PIEDMONT HOUSING ALLIANCE

Shared Equity Housing Models: Supporting Wealth Creation for Low- and Middle-Income Households in Charlottesville

A Report for the Piedmont Housing Alliance
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Client

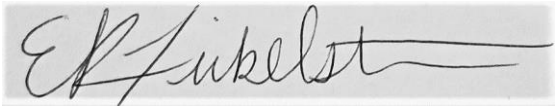
This research and policy analysis will go towards supporting the work of the Piedmont Housing Alliance (PHA), a Charlottesville area non-profit serving Virginia's 10th Regional Planning District (PD10). PHA's mission is to create affordable housing opportunities and foster community through financial education, lending support, and equitable development. PHA also functions as a connector of wraparound services for residents such as child care, food pantry delivery, and job training. As an explicitly anti-racist organization, PHA cares deeply about the racial equity of resident outcomes and advocating against systemic racism in local policies.

Disclaimer

The author conducted this study as part of the program of professional education at the Frank Batten School of Leadership and Public Policy, University of Virginia. This paper is submitted in partial fulfillment of the course requirements for the Master of Public Policy degree. The judgements and conclusions are solely those of the author, and are not necessarily endorsed by the Batten School, by the University of Virginia, or by any other agency.

Honor Pledge

On my honor as a student, I have neither given nor received unauthorized aid on this assignment.



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Background

Homeownership is a Powerful Tool for Wealth Creation and Economic Equity

For decades, economic power has been consolidating in the hands of the predominantly white few as illustrated by a study from the Federal Reserve Bank of St. Louis (Kent et al., 2019). From 1989 to 2016, the wealth gap in the United States increased significantly, despite overall household wealth nearly tripling from $32.87 trillion to $86.87 trillion. In 1989, the top 10% of American wealth holders owned 67% of total wealth while the bottom 50% owned only 3%. By 2016, those figures had shifted to 77% and 1%, respectively. Looking at 2016 wealth ownership by race, the picture is even bleaker: non-Hispanic white families owned approximately 89% of total U.S. household wealth while black and Hispanic families own approximately 3% each. This translates into the median non-Hispanic white family having approximately $163,000 in wealth compared to approximately $16,000 for black families and $22,000 for Hispanic families.

Homeownership has been the ultimate objective for U.S. housing policy for decades because of its economic and social benefits. Homes are financial investments that have historically increased in value overtime as housing prices rise (Mallach, 2011). But more than that, mortgage payments can act as a forced savings plan which is paid back upon resale of the home and homeowners can absorb the benefits of down payment assistance grants and tax credits (Lubell, 2013). Additionally, there is empirical evidence that homeownership can lead to increased residential stability, improved educational achievement and behavioral outcomes for children, higher future earnings, and positive effects for neighborhood health and stability (Bailey, 2020; Herbert & Belsky, 2008; Mallach, 2011; *The State of the Nation's Housing*, 2019). There are also psychological benefits to the homeowner for achieving the American dream of homeownership (Goodman & Mayer, 2018).

However, the wealth-building benefits of homeownership and government incentive programs have overwhelmingly accrued to white and high-income households. Decades of blockbusting, redlining, deed restrictions, and discriminatory lending practices have blocked low- and middle-income households and households of color from sharing in homeownership's positive outcomes. As of the second quarter of 2020, approximately 76% of non-Hispanic white households own their home compared to 47% and 51% of black and Hispanic households that own their homes (*Quarterly Residential Vacancies and Homeownership*, 2020). These figures are relatively stable from 1976 breakdowns which were 68%, 44%, and 43%, respectively (*Nine Charts about Wealth Inequality in America (Updated)*, 2017). Low-wealth households face the greatest barriers to homeownership including a lack of good credit history, income barriers to affordability, and insufficient savings for a down payment (Davis & Jacobus, 2010). This creates a cycle where the lack of wealth inhibits a family from creating wealth, trapping families across generations in disadvantaged positions.

