Balancing the Housing Continuum: Investing in Homeownership

A remedy for COVID-19 Harms and Historic Inequities

Access & Equity

Homeownership is transformative at both individual and state-wide levels. It builds intergenerational wealth, benefits educational outcomes, and improves health.[i] Affordable homeownership provides stability for our workforce to live in communities they serve. By creating affordable homeownership opportunities, Colorado will increase the amount of community wealth and liquid assets that can be spent in the local economy while fueling the economic engine of new home development.

Contrary to popular belief, the total development cost per unit for homeownership does not exceed the development cost of rental; in fact, it is often less because homeownership developers do not need to create common amenities or administer leasing and management.[ii] Compared to voucher programs averaging $1,000/month, a one-time subsidy of $75,000 equates to just $63/month over a 99-year affordability period.

Although the cost of developing affordable homeownership is usually cheaper than affordable rentals in the long-term, consistently lower investment in affordable homeownership and the lack of creative financial instruments at the state and national level, such as a tax credit program, has left access to homeownership woefully behind in Colorado – a recent study said that 54,100 housing units are needed per year, with a large percentage of the need being for-sale homes.[iii] This failure to invest in the full housing continuum has closed the door to opportunity for thousands of families who, just one generation ago, could have purchased market-rate homes.

SFLR Investment Strategy Recommendation

Proposal:

Invest in the rapid production of for-sale housing to address inequities in the market, exacerbated by COVID-19, that have disproportionally affected people of color.

Results:

Produce and preserve 2,500 new units of affordable homeownership by the end of 2024.

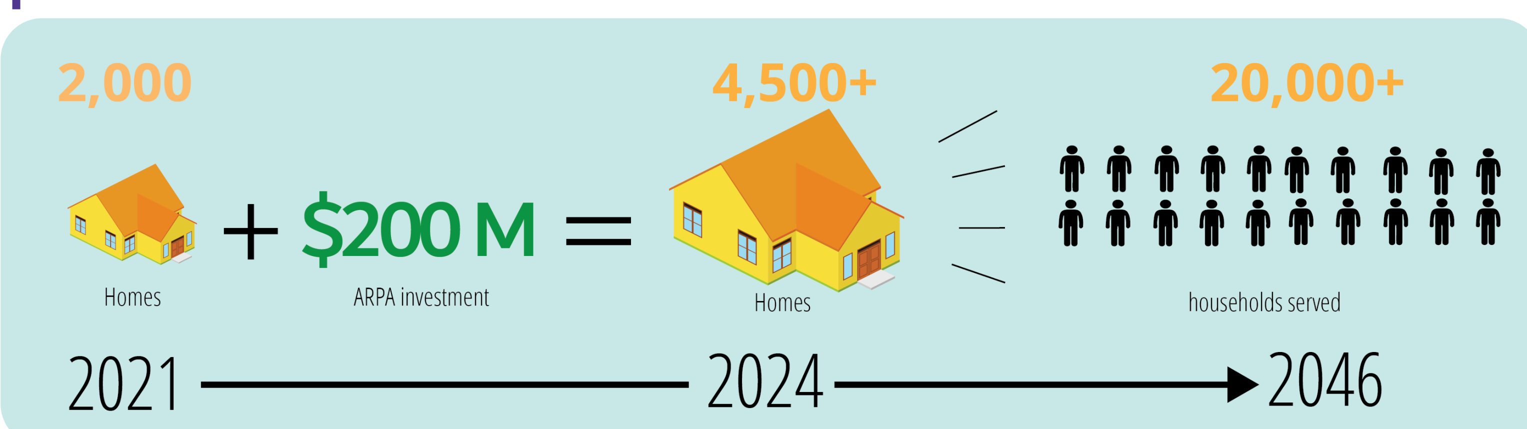
Structure:

Grants of $75,000/unit to affordable homeownership developers creating new homeownership opportunities for households up to 120% AMI

Uses:

1) Construction
2) Home Acquisition and Rehabilitation
3) Land Acquisition and Infrastructure

Homeownership is the primary vehicle through which American households build wealth, and lack of access to homeownership is the critical, persistent driver of the racial wealth gap.[iv] The typical white family has eight times the wealth of the typical Black family and five times the wealth of the typical Hispanic family, in large part due to policies that excluded BIPOC households from homeownership.[v]



