

Shared Equity Homeownership

City of Port St. Lucie City Council Meeting
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Presented By:

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About the Florida Housing Coalition

- Statewide nonprofit provider of training and technical assistance
- From ending homelessness to first time homeownership
- Provide education and advocate for best practices for all public and private sector tools to produce and preserve housing that is affordable
- Particular emphasis on equitable development and redevelopment, anti-displacement, and long-term affordability



Local Government's Role in Affordable Housing Development

Every jurisdiction in Florida has the obligation to provide for housing its entire current and anticipated population, including the most vulnerable, such as those with special needs and farmworkers.

- Chapter 163.3177(6)(f)

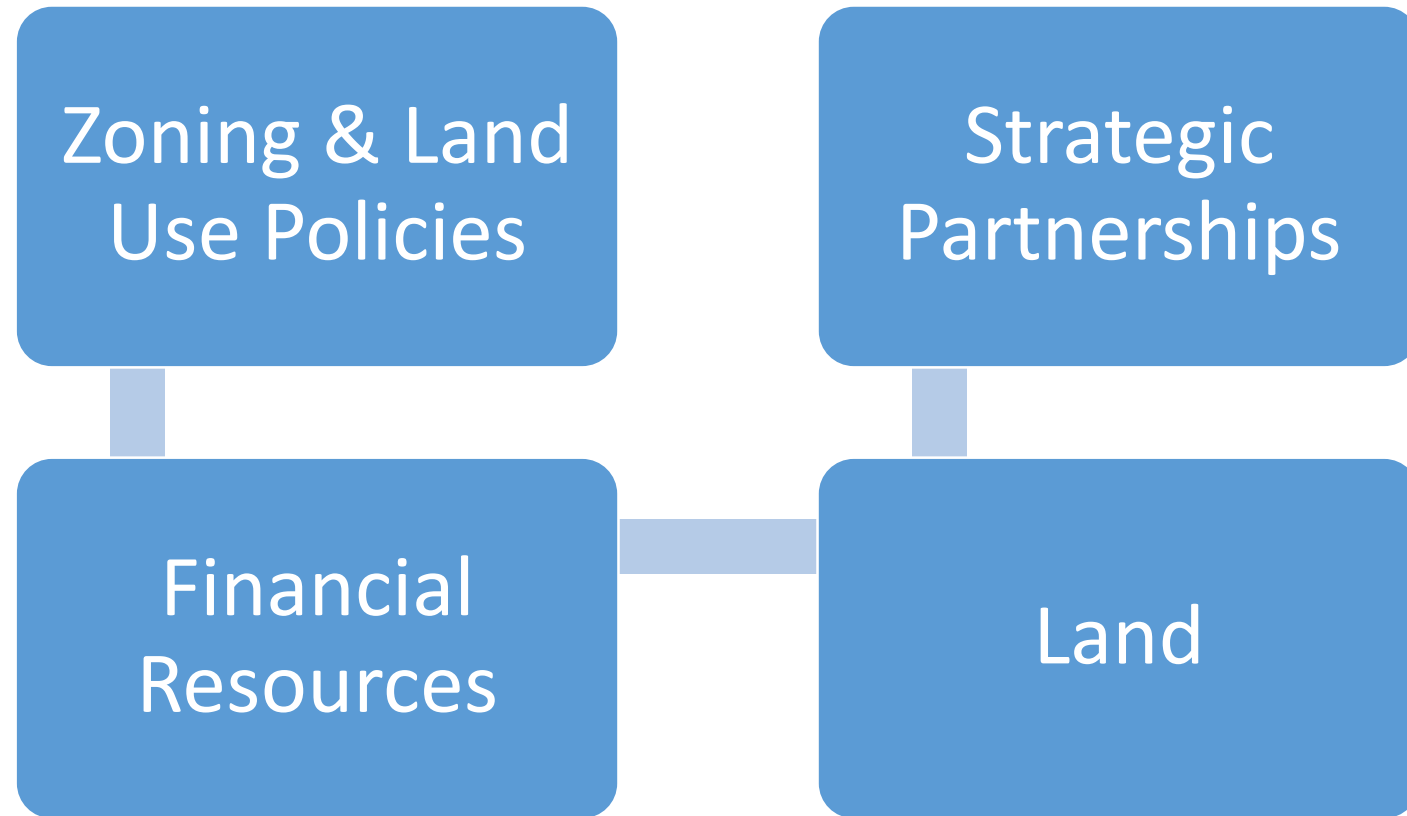


The Housing Element of the Comprehensive Plan

- The Housing Element requirement does not mean that local governments must build all this housing themselves....
- It does mean that local government should use its police powers (to carry out laws for the health and safety of its residents), its land use authority, and its compliance with the spirit and intent of fair housing and affordable housing laws to create an environment in which affordable housing will be provided by the private sector