These national trends are mirrored in Virginia's 10th Planning District (PD10), where homeownership rates also vary by race and ethnicity (see Appendix 1). Across the district, approximately 81% of white households own their homes, whereas only 69% of black households own their homes (see Appendix 5). This disparity is more striking in the urban areas

of the district of the district where 55% of white households versus 29% of black households own their homes (Partners for Economic Solutions, 2019). Access to lending is a large contributor to this phenomenon. In 2019, the Virginia mortgage loan denial rate was 12% for black applicants and 10% for Hispanic applicants compared to 5% for non-Hispanic white applicants (South, 2020). These racial disparities existed even when controlling for income levels. There are insufficient affordable homeownership opportunities in PD10, especially for households of color. The PD10 Regional Planning Commission estimates the region needs between 1,200 and 1,600 more housing units priced between $150,000 and $300,000 to reach its affordability objectives (Partners for Economic Solutions, 2019) (see Appendix 3).

While homeownership can be powerful tool for wealth creation, there are significant risks which are exacerbated for low- and middle-income households. While the macrotrend is for house prices to rise, they can be volatile in the short-term. This can mute the economic benefits if a homeowner needs to sell early or refinance, which can lead to foreclosure for some. This is what happened when the housing bubble burst in the global financial crisis of 2008. Homeowners of color bore the brunt of the crisis. As a result of the crisis, black and Hispanic households lost on average 40% and 31% of their household wealth between 2007 and 2010, respectively, compared to 11% of wealth lost by non-Hispanic white families (Herbert & Belsky, 2008). These risks are exacerbated by the contagion effects of falling housing prices, making whole markets or neighborhoods more vulnerable (Herbert et al., 2013). Income instability and unexpected maintenance expenses can cause added financial stress which can lead to delinquency and foreclosure (Herbert et al., 2013). In foreclosure, homeowners lose out on accrued equity and can further deplete financial resources in legal fees (Herbert et al., 2013).

The Cost of Housing Unaffordability in PD10 is High

The lack of affordable housing stock in PD10 has significant direct and indirect costs to the community. High housing costs and few affordable homeownership opportunities for low-income residents incurs direct costs through government subsidized affordable housing programs, government incentives for homeownership, and foreclosure costs for cost-burdened homeowners. There are also the indirect costs of its externalities such as housing instability, increased commuter transportation, and foreclosure effects on neighboring house values.

Scope of the Affected Populations

The U.S. Department of Housing and Urban Development (HUD) defines housing affordability as a percent of income spent on housing costs: households spending more than 30% of income on housing costs are cost-burdened and those spending more than 50% are severely cost-burdened (HUD Policy Development and Research, n.d.). High housing costs and the lack of affordable housing stock affects three main populations in PD10: 1) renters enrolled in government-subsidized programs, 2) severely cost-burdened rental households that do not receive public assistance, and 3) the severely cost-burdened homeowners that face higher likelihoods of foreclosure. In 2019, the Central Virginia Regional Housing Partnership of the Thomas Jefferson Planning District Commission commissioned the Comprehensive Regional Housing Study and Needs Assessment, which provides the following figures about the households affected by this challenge (Partners for Economic Solutions, 2019).

First, 3,637 rental households are enrolled in publicly assisted programs. There are 1,967 rental units available through the Low-Income Housing Tax Credit (LIHTC) Program, 1,294 rental households leveraging Housing Choice Vouchers, and 376 Section 8 rental units managed by the Charlottesville Redevelopment and Housing Authority (CRHA). While there is likely overlap in rural and urban waitlists for these programs, there are 1,866 households on urban waitlists and 1,350 households on waitlists in rural parts of PD10 that are in need in addition to the roughly 3,600 household already being served. Both of these lists have been closed for years with the average waiting period of eight years, which indicates the high demand for public assistance and the stagnation of economic mobility for the program beneficiaries (*Analysis of Impediments to Fair Housing Choice*, 2019). Because the waitlists are closed, it is difficult to have a complete number of those in need of public assistance programs.

Second, PD10 has 10,990 cost-burdened renting households, of which 4,980 are severely cost-burdened. It can be assumed that households already enrolled in publicly assisted programs are not included in this this figure and thus there is no overlap of the first and second populations (Partners for Economic Solutions, 2019). However, presumably this figure does include those on the waitlists and those who would be on the waitlists if they were open. Severely cost-burdened rental households are more likely to require other social welfare assistance becuase they have less income available for other necessities. Compared to households that are not housing cost-burdened, severely cost-burdened households spend 37% less on food, 77% less on healthcare, and 60% less on transportation on average (*The State of the Nation's Housing*, 2019).

