



Shared Equity Homeownership

Shared equity homeownership is a unique approach to affordable homeownership that balances the twin goals of long-term affordability and individual asset accumulation. Under this approach, a state or local government (or other sponsor) provides a substantial subsidy to help a family purchase a home. In return, the public shares in the benefits of any home price appreciation that may occur while the family lives there.

Types of Shared Equity Homeownership Models

*Shared equity homeownership models generally fall into two categories — **subsidy retention strategies** and **shared appreciation loans***

Subsidy Retention Strategies

Under this approach, public funds are invested to reduce the price of a home to an affordable level. This subsidy is then retained in the unit through resale restrictions that ensure the home remains affordable over the long term. There are three main types of subsidy retention strategies:

COMMUNITY LAND TRUST Traditionally, a family purchasing a home through a community land trust (CLT) purchases only the structure and not the land. The CLT leases the land at a nominal price, reducing the price of the home to below-market levels. To preserve affordability, the CLT requires that all future home sales be at affordable prices to qualified buyers.

DEED-RESTRICTED HOMEOWNERSHIP Under this approach, local governments or other program sponsors provide a subsidy to reduce the purchase price of a new or existing home to an affordable level. Resale restrictions ensure that any future sales of the home are at an affordable price to a qualifying buyer.

LIMITED EQUITY COOPERATIVE Families purchase a "share" in a cooperative, rather than a standard property interest in the home. To ensure ongoing affordability, the shares must be sold at affordable levels to assist future buyers.

In all three of these subsidy retention strategies, ongoing affordability is maintained by use of a resale formula. The formula may be contained in a co-op's bylaws (limited-equity co-op), built into a ground lease (community land trust), or set in a deed restriction or covenant (deed-restricted homeownership).

Shared Appreciation Loans

These loans are used to help lower income homebuyers purchase the home of their choice. They are generally structured as "silent" second mortgages so that borrowers make no payments until they sell the home. At that time, the full loan is repaid plus a portion of the home price appreciation. In this way, the amount returned to the subsidizing entity reflects increases in home prices, which helps to preserve the "buying power" of public subsidies. To ensure ongoing affordability, some or all of the public's share of home price appreciation will need to be used to increase the size of loans made to help subsequent home purchasers.

What Benefits do Shared Equity Policies Provide?

- ▶ They preserve the value of government homeownership subsidies in the face of rapidly rising home prices in the market as a whole or in particular locations, such as neighborhoods located near public transit.
- ▶ They help preserve the affordability of units made available through inclusionary zoning or other programs that incent or mandate affordability.
- ▶ They provide lower-income homeowners with asset-building opportunities not available to renters.
- ▶ They provide a mechanism for the government to preserve or recapture large public investments made to help families avoid foreclosure.

The Asset-Building Potential of Shared Equity Homeownership

Despite limiting the full potential equity homeowners can gain compared to what they might gain on a market-rate home without resale restrictions, shared equity homeownership can still offer homeowners significant equity gains. This can be an effective asset-building strategy for lower income families who do not have access to traditional homeownership and may not otherwise have significant opportunities to build wealth. In addition, many shared equity homeowners move on to become market-rate homeowners upon selling their affordable home, demonstrating the potential for enabling upward residential mobility through shared equity programs.



City's Edge Condominiums, South Burlington, Vermont

CHAMPLAIN HOUSING TRUST

Champlain Housing Trust — Burlington, Vermont

Families that buy a home through the Champlain Housing Trust (CHT) receive downpayment assistance to reduce the cost of purchasing a home. In return, the family agrees to sell the home for an affordable price to CHT or a qualifying buyer. The affordable price allows the original purchaser to recover their initial investment plus 25 percent of any home price appreciation. The remaining appreciation is used to keep the home affordable to the next buyer.

An evaluation of this model found that CHT successfully preserves long-term affordability while providing home purchasers with an annualized return of 17 percent on their initial investment. Some 70 percent of families who resold homes originally purchased through CHT went on to purchase market-rate homes.

In What Markets/Situations are Shared Equity Policies Most Applicable?

Shared equity homeownership tools were developed principally to address the problems caused by hot housing markets.

When housing prices rise rapidly, the costs of helping working families to achieve homeownership also rise, reducing the number of families that communities can serve with a set amount of subsidy. Shared equity homeownership is particularly important in preserving affordability and subsidy in:

- ▶ Markets in which home prices are rising faster than incomes, or are expected to do so.
- ▶ Neighborhoods near public transit and job centers, or other areas likely to experience gentrification pressure, where the community seeks to create and/or preserve affordable homeownership opportunities.

Shared equity strategies can also:

- ▶ Serve as a form of insurance for maintaining the buying power of public investment and protecting affordability in communities where the future direction of home prices is unclear.
- ▶ Help communities recapture large public investments made to aid homeowners in danger of losing their homes through foreclosure or to expedite the sale of foreclosed homes that are not selling well at market levels.

Applying Shared Equity Homeownership Models to Declining Housing Markets

While designed primarily to address the housing challenges posed by strong housing markets, shared equity homeownership also has applications in declining housing markets.

Shared equity homeownership can help families avoid foreclosure and losses from declining home values. The monthly payments of shared equity homeowners are set at affordable levels, making them much safer than subprime and other “creative” or “stretch” financing. Because these homeowners purchase at prices that are generally well below market prices, they are also better able to weather downturns in the market.

Shared equity homeownership can also be part of a foreclosure prevention strategy. Communities can offer families in danger of foreclosure substantial financial assistance in exchange for converting their home into a shared equity home or converting their mortgage into a shared appreciation loan.

Shared equity homeownership can be a helpful component of a neighborhood preservation strategy. Many communities are working to quickly return foreclosed homes to productive use. When it is difficult to find buyers for these homes at market levels, communities can use subsidies to make the homes affordable to working families or others who would be interested in purchasing them. Shared equity homeownership provides a mechanism for preserving the buying power of those subsidies once home prices stabilize and increase.

Shared equity homeownership can be a vehicle for providing and preserving affordable housing near job centers and public transit — areas where affordability is often compromised, even in a down market. Studies show that working families pay a larger share of their income for transportation costs than other families, making them particularly vulnerable to increases in gas prices. Shared equity homeownership can be a critical tool for helping to create and preserve affordable housing opportunities near public transit stops and in job centers and other areas that allow families to get to work and around town without long car trips and high transportation costs.

For more information
on shared equity
homeownership visit
[www.housingpolicy.org/
factsheets.html](http://www.housingpolicy.org/factsheets.html)