

An aerial night view of a city, likely San Francisco, with a green semi-transparent overlay. The city lights are visible through the overlay, and the text is centered on it.

# Mainstreaming a third tenure option: Shared Equity Housing

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FORD FOUNDATION

# Starting points

- **Traditional, bifurcated housing market does not adequately house the population**
- **Viable alternatives are not part of unified approach to housing the population**
- **We have not been entrepreneurial in growing a “third option”**
- **Solution: A sectoral approach to *effective* housing—the SEH Sectoral Initiative**
  - **Cooperative ownership**
  - **Land Trusts**
  - **Deed restrictions**

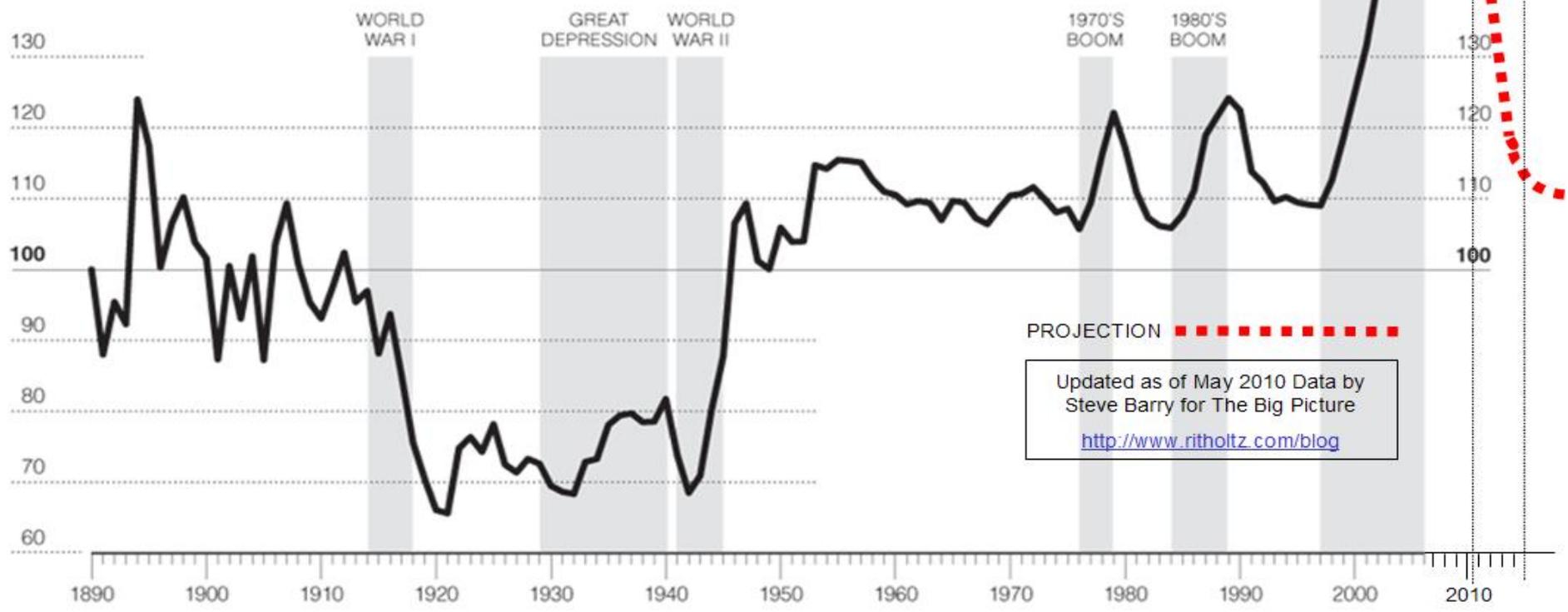
# A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).

**DECLINE AND RUN-UP** Prices dropped as mass production techniques appeared early in the 20th century. Prices spiked with post-war housing demand.

**BOOM TIMES** Two gains in recent decades were followed by returns to levels consistent since the late 1950's. Since 1997, the index has risen about 83 percent.