Third, PD10 has approximately 5,420 severely-cost burdened homeowners representing approximately 8.3% of households. In addition to the decreased expenditures for food, healthcare, and transportation, severely-cost burdened homeowners face the prospect of foreclosure. Foreclosures have grave costs to individual families and communities (Kingsley et al., 2009). In 2018, there were 430 foreclosure filings in PD10, which represents a 0.06% foreclosure rate (*Analysis of Impediments to Fair Housing Choice*, 2019).

Direct Expenditures Paid by Society

The direct costs of unaffordable housing in PD10 are attributable to the cost of administering public assistance programs, homeownership incentives, and foreclosure costs for risky homeowners unable to sustain their mortgage payments.

The Charlottesville Redevelopment and Housing Authority manages the Section 8 housing stock in PD 10. Total program operating expenditures for FY2021 are $3.4 million with $1.4 million being offset by tenant revenues (*Charlottesville Redevelopment & Housing Authority FY 2021 Consolidated Operating Budget*, 2020). Thus, public expenditures net to roughly $2 million or $5,282 per unit. This does not include any capital expenditures for maintenance or renovation costs, for which the city set aside $2.25 million to be dispersed between FY2018 and FY2022 (*Analysis of Impediments to Fair Housing Choice*, 2019). CRHA also administers the Housing Choice Voucher program, which seeks to pay the difference between a unit's fair market value and the tenants 30% of income level. In FY2021, CHRA budgeted approximately $3 million or

roughly $2,711 per voucher holder. As a tax expenditure, the federal Low-Income Housing Tax Credit functions as public spending, but its budgetary impacts in PD10 are harder to isolate. The federal allocation of LIHTC to Virginia in 2019 was $2.75625 per person or approximately $23.4 million (Keightley, 2019). With an estimated 2019 resident population of 256,206, PD10 represents 3% of the VA population (US Census Bureau, 2019). If distributed by population proportion, PD10 could expect $703,000 in tax credits. Summing all three components, PD10 spends roughly $6.15 million on publicly assistance rental housing programs annually.

For decades, the federal government has instituted tax subsidies to incentivize investments in wealth-building assets to alleviate poverty andthe need for social welfare spending. Therefore, the mortgage interest tax deduction and the state and local property tax deduction are meant to lower the cost of ownership, so low- and middle-income households can build wealth. However, these programs disproportionately benefit high-income populations, further widening the wealth gap (*Nine Charts about Wealth Inequality in America (Updated)*, 2017). In 2017, the federal government expended $62.6 billion and $33.3 billion on those programs respectively, but only $5 billion and $3.2 billion were expended on the bottom 60% of income earners. In tax year 2016, Virginians earning less than $100,000 annually claimed $3.92 billion in mortgage interest tax deductions. If we scale that to the 3% of Virginia's population living in PD10, that approximates $116.51 million annually (*Mortgage Interest Deduction by State and AGI | Tax Policy Center*, 2019).

Foreclosure is a costly outcome for the homeowner, lender, local government, and adjacent homes. According to a 2007 Joint Economic Committee report, one foreclosure costs individual homeowners $9,594, lenders $53,298, and local governments $25,746 per foreclosure in today's dollars (Kingsley et al., 2009). Using 2018 foreclosure figures (430 filings) as a baseline, PD10 spent approximately $38.11 million in foreclosures in direct costs.

Quantified Externality Costs Borne by Society

The indirect costs of housing unaffordability can be attributed to housing instability, increased commuter transportation, and depressed housing values to a foreclosed home's neighbors.

Researchers agree that there is a correlation between housing instability and worse health outcomes, mental health distress, poor educational and health outcomes for children, and increased costs that associated with government intervention for those challenges (Bailey, 2020; Gabriel & Painter, 2020; Kingsley et al., 2009; Paradise & Ross, 2017; *The State of the Nation's Housing*, 2019). However, there is no comprehensive estimate of the externality costs of housing instability. While it cannot be calculated for this purpose, it is easy to imagine how this indirect cost to society could be immense.