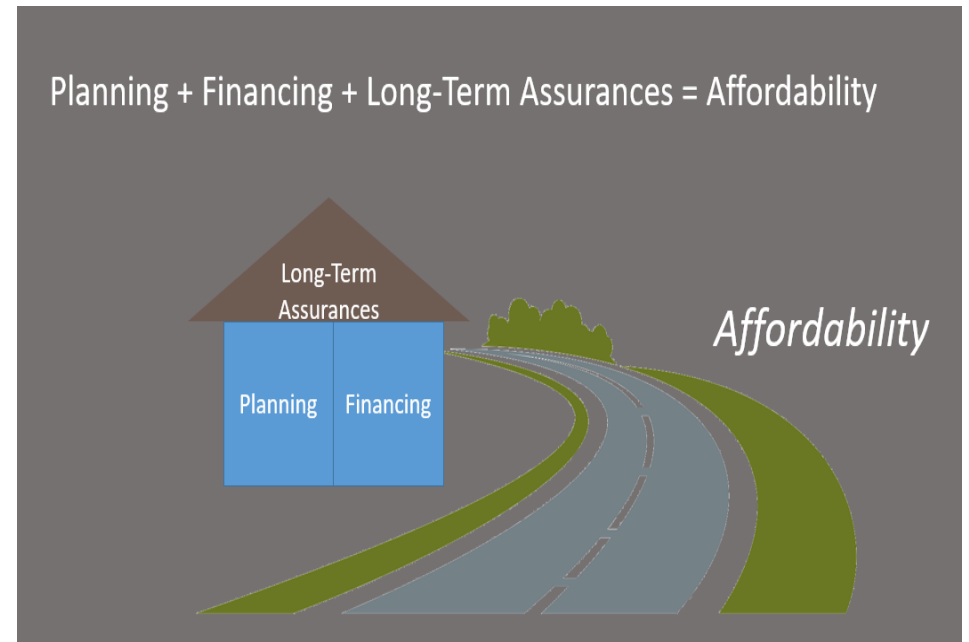
How is Housing Made Affordable?

Government Resources



Financing Affordable Housing

- Local governments use federal, state, and local funds to finance affordable housing through programs like acquisition, rehabilitation, or new construction of housing to low- and moderate-income households
- In exchange for the financing, affordability restrictions are imposed for a specified period which will vary from program to program



City of Port St. Lucie

NSP1 Acquisition/Rehabilitation Program

NSP1 Acquisition/Rehabilitation
Average investment per unit - \$64,000 (average cost of acquisition) + \$60,000 (average cost of rehabilitation)
Loan term - 25 years
Forgiven at the end of the term
Loan balance due upon sale or transfer of the property

- 147 homes sold to low- and moderate-income households
- 25-year affordability period with 4% forgiven each year
- If sold during affordability period, seller repays only the direct assistance/subsidy i.e., downpayment assistance, closing costs.
- No requirement to sell the home to another low- and moderate-income homebuyer
- Due to market appreciation, every NSP client has the potential to walk away with as much as \$100,000 in equity



Recapture Provision Scenario

- Homebuyer gets \$21,000 SHIP loan from the City.
- In 12 years, the owner decides to sell.
- Outstanding SHIP balance is \$4,200.
- Owner repays the City the \$4,200.
- Owner can sell to any willing and able buyer for the price the market will bear.
- If the owner purchased the home in 2008 for the median sales price of \$160,000*
- In 2019, the median sales price is \$236,000** or an appreciation of 47.5%
- Owner walks away with windfall profit on a publicly-subsidized home and the home is now lost from the City's affordable housing inventory
- \$4,200 in recaptured funds is not enough to help another qualified household