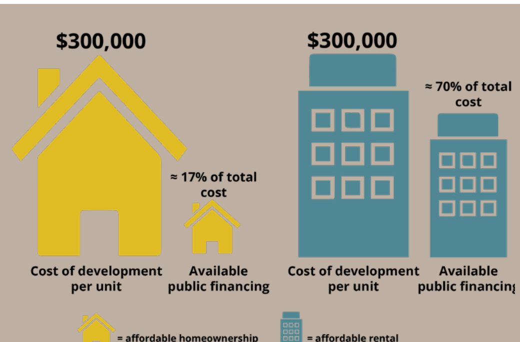
COVID-19

Between January 2014-20, average home values rose 57% - a dramatic increase by any measure.[vi] By August 2021, the average price had skyrocketed to $509,000—a 24% increase in just one year. Homeownership is unaffordable to anyone making under $100,000 per year – and the average income of a Black household in Colorado is $49,081 and the average income of a Hispanic household in Colorado is $55,026.[vii] COVID has compounded this problem - Black and Hispanic Americans have been disproportionately affected by the pandemic: healthcare inequities resulted in devastating illness and death, and overrepresentation in low-wage, frontline jobs led to them experiencing higher unemployment rates during the pandemic.[viii]

For frontline professions hardest hit by COVID – teachers, health care workers, grocery store employees, hospitality, tradespeople, and first responders – homeownership is even less attainable in 2021 than it was in 2019.[ix] Additionally, rural communities have been forever changed by COVID – remote work allows higher-paid, frequently white households to purchase homes further outside urban centers.[x] In rural communities where workforce housing was already scarce, this "great reshuffling" has decimated available stock and forced rural Coloradans to live further and further away from their workplace.[xi]

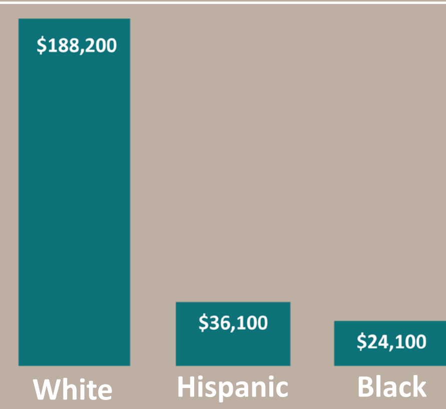
There can be no equity without equal access to homeownership and the benefits that flow from that opportunity.

ARPA represents a historic opportunity to begin to balance this unequal access. Developing and preserving affordable homeownership opportunities for Coloradans is the best and most impactful investment of these funds. Shared-equity homeownership is a proven model Colorado can use to expand homeownership opportunities.



Citation: see endnote ii.

National Household Median Net Worth by Race



Citation: See endote iV

Transformation

Shared-equity homeownership is a self-sustaining model that uses a one-time public investment to make a home affordable for lower-income families.[xii] It then restricts the home's sale price at resale to keep it affordable for subsequent low-income families. The model balances wealth building for families who cannot afford homeownership with preservation of the community's investment. A national study of shared-equity homeownership programs found that the median shared-equity homeowner accumulated $14,000 in earned equity when they sold their home, and that six out of ten homeowners leveraged their earned equity into a down payment on a market-rate home.[xiii] The most common models of shared-equity homeownership include community land trusts (CLTs), deed-restricted programs and limited equity cooperatives.

42%

of shared-equity homeowners in Colorado are households of color.

Entry-level homeownership opportunities were once provided by the market, but market pressures in recent years have made affordable homeownership scarce statewide. High-cost real estate markets impede upward mobility for families, putting added pressure on the already constrained rental market and widening the wealth gap. Importantly, BIPOC households, disproportionately represented among renters, are especially impacted by these high-cost markets.

There are also non-financial benefits to shared-equity homeownership. A survey of participants in shared-equity homeownership programs reported experiencing improved mental health and wellbeing after becoming a homeowner, including:

> ***Less overall stress***
> ***Increased sense of safety***
> ***Improvement in child(ren's) grades***
> ***Enhanced emotional wellbeing***
> ***Sense of independence***
> ***Confidence in future stability***

Expand Capacity

Fortunately, Colorado has a robust, growing, and scalable network of shared-equity homeownership developers with the capacity, expertise, and relationships to immediately deploy and preserve public resources to create affordable homeownership opportunities. Collectively, nonprofit homeownership developers have built more than 3,500 affordable for-sale units statewide, 2,000 (60%) of which are permanently affordable.[xiv]

With an investment of $200,000,000, affordable homeownership developers can double the number of shared-equity homeownership opportunities available across Colorado by 2024. Adding 2,500 new affordable homes to the Colorado landscape has the potential of closing the racial homeownership gap by 3%-- one critical piece of a much larger effort. By securing these investments within long-term affordability instruments, those 2,500 new units will make homeownership possible for more than 5,000 households over 10 years, and for 15,000 over 25 years.[xv] Combined with the existing 2,000 permanently affordable units already in service, this investment will allow 20,000 Colorado households to build stability and opportunity through homeownership by 2046.

