SquareOne Villages

A Case for Public Investment in Shared-Equity Homeownership

There are very few pathways to affordable home ownership for people living below the area median income (AMI), and virtually no opportunities for people earning less that 60% AMI. The overwhelming majority of new low-income housing developments are rental housing due to the availability of public subsidies and the higher profit margins for developers and investors.

The 2021 Oregon Housing & Community Services (OHCS) Legislative Agenda requests a $215m budget for new housing construction for the 2021-2023 biennium. Of that, just 2% is designated for the new construction homeownership. This raises the question of why we place so much of our public investment in new housing in rental housing rather than homeownership. It's not as if the cost to build the housing changes if the end user is a renter or an owner.

One plausible reason is the idea that rental housing is a better long-term investment of public resources, because the investment is protected through a relationship with an outside management entity that ensures a defined affordability period (typically around 30 years) for households under a specific income level (typically under 60% AMI). However, the housing can be converted to market rate after the affordability period expires.

In homeownership all of the equity goes to the occupant, who can then resell the housing on the market for profit. Consequently, the vast majority of public subsidies for incentivizing homeownership come in the form of zero-interest down payment assistance loans to the individual homebuyer that aren't due until if and when they sell their house. These loans are generally intended to help households earning between 60% and 80% AMI access or sustain existing single-family housing.

But, there's also a third option called shared-equity homeownership. This includes both community land trusts (CLTs) and limited equity cooperatives (LECs). CLTs in particular have become an increasingly popular mechanism for ensuring permanent affordability controls, far superior to the rental housing model in terms of maximizing the return on investment of the public subsidy.

Community Land Trusts & Limited Equity Co-ops

At SquareOne Villages, we have found that by combining both of these forms of shared-equity homeownership through a CLT-LEC hybrid, we can produce resident-owned housing that is permanently affordable to households earning between 30% to 60% AMI, with similar or smaller public subsidy levels compared to rental housing that targets the same income levels.

In this shared-equity arrangement, SquareOne acts as the CLT and retains ownership of the underlying land and the co-op owns and manages the housing and improvements on the land. A long-term ground lease ties the interests of both parties together, creating a partnership that helps to ensure the longer-term viability of the co-op. SquareOne is able to serve in an advisory role, providing support to the co-op in the form of technical assistance, training, and leadership development. And due to its sustained involvement in the project, SquareOne also serves as a "mission steward" during periods of leadership change and member turnover within the co-op.

As a nonprofit organization we have amended our bylaws to restrict the sale of our land and housing, and we are in the process of adjusting our board structure to include 1/3 representation from residents of our housing developments or other people with low-incomes within our service area, to ensure their interests continue to be represented. This works to ensure that any housing we develop on the land will remain affordable in the long-term, even when it is owner occupied.

After acquiring land, we lead a community-driven design process, secure a combination of funding sources, and develop clusters of compact dwellings on the land. During construction we select the initial occupants to live in the homes based on certain income guidelines, and they form a limited-equity cooperative corporation, a registered business in the state of Oregon. The initial members each purchase a share in the co-op, which can serve as a modest source of equity towards developing the housing. The equity is then credited towards the construction loan carried by SquareOne, similar to a down payment, and the remaining debt is then covered by a permanent mortgage held by the co-op. This removes a major barrier to homeownership because each household does not have to qualify for a mortgage individually.

Public funding for New Construction Homeownership

In many ways, cooperative housing is developed and financed similar to rental housing. The only major difference is at the end of the process the residents collectively become the landlord rather than an outside entity. This difference provides greater stability and control to the residents and has several proven benefits, such as lowering monthly housing costs by more than 20% while also reducing crime rates when compared to physically similar low-income rental housing (National Cooperative Law Center).

But in terms of public funding programs, this difference moves us from rental housing to homeownership, which effectively removes 98% of possible state funding sources for new construction in Oregon in coming years.

At the state level in Oregon, there is currently only one program offered for new construction homeownership. The Local Innovation and Fast Track (LIFT) funds any net increase in housing for low-income households through the use of Article XI-Q bonds. In 2020 and 2021 the program will award $60m for rental housing and $15m for homeownership. However, in the homeownership program, the value of the subsidy for a given project is limited to the value of the land plus infrastructure improvements. This method of valuation works fine for urban housing on individual lots, but it is severely limiting for rural projects with lower land values and shared-equity projects where several housing units are developed on a single lot. This program has been removed in the 2022-2023 OHCS budget and replaced with a program with a proposed budget of just $5m through the general fund.

At the federal level, the primary funding source for new construction is Low-Income Housing Tax Credits, which is only compatible with rental housing. The other is HOME funds, which can be used for homeownership, but it is administered at the municipal level and the City of Eugene and Springfield have chosen to use this source only for rental housing because it has requirements that conflict with the LIFT homeownership program.

At the local level here in Eugene, the City offers a limited amount of system development charge (SDC) exemptions to low-income housing developments each year, but due to limited funds the exemptions are now only awarded to projects that receive HOME funds. These two funding sources are then typically leveraged to seek tax credit funding, a source that has proven to incentivize inflating the cost of housing to $250,000 per unit or more in Lane County (for reference, per unit costs for existing and proposed developments by SquareOne are less than half of that). The City of Eugene also offers a 20 year property tax exemption to low-income housing developments, but again only for rental housing. Oregon Revised Statute 307.651 does allow for a municipality to adopt a 10 year tax exemption on the improvements, but this is currently only utilized in Portland.

In conclusion, there will be just $5m in public funding available in 2022 and 2023 for new construction homeownership throughout Oregon.

It's understandable to prioritize rental housing over traditional homeownership when considering the best long-term investment of public subsidies. However, shared-equity homeownership has proven to be even more effective than rental housing at maximizing the value of one-time capital subsidies through long-term affordability controls that preserve the subsidy in perpetuity. As a result, public funding programs need to be reconsidered to reflect this.

More information on our shared ownership structure is available at www.villagemodel.org