PERMANENTLY AFFORDABLE HOMEOWNERSHIP

THE PROBLEM

Owning a home can provide much-needed long-term stability . In addition, homeownership is one of the main ways that many Americans have built transformational, generational wealth, though these benefits have accrued inequitably, with white homeowners benefiting at a much greater rate than homeowners of color—particularly Black homeowners—due to the country's long history of racist housing policy and predatory lending practices.[1]

In many places, the cost of a home remains out of reach for low- and moderate-income individuals and families. At the same time, community leaders, advocates, and policy makers are trying to address persistent racial and economic segregation in their communities.

Jurisdictions often offer one-time development subsidies or down-payment assistance loans to low- or moderate-income households 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, the jurisdiction makes a grant or forgivable loan to help cover the funding gap between what buyers 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 the cost of homeownership is subsidized; if the homeowner sells in this period, they must return a portion of the grant or loan to the jurisdiction. Once the homeowner remains in the home beyond the affordability period, however, they are able to capture the full market value of the home upon sale. This creates an above-market rate of return on the home—an outsized benefit for those able to participate in the program.

Since affordable homes constantly return to market rate once their affordability restrictions expire, this model of short-term affordability periods creates a situation where jurisdictions spend resources to create new opportunities to compensate, which also eventually expire. Unfortunately, the need for permanent affordable housing is so high that jurisdictions often find it difficult to make a dent in needs while they work to keep up with the pace. When short-term affordability restrictions expire and the units become market rate again, that can lead to displacement of current low-income residents of color from those units (and usually also from the neighborhood) and also make it more difficult for future low-income households of color to move to the neighborhood.

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

Shared equity homeownership programs, also sometimes called permanently affordable homeownership, or homeownership with lasting affordability, serve generation after generation of income-eligible homebuyers. Rather than making a grant or a loan to an individual or a developer, jurisdictions use one-time subsidies to write down the cost of the home to a price that is affordable for a lower-income family. Then, they restrict the home's sale price each time it is sold to keep it affordable for all subsequent low-income families who purchase the home. The model balances wealth building for families who would otherwise be unable to afford owning a home, with preserving the community's investment for the long-term.

Permanently affordable homeownership also advances racial and economic justice by ensuring that affordable homes ultimately remain in neighborhoods that are experiencing gentrification, or that are rich in community assets.

The most common models of permanently affordable homeownership include community land trusts, limited-equity cooperatives, and certain other deed-restricted housing models. 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 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 thrives from the arrangement. 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.

Grounded Solutions Network has identified close to 250,000 shared equity homes across the country; there are likely more units that have not yet been identified.[2] The share of households of color living in shared equity homes has increased from 13 percent (1985-2000) to 43 percent (2013-2018),[3] contributing to racial equity in housing access. The HomeKeeper National Data Hub demonstrates that well-stewarded homes remain affordable across multiple resales and continue to serve lower-income households. Permanently affordable homeownership models can serve the very people who have been systematically excluded from homeownership, such as people of color and low-income households, more effectively than subsidies which create only short-term affordability. 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 be included as eligible uses under all city funding programs, but they should be the preferred or required model. Depending on the state legal environment, jurisdictions use a variety of language to express the goal of permanent affordability; some might use the term "lasting affordability," set a very long affordability term (e.g. 99 years), or require 30 years of affordability with a term that renews on each resale, thereby achieving permanent affordability in practice. **Boulder**, Colorado requires all homeownership units receiving local funding or created through inclusionary housing and annexation policies to be permanently affordable.[4]

ALLOCATING ADEQUATE RESOURCES TO STEWARDSHIP: Stewardship activities are critical to program success and to protecting limited public resources. Stewardship means work with buyers before and after they purchase their homes to ensure that they are well-prepared for homeownership, financially responsible, and able to maintain the property. Stewardship also means protecting the community (or public) investment by monitoring the physical asset and enforcing program requirements over the long term. 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. For example, the Town of Chapel Hill supports its local community land trust, Community Home Trust, which manages a portfolio of affordable homes including homes created through the Town's inclusionary housing program.

SUPPORTING THE CREATION OF NEW COMMUNITY LAND TRUSTS: In cities like **Irvine**, California; **Portland**, Oregon; **Delray Beach**, Florida; and **Houston**, TX, 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. The city of **Boston**, Massachusetts created 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 adopt "equitable taxation" policies that reduce the tax burden on these homeowners. For example, in Boulder County and Los Angeles County, the assessed value of permanently affordable homes in community land trusts, when entered on the tax rolls, is the (heavily subsidized) purchase price that lower-income households pay.[5] These policies are especially important in places where property taxes alone could make a home unaffordable.

LANDSCAPE AND 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. We help promote housing solutions that will stay affordable for generations. For more than a decade, we have compiled extensive tools, resources and research on shared equity homeownership and lasting affordability. Access our resource library at www.groundedsolutions.org.

Co-authored by the Grounded Solutions Network

GROUNDED SOLUTIONS NETWORK
strong communities from the ground up

NOTES

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1. Laurie Goodman, Jun Zhu, and Rolf Pendall, "Are Gains in Black Homeownership History?" Urban Institute, February 14, 2017, https://www.urban.org/urban-wire/are-gains-black-homeownership-history; Keeanga-Yamahtta Taylor, *Race for Profit: How Banks and the Real Estate Industry Undermined Black Homeownership* (Chapel Hill: The University of North Carolina Press, 2019); Richard Rothstein, *The Color of Law: A Forgotten History of How Our Government Segregated America* (New York: Liveright, 2017).
2. Emily Thaden, "The State of Shared-Equity Homeownership," *Shelterforce*, May 7, 2018, https://shelterforce.org/2018/05/07/shared-equity/.
3. Ruoniu Wang, Claire Cahen, Arthur Acolin, and Rebecca J. Walter, "Tracking Growth and Evaluating Performance of Shared Equity Homeownership Programs During Housing Market Fluctuations," Working Paper, Lincoln Institute of Land Policy, April 2019, https://www.lincolninst.edu/sites/default/files/pubfiles/wang_wp19rw1_rev_0.pdf.
4. City of Boulder, "Inclusionary Housing (IH)," 2021, https://bouldercolorado.gov/housing/inclusionary-housing.
5. https://www.lincolninst.edu/publications/policy-focus-reports/city-clt-partnership