Tasks include preparing new buyers for homeownership, overseeing resales, certifying ongoing owner occupancy, and supporting homeowners as they refinance or take out home equity lines of credit.<sup>1</sup>

There are more than 10,000 units of permanently affordable homeownership across the country, and data shows that both the programs and the homeowners have been successful. The HomeKeeper National Data Hub<sup>2</sup> demonstrates that well-stewarded homes remain affordable across multiple resales and continue to serve lower-income households. It also shows that homeowners that buy through these programs are very rarely in default or foreclosure, build significant wealth compared to the other investment opportunities that would have been available to them as renters, and are more likely than their peers to still be homeowners after five years.

## **POLICY ISSUES**

**SETTING PREFERENCES OR REQUIREMENTS FOR PERMANENT AFFORDABILITY:** Since permanently affordable homeownership programs make the most efficient use of public resources, they should not only be included as eligible uses under all city funding programs, they should be the preferred or required model. Cities like Boulder, Colorado require all homeownership units receiving local funding or created through inclusionary housing and annexation policies to be permanently affordable.

**ALLOCATING ADEQUATE RESOURCES TO STEWARDSHIP:** Stewardship activities are critical to program success and to protecting limited public resources. Jurisdictions need to allocate sufficient resources to cover these ongoing costs. Many jurisdictions, like **Chapel Hill, North Carolina, Burlington, Vermont** and **Chicago, Illinois** provide operating support or fee-for-service contracts to local non-profit stewards that efficiently manage large portfolios of permanently affordable homes.

**SUPPORTING THE CREATION OF NEW COMMUNITY LAND TRUSTS:** In cities like **Irvine, California, Portland, Oregon** and **Delray Beach, Florida**, municipal support was critical in helping to spark new community land trust organizations. Cities have provided new organizations with planning and staffing support, start-up financing and expert assistance.<sup>3</sup> Recently, the **City of Boston, Massachusetts** announced a technical assistance program to help form new community land trusts in neighborhoods across the city.

**ADOPTING EQUITABLE TAXATION POLICIES:** Because homeowners living in permanently affordable homes will never be able to monetarily realize the full market value of their homes, it is unfair (and unrealistic) to tax these households at the full assessed value of their home. States and some jurisdictions, like **Albuquerque, New Mexico**, adopt “equitable taxation” policies that reduce the tax burden on homeowners. These policies are especially important in places where property taxes alone could make a home unaffordable.

## **ADDITIONAL RESOURCES**

**Grounded Solutions Network** supports strong communities from the ground up. We work nationally, connecting local experts with the networks, knowledge and support they need to build inclusive communities.

For more than a decade, we have compiled extensive tools, resources and research on permanently affordable housing. Access our resource libraries at [www.cltnetwork.org](http://www.cltnetwork.org) and [www.affordableownership.org](http://www.affordableownership.org).

## **NOTES**

- 1 For more information, see the *Stewardship Standards for Homeownership* at <http://www.affordableownership.org/stewardship-standards/>.
- 2 Visit the HomeKeeper National Data Hub at: <http://myhomekeeper.org/why-homekeeper/the-homekeeper-national-data-hub>
- 3 Read more about how cities can partner with and support CLTs at: [http://www.lincolinst.edu/pubs/1395\\_The-City-CLT-Partnership](http://www.lincolinst.edu/pubs/1395_The-City-CLT-Partnership).

*Co-authored by the Grounded Solutions Network*

