Grounded Solutions Network cultivates communities – equitable, inclusive and rich in opportunity – by advancing affordable housing solutions that last for generations.
Where we live matters
Alternative Homeownership

- Affordable Rental
- Traditional Homeownership

- Community Land Trusts
- Deed Restricted Homes
- Limited Equity Cooperatives
Seeking a Fair Balance

- Individual Wealth Creation Risks
- Community Affordability Rewards
Lasting Affordability: the Formula
### The Formula

#### Homebuyer

<table>
<thead>
<tr>
<th>Debt</th>
<th>+</th>
<th>Equity</th>
<th>=</th>
<th>Affordable Purchase Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>+</td>
<td>Down payment</td>
<td>=</td>
<td>Principle, Interest, Taxes, Insurance</td>
</tr>
<tr>
<td>$145,000</td>
<td>+</td>
<td>$10,000</td>
<td>=</td>
<td>$155,000</td>
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</tbody>
</table>
**The Formula**

Debt + Equity = Total Development Cost (TDC)

<table>
<thead>
<tr>
<th>Debt</th>
<th>+</th>
<th>Equity</th>
<th>=</th>
<th>Total Development Cost (TDC)</th>
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<tbody>
<tr>
<td>Construction Loan</td>
<td></td>
<td>Cash on hand</td>
<td>=</td>
<td>Land Acquisition</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Construction Costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Soft Costs (legal, insurance...)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Interest on construction loan</td>
</tr>
<tr>
<td>$120,000</td>
<td>+</td>
<td>$40,000</td>
<td>=</td>
<td>$200,000</td>
</tr>
</tbody>
</table>
The Formula

Debt + Equity = TDC/Purchase Price

<table>
<thead>
<tr>
<th>Developer</th>
<th>Homebuyer</th>
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</thead>
<tbody>
<tr>
<td>Debt</td>
<td>$120,000</td>
</tr>
<tr>
<td>Equity</td>
<td>$40,000</td>
</tr>
<tr>
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</table>
The Formula

Debt + Equity = TDC/Purchase Price = Debt + Equity

$120,000 + $40,000 = $200,000

$155,000 = $145,000 + $10,000

$45,000 Affordability Gap
The Formula

Debt + Equity = TDC/Purchase Price

$120,000 + $40,000 = $200,000
$155,000
($45,000)

$200,000 = Debt + Equity
$145,000 + $10,000

Decrease Costs (Subsidy)
Below Market Rate Loans
Land Donations
Public Grants
Value Capture Programs
The Formula

Debt + Equity = TDC/Purchase Price

$120,000 + $40,000 = $200,000

$155,000

($45,000)

= $145,000 + $10,000

Decrease Costs

Below Market Rate Loans
Land Donations
Public Grants
Value Capture Programs

Increase Purchase Power

Lower Interest Rates
No Private Mortgage Insurance
Down Payment Assistance
Individual Development Account
Gifts
## The Key Differences

<table>
<thead>
<tr>
<th></th>
<th>Traditional Model</th>
<th>CLT Model</th>
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<tbody>
<tr>
<td><strong>Market Price of Home</strong></td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td><strong>What Buyer can Afford</strong></td>
<td>$155,000</td>
<td>$155,000</td>
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<tr>
<td><strong>Subsidy Needed</strong></td>
<td>$45,000</td>
<td>$45,000</td>
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<tr>
<td><strong>Sale Price to Homebuyer</strong></td>
<td>$200,000</td>
<td>$155,000</td>
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<td>10 Years Later...</td>
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<tr>
<td><strong>Market Value After 10 Years</strong></td>
<td>$240,000</td>
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<tr>
<td><strong>Sales Price</strong></td>
<td>$240,000</td>
<td>$185,000</td>
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<tr>
<td><strong>Subsidy Retained</strong></td>
<td>$0</td>
<td>$55,000</td>
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<tr>
<td><strong>Seller Portion (before payoff)</strong></td>
<td>$285,000</td>
<td>$185,000</td>
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The Key Differences

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<tr>
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<tr>
<td>NEW Sales Price of home</td>
<td>$240,000</td>
<td>$185,000</td>
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<tr>
<td>NEW Buyer Affordability</td>
<td>$185,000</td>
<td>$185,000</td>
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<tr>
<td>NEW Buyer Subsidy Needed</td>
<td>$55,000</td>
<td>$0</td>
</tr>
<tr>
<td>Subsidy Retained</td>
<td>$0</td>
<td>$55,000</td>
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<tr>
<td>NEW Resources Needed</td>
<td>$55,000</td>
<td>$0</td>
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</table>
The Formula in Summary

Lower price initially

Lower price at resale

Again, again and again
Perpetual Responsibility

- Stewardship of structures (homes)
- Stewardship of leaseholders (homeowners)
- Stewardship of subsidy (public funds)
Alternative Homeownership Models
Community Land Trusts