"Drive until you qualify" refers to the need for residents to look far outside of urban centers to find affordable housing options (Partners for Economic Solutions, 2019). These individuals then need to drive farther distances to work. In addition to the cost those residents incur for gas and wear-and-tear on their vehicles, there are broader societal costs such as congestion, environmental degradation, and vehicle accidents. Parry et al. (2007) estimate the sum of all

external costs of automobile transportation to be 10.9 cents/mile assuming a fuel economy of twenty-one miles per gallon. Approximately 17,400 low-income workers commute over 50 miles to work daily, and as such the total societal cost is approximately $24.75 million annually (Partners for Economic Solutions, 2019).

Foreclosure costs are not only incurred by the individual household, the lender, and the local government, but also reflected in depressed home values for neighbors. The 2007 Joint Economic Commission report estimated a social cost of $3,768 per foreclosure in today's dollars (Kingsley et al., 2009). Using 430 foreclosures in PD10 in 2018 as the baseline, that translates to $1.6 million in indirect societal costs for PD10 residents annually.

Total Costs for Housing Unaffordability in PD10

The lack of affordable housing opportunities, to rent or own, for PD10's residents has significant direct and indirect costs on society. Direct costs of this policy challenge sum to $160.77 million annually and indirect costs sum to $26.35 million annually, which is low without figures for the externality costs of housing instability on other wellbeing outcomes. In PD10, the total cost to society is approximately $187.12 million annually. Shared equity models can lower these costs or improve their cost effectiveness by creating a path out of cycles of poverty that trap households into public assistance dependency in perpetuity.

Exploring Shared Equity Models as a Solution Set

Homeownership can be a powerful tool for shrinking the wealth gap and boosting economic and racial equity for individuals and communities. It can also restore a sense of pride, autonomy, and self-determination to own your home. However, these opportunities remain out of reach for too many low- and middle-income residents in Virginia's 10th Planning District (PD10) due to the limited availability of affordable units, barriers to capital, and the riskiness of homeownership. If properly designed, shared equity models can be a viable solution to generate wealth for low- and middle-income households and families of color by lowering the cost and risks of homeownership while expanding the availability of wraparound social services.

Shared equity housing (SEH) describes a suite of policies that seek to build long-term affordable housing stock, most commonly owner-occupied. SEH programs support wealth creation for low- and middle-income households while mitigating the downside risks of homeownership, such as delinquency, foreclosure, and limited mobility. The four most common shared equity models are community land trusts (CLTs), limited equity housing cooperatives (LECs), deed-restricted units (DRUs), and resident owned communities (ROCs). There is no universal definition for SEH; however, there are common elements that unify this intervention set.

First, SEH programs typically have a program steward charged with its long-term sustainability. Stewards are most often non-profits or government entities which monitor property transfers, oversee occupancy requirements, and provide wraparound services homeowners (Davis, 2010; Ehlenz & Taylor, 2019).

Second, the risks and rewards of homeownership are shared in SEH programs. Programs will protect participant homeowners, who are usually first-time owners, against default, foreclosure,

or market decline (Davis, 2010). These protections can take the form of financial support or wraparound services. The cost of this risk sharing is sharing in the economic benefits. Upon resale, the proceeds are split between the homeowner and the steward determined by resale formulas agreed upon at the initial sale. Inherent in these resale formulas is the tradeoff between the home's long-term affordability and wealth creation for individual households.

Third, all SEH programs have some form of resale restriction or contractual control over occupancy and use. The control mechanisms vary across SEH models, but their purpose is to maintain the long-term affordability of the property. In doing so, these restrictions retain the initial subsidy within the house beyond the first transaction, increasing the cost effectiveness of public funds (Temkin et al., 2010). One estimate indicates that a SEH subsidy can service two to five times as many households over a fifty year period than traditional homeownership subsidies (Lubell, 2013). The contractual controls typically have affordability periods of at least 30 years up to 99 years (Davis, 2006).

Finally, most stewardship structures are designed to foster community engagement and resident self-governance. The democratic governance structures counteract the systemic challenges of racial and socio-economic injustice by returning decision making powers back to the hands of historically excluded populations, an important goal of SEH generally as well as PHA (Green & Hanna, 2018). The housing stock is no longer owned by those outside of the communities, which if left unfettered can turn exploitative and extractive. Additionally, effective community-run stewardship structures can remove the top-down, colonial elements of some philanthropic and government intervention.

