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SHARED-EQUITY HOMEOWNERSHIP

Shared-equity homeownership is a generic term for various forms of resale-restricted, owner-occupied housing in which the rights, responsibilities, risks, and rewards of ownership are shared between an income-eligible household who buys a home at a below-market price and an organizational steward who protects the affordability, quality, and security of that home long after it is purchased. Community land trusts (CLTs), limited equity cooperatives (LECs), and price-restricted houses and condominiums with affordability covenants lasting longer than 30 years are the most prevalent examples of shared-equity homeownership in the United States, but new models of resale-restricted, owner-occupied housing – or new permutations of older models – appear nearly every year.

Origins of Shared-Equity Homeownership

Housing cooperatives trace their origins to 1844, when a group of weavers in Rochdale, England, adopted a set of principles on which the modern cooperative movement is based. The first housing cooperatives in the United States were organized in New York City in the 1870s. Community land trusts draw their inspiration from the Garden Cities of England and *moshav* communities in Israel, pioneered in the first half of the 1900s, and from the Gramdan villages of India, established in the 1950s. The first CLT was organized in the United States in 1969. Deed covenants have been widely used to preserve the affordability of owner-occupied housing since the 1970s, when the proliferation of housing trust funds and inclusionary zoning led a growing number of municipalities to look for ways to moderate the resale prices of homes that public dollars or public powers had brought into being.

While the signature models of shared-equity homeownership have a long history, the term itself is fairly new. Other generic names have been used in the past to describe homeownership whose affordability is contractually preserved for many years: *limited equity housing*, *nonspeculative homeownership*, *permanently affordable homeownership*, and, more recently, *homes for good* and *homes that last*. Shared-equity homeownership has been in general use only since 2006, when the National Housing Institute (NHI) published a book by that name. NHI had noted that most policy research and academic writing about homeownership was stubbornly focused on mechanisms for removing credit barriers or lowering mortgage payments for the

purchase of market-rate homes. Little attention was being paid to nonmarket models of homeownership that restricted the price of publicly assisted, privately owned homes across multiple resales, maintaining their affordability for many years.

NHI set out to correct this oversight, beginning with an assessment of what was known – and not known – about these unconventional forms of tenure. An advisory committee of academics and practitioners recruited by NHI to oversee this research came to the conclusion that a new term was needed to describe these models, settling eventually on *shared-equity homeownership*. They were attracted to the term by its emphasis on how the appreciating value of residential property is routinely created and to whom it rightfully belongs. Only part of a property's unencumbered value is a product of an owner's personal investment in purchasing and improving the property. The rest is a product of the community's investment: equity contributed at the time of purchase in the form of a public grant, charitable donation, or municipally mandated concession from a private developer; and equity accruing to the property over time because of the public's investment in necessary infrastructure and society's overall growth and development.

CLTs, LECs, and other forms of resale-restricted, owner-occupied housing endeavor to lock this socially created value in place. In market-rate homeownership, any unencumbered value that remains in the home after all debts and liens have been discharged belongs to the owner. In shared-equity housing, homeowners claim only the equity they created through their own dollars or labors. The rest of it, including the entirety of any public subsidies put into the property and a majority of any market gains in value, remains in the home at resale, reducing its price for the next income-eligible buyer. There is, in effect, an intergenerational *sharing* of equity across successive owners of the same home; hence the name shared-equity homeownership for models of housing designed to achieve this fair allocation of property-based wealth.

Defining Features of Shared-Equity Homeownership

Occupants Are Owners

The people who occupy shared-equity housing are homeowners, not tenants. They make an investment that is returned to them when they leave, sometimes with a significant increase. They hold an ownership stake that can be transferred from one owner-occupant to another or bequeathed to their heirs. Their homes are regulated, financed, and taxed in ways that clearly differentiate them from rental housing. Equally important, the occupants of shared-equity homes are placed beyond the pale of tenancy by the security they enjoy, the control they exercise, the responsibilities they assume, and the risks they bear in occupying and operating the housing that is theirs.

Equity Is Shared

When the owners of shared-equity housing resell their homes, they typically recoup their investment, augmented by a modest return. They depart with more wealth than they had when entering the home, but they do not pocket all of the equity contributed or created by the larger community. Most of this community wealth remains in the property, keeping it affordable for the next generation of low- or moderate-income homebuyers. *Equity* also carries a more spacious meaning in shared equity housing, one that goes beyond the back-end allocation of a property's economic value. Equity is the *owner's interest* – the total package of rights, responsibilities, risks, and rewards that accompany the ownership of residential property. The owner of a shared-equity home retains much of this package, but some of the rights, responsibilities, risks, and rewards of ownership are shared with an organizational entity that continues to exercise a degree of control over how the property may be used, improved, financed, and conveyed.