SHIP Home Purchase Assistance

Maximum award - \$21,000

Loan term - 15 years

Forgiven at the end of the term

Loan balance due upon sale or transfer of the property

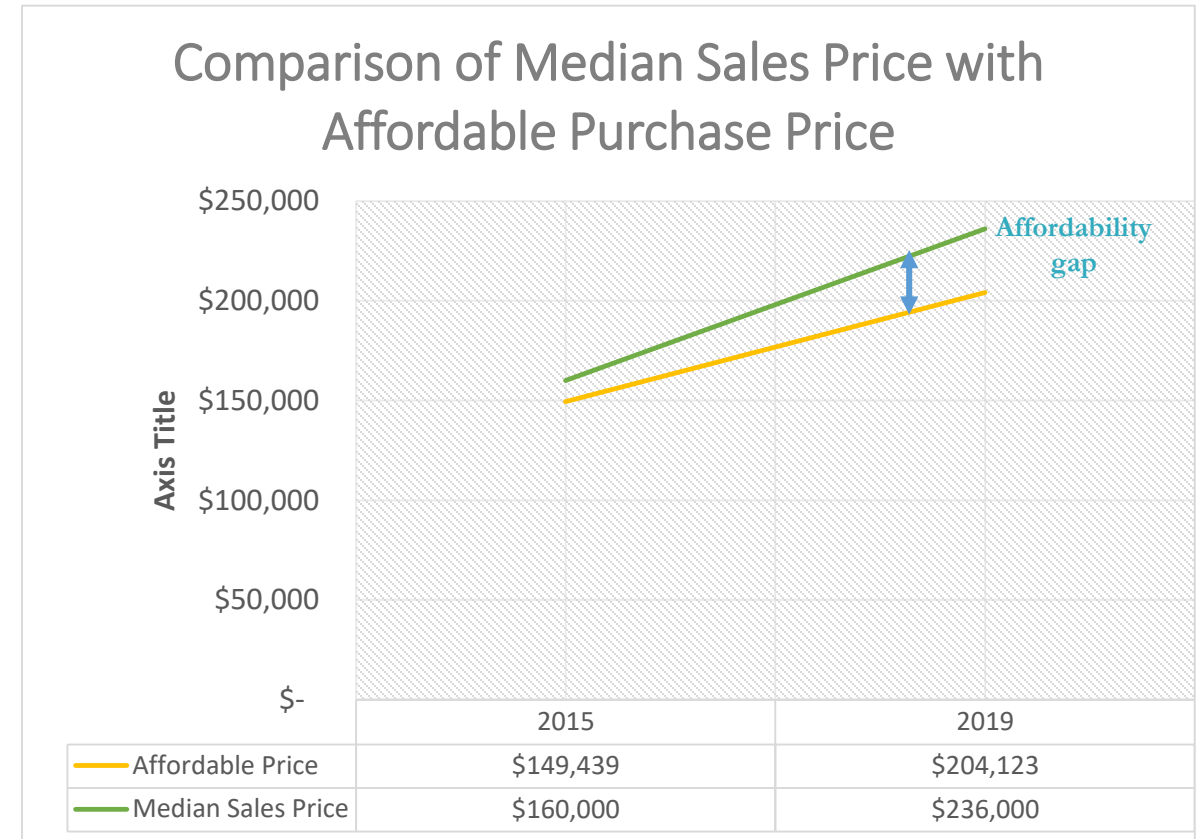
*Estimated based on Florida Sales Report data for June 2009 Single-Family, Existing Homes for Fort-Pierce, Port St. Lucie MSA

** St. Lucie County Market Snapshot Dec. 2019 produced by Broward, Palm Beaches & St. Lucie Realtors



Why should the City consider permanent affordability?

- Helps meet obligations of Housing Elements in Comprehensive Plans
- Affordable housing promotes stability
 - Community
 - Family
 - Economy
- Housing prices generally increasing at greater rate than income
 - Between 2015 and 2019, median household income increased by 36.5% from \$49,813 to \$68,041
- Diminishing value of public assistance



Source: Median Household Income, 2015 and 2019 5-Year U.S. Census Bureau American Community Survey Estimates



Shared Equity Homeownership

- Sharing of equity between the seller and the community
- The homebuyer gets a below-market price and in return agrees to certain resale restrictions that keep the home affordable for subsequent owners of that home
- The resale restrictions limit the profit on the home, but still allows for wealth building
- Community Land Trust (CLT) homeownership is a form of shared-equity homeownership that creates permanently affordable housing



What is a Community Land Trust (CLT)?