SEHs are effective because they: preserve affordability, create wealth, protect long-term tenure, and maintain resident mobility. According to a 2010 Urban Institute study, seven evaluated SEH programs succeeded in achieving all four objectives (Temkin et al., 2010). The sample size, comprised of CLTs, LECs, and ROCs from across the country, was small because the study focused on programs with household-level data, over 60 housing units in their portfolio, and at least 40 resale transaction. First, the programs maintained their affordability between initial and resale comparing the income needed to purchase an SEH home relative to area median income initially and at resale. Even for the two programs for whom the ratio of minimum required income to area median income (AMI) rose, the minimum income was still well below the AMI. Second, all seven of the programs realized a positive median rate of return on their home investment. Moreover, for 6 of the 7 programs, the median rate of return was higher than if the participant had rented and invested their down payment in either the S&P 500 or 10-year Treasury bonds. Third, the range of delinquency and foreclosure rates were lower for SEH program participants compared to non-SEH homeowners in the surrounding areas (0%-2.7% and 0% to 1.4% compared to 1.4%-8.3% and 1.0%-5.6%, respectively). Another measure of tenure, for the three programs for which the data-exists, approximately 91% of shared equity homeowners were still in own-occupied housing after 5 years, which is significantly higher than the national average of 50% for first-time homeowners. Finally, annual turnover rate for the SEH programs ranged from 5.5%-8.6%, which is not significantly different from other first-time homebuyers. This indicates that mobility is not disproportionately hindered, but it does not address mobility differences between renters and SEH homeowners.

While the findings of this one study do not provide an unequivocal endorsement for SEH in all situations, it does lay a foundation for the SEH framework's viability to perform across all policy objectives. SEH models can support wealth creation for low- and middle-income households while mitigating the downside risks of homeownership, such as delinquency, foreclosure, and limited mobility. The follow sections will explore the specifics of each of the four SEH models and the available research on their respective efficacies.

Community Land Trust Model:

Community Land Trusts (CLTs) are nonprofit or quasi-governmental organizations that provide affordable homeownership options by removing the cost of the land from the purchase price of the home (U.S. Department of Housing and Urban Development (HUD), n.d.). The CLT maintains ownership of the land but leases it to the homeowner with resale restrictions built into the ground lease. Some CLTs will include requirements for the home to be the household's primary residence, approval rights for capital improvements, notification requirements for mortgage delinquency, and the first right to buy the home out of foreclosure, if necessary (Carlsson, 2019; Davis, 2006) Some CLTs charge nominal ground lease fees to support the CLT operations (Davis, 2006). Commonly, CLT stewardship uses a trifurcated structure with one third representing residents, one third representing the non-resident community members, and one third local government officials or other community leaders (Jacobus & Lubell, 2007). According to the Grounded Solutions Network, a national association of CLTs, there are roughly 165 active CLTs with approximately 12,000 owner-occupied homes and an additional 60 CLTs that are start-ups or do not have any owner-occupied units (Thaden, 2018).

Evidence of Effectiveness

As the most common SEH model, CLTs have been successful in achieving positive outcomes for participants but face stagnant growth due to the high upfront cost of establishing the trust and local governments prioritization of rental housing policies (Davis, 2006). A 2011 study from the Lincoln Institute of Land Policy found that only 1.3% of mortgages held by CLT homeowners were seriously delinquent, meaning delinquent for over 90 days, at the end of 2010 compared to 8.6% of mortgage holders in market-rate homes (Thaden, 2011). Only 0.46% of CLT-owned homes were in foreclosure compared to 4.6% in the conventional market (Thaden, 2011). Delinquency rates of CLT-owned homes continued to decrease from 2008 to 2010, indicating it is a stable model even amidst extreme economic turmoil (Thaden, 2011).