Affordability Is Preserved

This sharing of the "owner's interest" is accomplished through a contractual mechanism that varies from one model of shared-equity homeownership to another. What these contracts have in common, however, whether a deed covenant, a ground lease, or some other instrument controlling the home's use and resale, is that all of them persist for a very long time. "Forever" is the gold standard here, with most proponents of shared-equity housing willing to accept nothing less than contractual controls over the use and resale of residential property that never lapse; affordability that lasts as long as the home. Others are willing to settle for longevity instead of perpetuity, accepting a 30-year standard in deciding what to count as shared-equity homeownership.

Stewardship Is Necessary

The contracts that modify the "owner's interest" must be watchfully monitored and actively enforced. Someone must stand behind these homes after they are purchased, ensuring their affordability is preserved, their quality is maintained, and the homeowner's security is protected, making foreclosure a rare event. That "someone" is sometimes an arm of government, with that agency serving as the long-term steward for the affordably priced housing its financial subsidies or regulatory powers helped to create. In other communities, stewardship is the responsibility of a community development corporation, a CLT, or some other nonprofit organization. Either way, the repeated failure of "self-enforcing" covenants has shown that shared-equity arrangements will be sustainable and successful only if there is an active organizational entity that remains in the picture for many years, performing the essential duties of stewardship.

Shades of Gray:
Models Sometimes in the Family

To extoll CLTs, LECs, and deed-restricted homes with long-lasting affordability covenants as the touchstone models of shared-equity homeownership is to exclude other forms of housing that do not fit as comfortably into this family of tenures. The emphasis on owner-occupancy, for instance, leaves out every form of rental housing, regardless of whether the property's owner is a for-profit landlord, a nonprofit organization, or a public housing authority. Excluded, as well, are all forms of market-rate homeownership that make no provision – or only temporary provision – for perpetuating the housing's affordability. But the determination of whether to include a particular form of housing within the conceptual and programmatic definition of shared-equity homeownership is not always so black and white. Some models are painted in shades of gray. They sometimes *perform* like shared-equity homeownership, even if they do not look exactly like the sector's touchstone models.

Shared Appreciation Mortgages

Various forms of shared-equity financing are sometimes nominated for inclusion in shared-equity homeownership, although not without strenuous objection from many advocates for CLTs, LECs, and deed-restricted homes. The latter see no resemblance between forms of *tenure* like theirs that remove homes from the marketplace and forms of *financing* that depend on homes being resold for the highest price the market will bear. Indeed, if the litmus test for shared-equity homeownership is creating a permanent stock of resale-restricted, owner-occupied housing, where public (and private) subsidies are retained in the same affordably priced homes that are passed from one generation to the next, then none of the shared-appreciation schemes for financing owner-occupied housing belongs in the company of CLTs, LECs, and deed-restricted homes.

From the point of the view of the owner-occupants, on the other hand, shared-equity financing can function much like shared-equity ownership. Homeowners who receive a shared appreciation mortgage are not allowed to pocket the subsidies that have gone into making their homes affordable. Nor do they pocket all of their home's appreciation. Much of it is claimed by – that is, *shared* with – an outside investor, public or private, who helped the income-eligible household to buy the home in the first place. As a condition of receiving this favorable financing, moreover, the homeowner may be forced to share some of the other prerogatives of ownership, relinquishing control over activities like subletting or post-purchase capital improvements. In some publicly funded programs, there may even be a public agency or private nonprofit that stands behind the homeowner after the loan is made, intervening to prevent foreclosure if the homeowner gets in trouble.

In none of these lending programs, however, is a limit placed on the future price of the home when it is eventually resold. In fact, shared-equity financing requires an assisted home to be resold for the highest possible price, so the proceeds can be divided between the homeowner and the investor. Affordability of the resold home is immediately lost, therefore, in markets where housing prices are rising at a faster rate than household incomes. Under most circumstances, this would instantly disqualify shared-equity financing from joining the ranks of shared-equity homeownership, since longevity of affordability is one of the sector's defining features. When the funds recaptured from shared appreciation mortgages are continuously reinvested, however, helping successive generations of income-eligible households to purchase homes on the open market, it is arguable that some of these programs may do as good a job of preserving access to homeownership for persons of modest means as programs that remove homes from the market. They do so in a very different way, of course. Programs that provide shared equity loans recycle dollars rather than homes. They use public subsidies (or private investments) to produce affordable *payments* for assisted households, instead of affordable *prices* for a permanent stock of resale-restricted, owner-occupied housing. Nevertheless, to the extent that the dollars recaptured by these programs are permanently and irrevocably committed to assisting income-eligible homebuyers and to the extent that a stewardship regime is made part of the program, shared equity financing begins to bear a rather strong family resemblance to shared-equity homeownership.