- The vehicle of separating ownership of the land from the building
 - Removing the cost of the land makes the housing more affordable
- Also, the nonprofit organization that holds title to the land, sells housing on the land, and administers a ground lease



How does CLT work for homeownership?

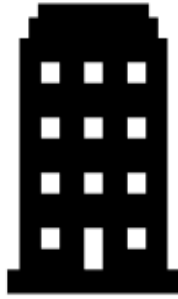
An eligible household buys the home at below market price



But leases the land from the CLT



CLT permanently owns the land



CLT

The homeowner pays a nominal monthly ground lease fee

The Ground Lease contains a "Resale Formula." This keeps the home affordable forever.

The current resident sells their house to an income-qualified buyer



The new buyer purchases the house at an affordable price and agrees to the same requirements for resale



Local governments are increasingly interested in the CLT model

- Subsidized housing units are being lost from the affordable housing stock when homes are sold, or affordability period expires
 - CLTs increase the inventory of affordable housing
- Increasing housing prices outpacing income
 - Requires more subsidy to fill the affordability gap and funding sources diminishing
- Recapture approach is not working
 - Recaptured subsidy when the home is sold is not enough to help the next homebuyer
 - Alternative – subsidy retention (subsidy is retained in the home when home is resold to another income eligible buyer)



Retaining the Subsidy for Permanent Affordability (Appraisal-based formula)

Initial Purchase

\$ 195,000 Land + House
- \$ 35,000 Land Value
\$160,000 Sales Price
- \$ 21,000* Purchase Asst.
\$139,000 Base Price

*Assumable

Resale – 12 years later

\$292,500 Appreciated value (assumes a 4% increase per year)
- \$195,000 Initial Appraised value
\$97,500 Increase in value/total appreciation

Owner share of equity – 25%

$\$97,500 \times 0.25 = \$24,375$

Resale price = Original Purchase Price + Owner's Share of appreciation

Resale price: $\$139,000 + \$24,375 = \$163,375$



Estimating the Return to the CLT Homeowner at Resale

- The proceeds of the sale will equal the sales price (Purchase Option Price) minus all costs due from the seller.

Increase in Sales Price	\$24,375.00
+ Principal reduction in mortgage	\$34,864.00
- Transaction/Closing Costs (~6% of sales price)	\$9,802.00
= Total due to seller	<u>\$49,437.00</u>

Renting v. CLT Homeownership v. Fee Simple Homeownership

	Renting	CLT*	Fee Simple**
Monthly Payment	\$1,400	\$700	\$1,000
Sales Price in 12 years	N/A	\$163,375	\$292,500
Return	\$0	\$49,437	\$123,593

All numbers above are estimates based on current conditions and other assumptions.

*CLT home originally sold below market value at \$160,000 with \$21,000 purchase assistance

**Fee Simple home originally sold at market value of \$195,000 also with \$21,000 purchase assistance



The Housing Continuum

THE IDEAL CLT HOMEBUYER

Rental

- Pay rent to Landlord
- No equity when you leave
- Subject to rent increases

CLT

- Monthly lease fee to CLT; mortgage payments to Lender
- Some equity at resale; subject to ground lease
- Affordable forever

Fee Simple

- Mortgage payments to Lender
- Subject to market conditions upon resale
- Complete form of ownership

Benefits of CLT Homeownership: For the Individual Household

- Price of home is more affordable and make homeownership attainable for lower-income families
- Return of equity upon resale
 - Families build wealth that can be passed on to future generations
- Mortgage payments instead of rent payments
 - Financial stability – ability to save without fear of rent increases
- Mortgage interest payments are deductible; homestead exemption



Benefits of CLT Homeownership: For the Community

- Creates permanently affordable housing
- Provides an additional homeownership option for renters
- Public investments go further
- Guards against displacement due to gentrification in rapidly appreciating markets
- A nonprofit is providing stewardship to help CLT homeowners be successful