While neighborhood effects are difficult to assess for most SEH programs, a 2018 study found that CLTs can protect against gentrification (Choi et al., 2018). Using a logistic regression analysis with propensity score matching, the study compared neighborhood outcomes in those facing gentrifying pressures between 2000 and 2010 with a CLT to those without a CLT, including non-gentrifying neighborhoods control groups. The result was that neighborhoods with a CLT were 74 percentage points less likely to be gentrified (Choi et al., 2018). CLTs accomplished this by maintaining the ratio of middle-income residents, education levels, and owner-occupied rates and stabilized income levels and housing prices. Additionally, neighborhoods with CLTs had increased racial diversity and affordability indicators.

Limited Equity Cooperative Model:

In the limited equity cooperative model, residents purchase shares in a cooperative which allows them to occupy a housing unit at a lower-than-market rate (U.S. Department of Housing and Urban Development (HUD), n.d.). LECs are most often used for multi-unit buildings rather than single family homes, and thus are more frequently in large cities—60% are in New York City alone (Thaden, 2018). LECs allow shareholders a modest equity appreciation compared with zero-equity cooperatives; however, the actual equity appreciation varies across programs due to differences in buyer income restrictions, price formulas, and market demand, similar to CLTs (Davis, 2006). LECs decrease the individual risks of financing because the cooperative typically purchases the building using a blanket mortgage rather than each tenant seeking separate financing for their unit. LECs leverage democratic governance structures made up of shareholders to function as SEH stewards, although some include non-shareholder members (Davis, 2006). In 2016, the Urban Homesteading Assistance Board (UHAB) estimated approximately 166,600 LEC units are currently in operation (Ortiz, 2017).

Evidence of Effectiveness

The biggest challenge in evaluating LEC effectiveness is the dearth of research specifically looking at this model. Using a survey of 487 tenants of multifamily low-income housing options in New York City in 1998, one study found that LECs are effective at generating social capital, which can bolster positive outcomes. This study found that tenant-owned multifamily cooperatives had higher mean scores on quality of the housing unit and building security as well as fewer crime problems compared to housing that was landlord owned, community owned, city owned, or public housing (Saegert & Winkel, 1998). One identified challenge for LECs has been maintaining affordability in the long-term. Of the roughly 425,000 LEC units counted in a housing census taken in the 1990s, a 2016 follow-up census could only account for roughly 300,000 of those units and of those, only 56% were still considered affordable (Carlsson, 2019; Ortiz, 2017). This is because there is a financial incentive for LEC governing boards to raise or loosen affordability protecting price restrictions (Davis, 2006).

Deed-Restricted Unit Model:

In the deed-restrict homeownership model, a subsidy lowers the initial price of the house while resale and use restrictions are codified into the deed of the home (Jacobus & Lubell, 2007). The community control and engagement aspect of SEH models are not typically emphasized in the DRU model. However, it is not uncommon for a local non-profit or public agency to be entrusted with long-term stewardship, enforcement oversight of resale restrictions, and a first purchase right for these units. DRUs are the fastest growing SEH model because 1) policymakers and consumers are familiar with deed-encumbered housing, 2) policymakers construe these covenants to be self-enforcing lowering oversight costs, and 3) the proliferation of municipal inclusionary housing policies which require developers to apportion some affordable housing among their market-priced housing (Davis, 2006). There is no reliable estimate for the number of DRUs active across the country with figures ranging from 100,000 – 300,000 units (U.S. Department of Housing and Urban Development (HUD), n.d.).

Evidence of Effectiveness

As evidenced by the wide-ranging DRUs estimates, a lack of uniformly tracked, household-level data on DRUs leaves a hole in the evidence on the model's effectiveness at producing the desired outcomes. However, a 2017 study from the Lincoln Institute of Land Policy provides the best analysis of DRU program outputs of municipal inclusionary housing policies. As of 2016, the study found 886 municipal jurisdictions across 25 states and Washington, D.C. with inclusionary policies, although over 90% are in New Jersey, Massachusetts, and California (Thaden & Wang, 2017). For the 373 jurisdictions that had the data, these programs had created roughly 52,000 affordable homeownership units and 122,000 affordable renter units. Including the in-lieu-of fines developers pay if they do no build affordable units alongside their market-rate units, the total value of the reporting programs is approximately $1.7 billion (Thaden & Wang, 2017). The greatest challenge to DRU programs is oversight. Policymaker have historically assumed that because the resale restrictions are articulated in the deed, DRUs are self-enforcing. However, highly motivated sellers and buyers in hot housing markets have found ways to skirt the regulations (Jacobus & Lubell, 2007). Additionally, occupancy and use restrictions, which are important for program efficacy, might not be monitored at all (Jacobus & Lubell, 2007). For this reason, inclusionary housing policies are increasingly involving third-party stewards.