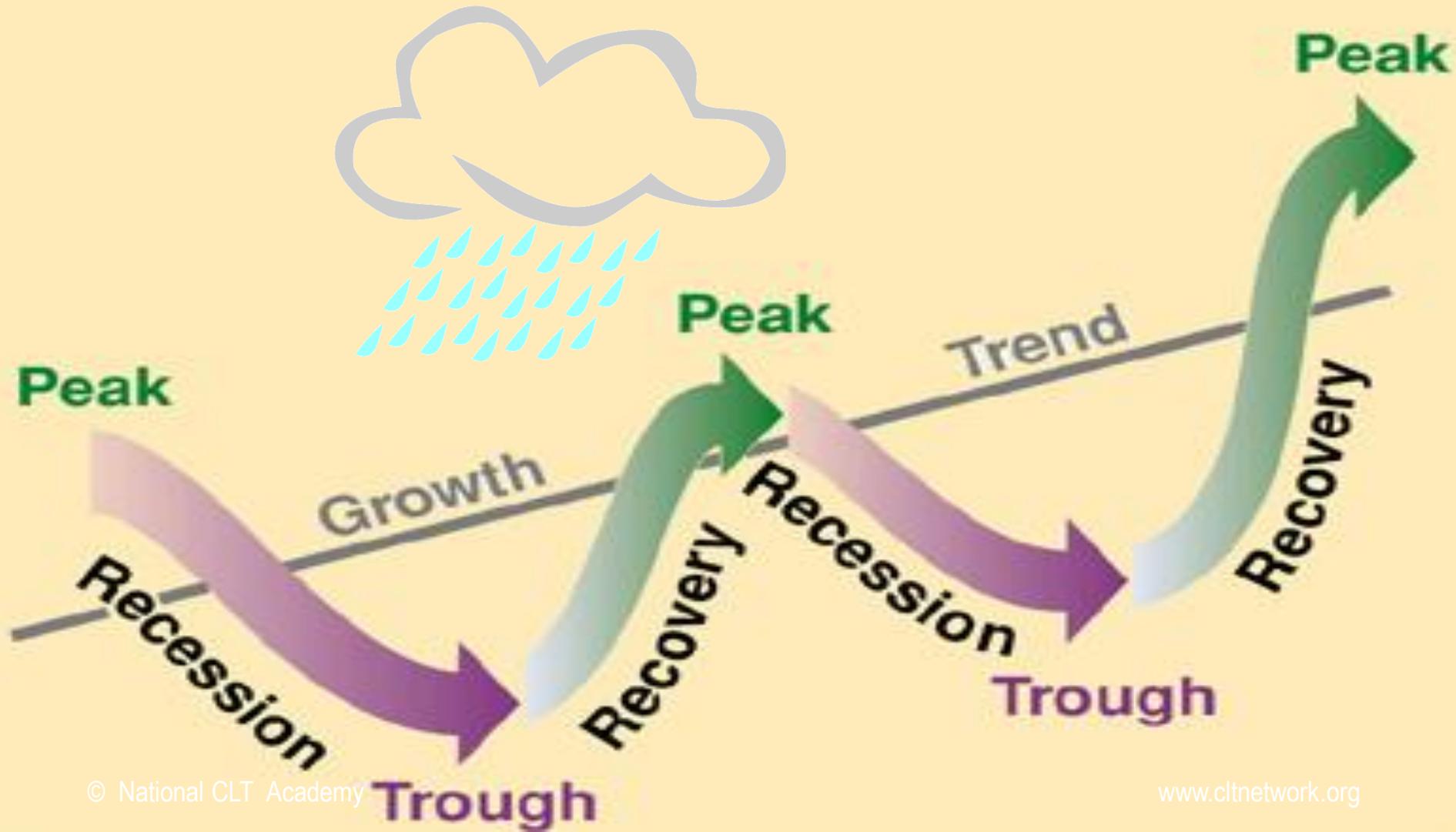
# Homes & N'hoods At Risk



✦ **Quality erodes when markets are cold**

- ✦ **Affordability evaporates when markets are hot**
- ✦ **Security vanishes when creative financing collides with collapsing real estate values**

# Homeownership Policy for a Rainy Day?



# Post-purchase Stewardship

THE  
COMMUNITY  
LAND TRUST

READER



Edited by John Emmeus Davis

“Faced with soaring real estate prices in some markets and collapsing real estate values in others, policymakers have begun to embrace new models of tenure that protect the affordability, quality, and security of housing after its sale.

# Scale: The ultimate goal

- **Currently, less than 2% of housing stock is in SEH—65% H-O; 33% Rental**
- **Where are we currently seeing prospects for reaching scale?**
  - **New Hampshire: ~20% of MH sector**
  - **Albuquerque, Burlington, Duluth**
  - **Irvine, CA?; Chicago?; LA?; DC; Atlanta?**

# What will it take to reach 20% of nat'l stock w/ SEH?

- Conversion of expiring tax credit and other multifamily to co-ops = 2+M units
- Deed-restricted HO units = 5+M units
- Half of MH parks converted to ROCs = 2M units
- 1000 CLTs with 10,000 units = 10M units