CLTs complement other Affordable Housing Tools and Strategies

Maximize the Use of Surplus Lands for Affordable Housing:

- Florida Statutes: Section 166.0451, commonly referred to as the “surplus land statute”
- Place all government-owned developable land on the affordable housing inventory list so that sale proceeds are earmarked for affordable housing purposes
- Use Surplus Land to increase supply of affordable housing through preference for shared equity and permanent affordability programs with surplus land



CLTs complement other Affordable Housing Tools and Strategies

SHIP and other subsidy programs:

- Allow downpayment assistance for CLT purchases
- CLT makes the public investment go further
- Use subsidy retention to create permanent affordability
 - SHIP assistance is assumable to an income-eligible purchaser with approval by the CLT.
 - No repayment required during the term of the loan, provided the loan remains in good standing.
- Apply similar language or requirement to other subsidy programs



Key to the Success of the CLT



Partnership and support of the local government

- Donation of underutilized land to the CLT
- Zoning laws and regulatory reforms to incentive affordable housing
- Financing from federal, state, and local sources

A highly functioning nonprofit with the ability to provide a pipeline of qualified home buyers

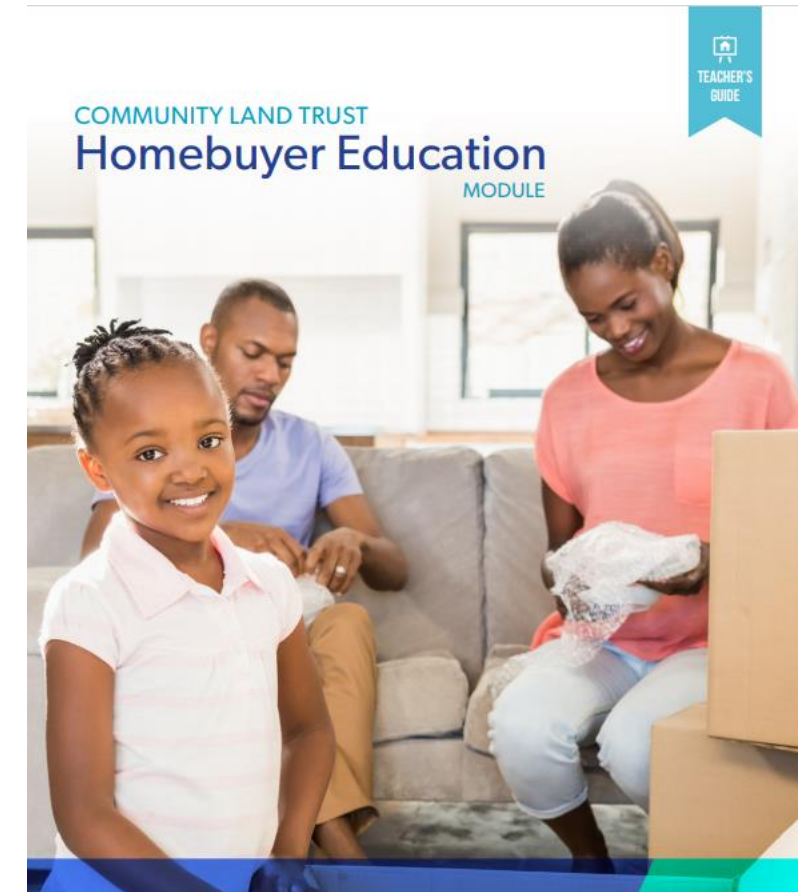
A fully informed and engaged community of prospective home buyers

A fully informed and engaged lending community



Stewardship

- Homebuyer Education
 - CLT homebuyer must understand the difference between fee simple and CLT homeownership (signed attestation)
 - Specifically, understanding what money to expect upon resale
 - And that depends on the resale formula
- Ongoing Communication with Homeowner



PRESENTED BY:
The Florida Housing Coalition
March 2020



Summary

- A one-time investment makes a home affordable for purchase by a low- and moderate-income household
- The home remains affordable for each subsequent buyer
- In return for being able to purchase a below market-rate home, the family agrees to limit their proceeds from the sale of the home
- The family builds wealth and the home remains affordable to the next buyer
- The one-time use of public funds serves generation after generation



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