Resident-Owned Mobile Home Parks

Manufactured housing communities, more commonly and colloquially known as "mobile home parks," have become fertile ground for hybrid models of tenure that exhibit many of the characteristics of shared-equity homeownership. Residents of these communities often own their manufactured homes, but not the underlying land. They lease the concrete pad under their housing, paying a monthly "lot rent" to the park's owner. When this owner is a profit-oriented investor, the park's residents have little security and little control. Their residency is often marked by rising lot rents, onerous rules, poor maintenance of roads, water, electricity, and sewer, and constant uncertainty over their landlord's plans for someday selling the park. This has prompted residents in many manufactured housing communities to pursue a strategy of buying out the landlord and taking over the ownership and management of their parks.

Resident ownership is being structured in a variety of ways. In the most common model, a resident-owned cooperative is established to own the land, maintain the infrastructure, and mange the park. Pioneered by the Manufactured Housing Park Program of the New Hampshire Community Loan Fund, this cooperative model of resident ownership is now being promoted nationwide by ROC USA. Residents purchase a share in the cooperative, a buy-in cost that is paid off over a period of 18 months and returned to the residents when they move out of the park. They continue to pay a

monthly fee to occupy the concrete pads under their manufactured housing, but they lease their lots from a corporate entity they collectively own and control. In most of these resident-owned cooperatives, there are contractual controls over the transfer of the co-op's shares, but no controls over the resale price of the manufactured homes. This is a mixed model of tenure, therefore, where the site for a manufactured home is kept permanently affordable by an LEC's ownership of the underlying land, but the home itself is priced and conveyed through the market.

There are three variations, however, where the underlying land and the manufactured homes are both subject to affordability controls, drawing resident-owned parks more completely into the family of shared-equity homeownership. In one, the LEC that owns the land also holds a preemptive option to repurchase the manufactured homes for a below-market price. In the second, a public agency or nonprofit organization outside the cooperatively owned park imposes and enforces an affordability covenant that is attached to each manufactured home. In the third, the underlying land is leased from a community land trust, with the CLT holding a preemptive right to repurchase at a formula-determined price any manufactured homes that come up for sale. The homes are then resold by the CLT to another income-eligible household.

The Central Role of Stewardship

The preservation of affordability is the activity for which shared-equity homeownership is best known. The reliability of these models in maintaining affordability over many years is often touted, in fact, as the main rationale for structuring homeownership in this way. But durable affordability is not the only thing distinguishing shared equity homes from their market-priced counterparts. Just as the rewards of homeownership are not all that is shared, affordability is not all that is preserved. The long-term survival of shared equity housing – and the long-term success of its owners – requires a steward that is equally attentive to perpetuating the occupancy, quality, and security of these resale-restricted homes, thereby safeguarding the homeownership opportunities that public funders and their nonprofit partners have made possible.

What is put in place in most models of shared equity housing is a multifaceted stewardship regime that does more than merely oversee the transfer of affordably priced homes from one income-eligible buyer to another. The steward is charged with ensuring that shared equity homes continue to be occupied as the principal residence of the same persons who own these homes. Absentee ownership is prohibited. Subletting is regulated. Incentives are put in place to encourage sound maintenance.

The steward is also focused on managing the risks that accompany the financing and operation of a home, protecting low-income homeowners against the threat of foreclosure. Most stewards provide prospective buyers with an intense orientation to their new responsibilities; they screen against predatory lending and high-cost mortgages; and they careful-

ly match the cost of operating a particular home to the household's ability to carry this added financial burden. After purchase, most stewards regulate the improvement and refinancing of shared equity homes to ensure that homeowners do not assume more debt than they can afford – or pledge more equity than they own. Many stewards also insist on being a party to the mortgage, requiring lenders to give the steward: (1) notification if homeowners get behind in their mortgage payments: (2) an opportunity to cure defaults on a homeowner's behalf, forestalling foreclosure, and (3) the first right to buy a property out of foreclosure, if the steward is unsuccessful in helping the homeowner to remain in her home.

Protections like these are found throughout the sector, enhancing the security of low-income homeowners. Especially when real estate markets cool or collapse, these protections have proved their effectiveness by reducing foreclosures among shared-equity homes to a fraction of the foreclosure rate found in market-rate housing.

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(*See also*: Community Land Trust; Cooperative Housing; Homeownership; Tenure Sectors)

Further Readings

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