# Obstacles to scaling up

- ***External:***

- **Public acceptance**
- **Market acceptance**
- **Public sector support**

- ***Internal:***

- **Scalable approaches**
  - **Development**
  - **Management/stewardship**
- **Capital sources—reliable, big**
- **Limited vision of practitioners**

# What does SEH need?

- **Acquisition strategies:**
  - Subsidized
  - Debt financed
  - Cross-subsidized
- **Support broader n'hood goals:**
  - Not just *affordable* housing
  - Not just residential
- **Strong linkages to public sector and private market players**
- **Better business models**

# **Sectoral initiative: definition**

**A distinct intervention model that:**

- **Targets a particular market sector or segment within an industry;**
- **Intervenes by becoming a valued actor within the industry and engages that sector or segment;**
- **Exists for the primary purpose of assisting disadvantaged actors in the sector to succeed; and**
- **Creates, over time, systemic change within the sector.**

# Sectoral initiatives focus on:

- **Leadership development:** Supporting and networking current leaders; finding, training and supporting new leaders;
- **Outcome and impact measures:** Crafting disciplined methods of measuring effective outcomes and genuine impacts
- **Resource development:** sustainable, long-term funding from a range of public, private and philanthropic actors.

# **The SEH *sectoral initiative*...**

- ...targets the US housing market**
- ...promotes an effective long-term approach to meeting the demand for housing and n'hood stabilization**
- ...exists for the primary purpose of helping a huge proportion of families to build wealth through housing by fomenting systemic changes within the sector**
- ...is designed to correct market problems that make it impossible to adequately house or provide wealth-building opportunities for a large segment of the US population.**

# **SEHSI: three assumptions**

- **US housing markets, as currently structured, do not serve low- and middle-income families or n'hoods well, and problems are getting worse.**
- **Practitioners must find new ways to serve these markets that is self-sustaining and growing.**
- **A useful framework to begin changing US housing markets is at the sector level.**

# SEHSI Elements

- Promotes a mainstream housing choice that locates itself between fee simple homeownership and rental housing
- Identifies, and promotes, aspects of SEH that distinguish it from other tenure choices
- Is offered broadly in all markets
- *Will grow to displace other market options because of the inherent superiority of the approach*

# Making SEH superior

- **Standardizing tools and processes that promote and grow SEH**
  - Financial tools
  - Legal tools
  - *Marketing*
- **Leveraging opportunities provided by segmentation of market**
  - Purchasing power
  - Political power
- **Makes the case for more effective use of public subsidy**

# Applying lessons to SEHSI (1)

- **How do we make SEH more desirable than *both* fee simple homeownership and rental?**
  - **Providing services to SEH members that are not available to other tenure choices:**
    - **Discounted insurance**
    - **Bulk heating fuel purchases**
    - **Maintenance assistance**
    - **Reduction in transaction costs/facilitation of mobility w/in network**

# Applying lessons to SEH (2)

- **Exhibiting benefits of SEH**
  - **Benefits to individuals:**
    - **Asset accumulation**
    - **Better housing, amenities**
  - **Social benefits:**
    - **More effective use of subsidy**
      - **More housing created**
      - **Permanent use of subsidy**
    - **More successful families**
    - **More stable neighborhoods**

# SEH Sector Strategy: inputs

## Interventions:

- Removal of land from speculative market, at scale;
- Policy change;
- Mainstreaming new products in lending markets;
- Demonstrating asset-building potential of SEH.

# SEHSI Structure: outputs

*Immediate change in behavior and activities among key individuals or key actors:*

- Mainstream treatment of SEH at all levels—buyers, sellers, lenders, appraisers, secondary market;
- Changed perceptions of residents of SEH;
- Demonstration of scalability of SEH housing option, *without the need for more subsidy.*

# SEH Sector strategy: Outcomes

## *Systemic change:*

- SEH viewed as *superior* good, preferable to other housing types in performance;
- Access to purchase and finance of SEH standardized;
- Public, and public sector, view SEH as desirable for housing and n'hood stability;
- Broad participation by private sector

# SEH Sector Strategy Impact

- **Primary:** Measurable improvement in share of SEH production by non-profit and for-profit developers; increased share of SEH mortgages purchased in secondary market.
- **Secondary:** Demonstrated high-level financial performance of SEH—price appreciation, increased housing wealth of SEH owners; improved housing options for low-income households; demonstrable improvement in n'hoods

# Sectoral Approach: Review

**A distinct intervention model that:**

- **Creates, over time, systemic change within the sector.**

*SEH has demonstrated limited success at the local level. Can these efforts be scaled up to promote effective sectoral change at the national level?*

# **SEH Sector needs to focus on:**

- **Leadership development**
- **Resource development:**
- **Partnership development**
- **Outcome and impact measures**