- Grew out of the Civil Rights Movement
- Boom in the 1990s (and now!)
- Created primarily by non-profit orgs
- Over 250 CLTs in 46 states
- Go beyond housing
Community Land Trusts

**Classic CLT**

- Retains ownership of land
- Homeowner purchases just the improvement
- 99-year ground lease
- Tri-partite board
- Community Membership
- Variations
VT Housing & Conservation Board

Created by state statute in 1987

- Established the Vermont Housing & Conservation Board
- Established the Vermont Housing & Conservation Trust Fund

For most properties, 0.005 on the first $100,000; 0.0145 on balance
Deferred loans, for acquisition, rehab and construction
Serve households at or below 100% of AMI
Permanently affordable

In 2016:

Collected $14 million in state property transfer tax and capital bond
Invested $18.3 million
840 homes, 49 farms, 2 historic preservation projects, 7.200 acres of conserved land, 162 technical assistance awards
Putting VHCB to Use:

On the Development side:
• $700,000 to develop 36 affordable homes. Part of a $10.2 million project.

On the Purchaser side:
• $135,000 in downpayment assistance to five homebuyers. Part of a $3.7 million project.

On the energy efficiency side:
• $1.4 million for upgrades in 148-unit property. Part of a $11.6 million project.
Limited Equity Cooperatives

- Established in the 1920s
- Boom in the 1960s-70s
- Created through tenant option plans
- Large clusters in NYC, Washington DC and San Francisco
- Serve very low and low-income residents
Limited Equity Cooperatives

Classic LEC

- Co-op owns building and land underneath
- Tenant-shareholders own a share in the corporation and receive a long-term “proprietary lease” to their unit
- Democratically governed by tenant-shareholders
- Variations
The Cooperative Formula

Debt + Equity = TDC/Purchase Price = Debt + Equity

Construction Loan + Cash on Hand = Permanent Mortgage + Share Purchases

Monthly Maintenance Fees

Cooperator down payment and share loan?
NYC: Participatory Loan Program

- Tax foreclosed properties
- Tenant Purchase Option
- Blended Mortgage– private and public
- City loan deferred for 30 years
- Complete tax abatement
- Regulatory and monitoring agreements
Example: 8 Unit Co-op

Total Development Cost: $1,677,972
  - PLP Construction Loan: $1,303,551
  - Private Loan: $361,422
  - Equity: $8,000

  - Blanket Mortgage: $1,308,551
  - Deferred PLP Mortgage: $361,442
  - Equity: $8,000

Share purchase price: $2,500
Deed-Restricted Housing

- Established in the 1970s
- Boom in the 1990s
- Created primarily by municipal governments
- Clusters in NJ, CA, MA and around Washington, DC
- Includes shared appreciation loans
Deed-Restricted Housing

**Classic Deed Restriction**

- Homeowner holds title to both the land and the home (except condos)
- Deed includes restrictive covenants: 30-99 years
- Tend to be imbedded within larger organization or government
- Variations
City of West Hollywood

Passed Three Inclusionary Housing Policies in 1986

- Mandatory 20% Set-aside for new construction 11+ units
  
  City-wide policy
  Rental and homeownership
  Additional density bonuses and zoning variances available
  Affordable at/ below 80% AMI and between 80 and between 80 and 100% AMI
  Permanently affordable

- Voluntary fee-in lieu for smaller properties

- Commercial Linkage Fee
Denver Regional TOD Fund

Established in 2010

- Enterprise Community Partners, City and County of Denver, private investors
- Capitalized with $24 million
- Purchase and holding of land near transit for up to 5 years
- As of 2016, had provided nearly $20 million for creation and preservation of more than 1,100 affordable homes and 100,000 square feet of community space
Do they work?
Through the program, homes affordable to households earning 74% of AMI became affordable to households earning 56% of AMI.
Ongoing Affordability

Are the programs preserving affordability?

All Resale Transactions

Components of Market Value at Sale

Prior Purchase
- Community Investment: $37,164
- Subsidized Price: $89,500

Resale
- Community Investment: $50,456
- Subsidized Price: $105,000

Affordable to Whom (% of AMI)

Prior Purchase
- Program: 56.8%
- Market: 73.3%

Resale
- Program: 54.3%
- Market: 71.5%

Ideally, community investment is larger at resale, both in dollars and as a portion of market value, and this yields corresponding growth in the affordability added by the program at resale, relative to prior purchase.
Wealth Creation

How did sellers' returns compare to other options?

Typical seller who owned at least 5 years:

<table>
<thead>
<tr>
<th>Seller's Gain</th>
<th>Annual Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,871</td>
<td>7.97%</td>
</tr>
<tr>
<td>$35</td>
<td></td>
</tr>
</tbody>
</table>

- Program: 1.06%
- S&P 500: 7.97%
- Home Value Appreciation: 2.22%

Program, S&P 500, Home Value Appreciation