> "The greatest stressor in my life by far since becoming divorced and taking care of my two kids (one is a special needs child) has been money. Having a lower monthly house payment [through CLT homeownership] has eased the burden so I can afford my daughter's medications and therapies.
>
> ***- ECLT homeowner, 2020 Homeowner Survery***

To achieve this, affordable homeownership developers will:

- Build new homes
- Transition existing homes to permanent affordability
- Create partnership with modular builders to increase capacity
- Fill the gap between what a homebuyer can afford and the market-rate price of the home

For shared-equity programs to be able to access ARPA funds and deliver deep and equitable impact, the funding must:

- Ensure that 30%-50% of funds are set aside for affordable homeownership development.
- Intentionally center racial equity with the goal of closing the racial wealth gap.
- Structure investments as grants

Colorado needs thoughtful and creative investments that work to build community wealth — now and into the future — rather than continued investment in the very structures and thinking that perpetuate the problems and inequalities we are trying to redress.

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Colorado housing organizations supporting these recomendations:

Endnotes

i See, e.g., Nadia Evangelou, Highlights from “Social Benefits of Homeownership and Stable Housing”, Nat’l Ass’n of Realtors (Oct. 24, 2017), https://www.nar.realtor/blogs/economists-outlook/highlights-from-social-benefits-of-homeownership-and-stable-housing.i

ii Colorado Department of Local Affairs State Housing Board (2021) https://cdola.colorado.gov/state-housing-board.

iii Evelyn Lim & Peter LiFari, From Conflict to Compassion: A Colorado Housing Development Blueprint for Transformational Change 21 (2021)

iv Jenny Schuetz, Rethinking homeownership incentives to improve household financial security and shrink the racial wealth gap (2020), available at https://www.brookings.edu/research/rethinking-homeownership-incentives-to-improve-household-financial-security-and-shrink-the-racial-wealth-gap/.

v *Id.*

vi Zillow, Colorado Home Values (last accessed Oct. 7, 2021), https://www.zillow.com/co/home-values/.

vii How Much, How Much Income You Need to Afford the Average Home in Every State in 2018 (last accessed Oct. 8, 2021), https://howmuch.net/articles/salary-to-afford-the-average-home-in-your-state; Charlie Brennan & Lauren Contorno, State of Working Colorado: Income, Wealth, & Poverty 85 (2020), available at https://cclponline.org/wp-content/uploads/2020/12/SWCO_Final_122820_SM.pdf.

viii Maritza Vasquez Reyes, The Disproportional Impact of COVID-19 on African Americans, 22 Health Hum. Rts. 307 (2020), available at https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7762908/?report=reader.

ix A 2019 analysis of five essential professions (childcare workers, firefighters, dental assistants, plumbers, and bank tellers) and six metro areas (Boulder, Colorado Springs, Denver, Fort Collins, Greeley, Pueblo), found homeownership was only feasible for plumbers and firefighters who wanted to buy in Pueblo. In every other metro area and for every other profession, homeownership was unattainable. National Housing Conference & Housing Colorado, Paycheck to Paycheck (May 2019), https://cdn.ymaws.com/www.housingcolorado.org/resource/resmgr/paycheck_to_paycheck_report/Paycheck_to_Paycheck_May_201.pdf. By 2021, plumbers could no longer afford to buy a home in Pueblo. National Housing Conference, Pueblo, CO Homeownership Market (last accessed Oct. 7, 2021), https://nhc.org/paycheck-to-paycheck/metro-area/39380/occupations/39-9010,31-9091,33-2010,47-2152,43-3070/.

x Chief Economist of Redfin, Daryl Fairweather, said that white people were more likely to be able to work from home, allowing them to easily relocate to places where they could afford a better home. Charisse Jones, Black homeownership’s stall during COVID-19 pandemic the ‘epidemic after the epidemic’, Chicago Sun-Times, Aug. 17, 2021, https://chicago.suntimes.com/consumer-affairs/2021/8/17/22628832/black-homeownership-covid-pandemic-coronavirus.

xi Zillow calls this the “great reshuffling,” Laura Forman, The ‘Great Reshuffling’ Is Shifting Wealth to the Exurbs, Wall St. J., June 25, 2021, https://www.wsj.com/articles/the-great-reshuffling-is-shifting-wealth-to-the-exurbs-11624636827

xii Grounded Solutions Network, Shared Equity Homeownership (last accessed Oct. 7, 2021), https://groundedsolutions.org/strengthening-neighborhoods/shared-equity-homeownership.

xiii Ruoniu Wang, Claire Cahen, Arthur Acolin, & Rebecca J. Walter, Tracking Growth and Evaluating Performance of Shared Equity Homeownership Programs During Housing Market Fluctuations 44, 49 (2019), available at https://go.lincolninst.edu/wang_wp19rw1_rev_0.pdf.

xiv Survey of Colorado Affordable Homeownership Developers (Sept. 23, 2021) (on file with the authors).

xv This statistic assumes each household resides in its shared-equity home for six years, the national average. Wang, Cahen, Acolin, & Walter, supra note XII, at 47.