Resident Owned Community Model:

The newest SEH to receive academic and policymaker attention is the resident owned communities (ROCs) model. ROCs are a subset of manufactured housing communities, often colloquially known as trailer parks, where residents collectively own the land beneath individually owned homes. ROCs support housing stability despite increased pad rents and maintain affordability in the long-term through limited equity restrictions similar to LECs (Thaden, 2018; "What Is a ROC?," n.d.). Also similar to LECs, the purchase of the land is typically financed through a blanket loan, which mitigates the delinquency and foreclosure risks of individual financing (Carlsson, 2019). Like other homeowner associations, residents either elect or vote on community governance democratically. ROC typically do not impose income-eligibility or resale price restrictions on the housing unit itself, as in the CLT model, but rather they are attached to the land deed shares (Davis, 2006). According to the ROC USA, there are 210 ROCs in 14 states supporting roughly 13,400 housing units (Thaden, 2018).

Evidence of Effectiveness

A 2008 study surveyed 698 residents of manufactured home communities, half from resident-owned and half from investor-owned (IOC), to assess ROCs effectiveness. On the one hand, the mean lot fee for ROCs was nearly $12 cheaper monthly than IOCs, a statistically significant difference (French et al., 2008). This likely underestimates the effect overtime as ROC lot fees tend to drop further after 11 or more years of operation, whereas IOC lot fees increase over time (French et al., 2008). In addressing the opportunity for ROC owners to build equity, the results are inclusive. The price for a ROC home is higher than an IOC home, presumably pricing in the value of the equity generation, but there is no information about resale price or average splits of equity flow. Thus, it is impossible to draw conclusions about the long-term affordability and wealth creation capacity of the program. Finally, the survey collected qualitative data about the social capital and sense of community reiterated the 1998 study by Saegert & Winkel.

Reflections on the Existing Research

The lack of individual household level outcome data has left holes in the existing research that would benefit PHA's work in Charlottesville. First, evidence on SEH outcome differences between racial groups is missing. The closest is the evidence about the gentrification protection CLTs can provide to communities of color, but that looks at neighborhood level data not racial outcomes by an individual level. Second, ideally research would be able to attach neighborhood level outcome data—such as property values, crime statistics, job creation and development information, etc.—to the research on the effectiveness of SEH's to achieve overall housing policy objectives. This does not currently exist. Finally, there are no studies that address the impact of program specifications, such as equity splits, initial share price, and income restrictions, within models to yield the optimal, context-specific results. In short, there is no effective blueprint for building a community's ideal SEH program. That being said, there is sufficient evidence that speak to the general effectiveness of SEH models to preserve affordability, create wealth, protect long-term tenure, and maintain resident mobility to pursue this solution set in Charlottesville. PHA should collect individual-level data if it pursues an SEH model to support research efforts in the future.

The Friendship Court Development Opportunity

Since 2016, PHA has been leading a redevelopment process for Friendship Court, originally built with project-based Section 8 assistance. This multi-purpose affordable housing development is home to approximately 150 families on an 11.75-acre plot. The redevelopment, which is funded by a combination of public, private, and institutional funds, seeks to create a mixed income neighborhood that empowers resident leadership and engagement, provide residents with access to greater education and economic opportunities, and foster a collaborative and positive community spirit (Piedmont Housing Alliance Strategic and Operational Plan, 2018). This redevelopment is slated to refresh existing units, build new apartments and townhomes, and construct an on-site community center for child care, job training, and wraparound service delivery. The project is committed to zero displacement of current residents.

The project will be conducted in three phases. Phase I is underway now and close to completion. Phase II is slated to begin in 2023 with an 18-month construction cycle. The roughly 3-acre Phase II lot will be home to 106 new units, 54 traditional flats apartments and 56 stacked townhomes. PHA has designated six of the stacked townhome units for ownership rather than rental. As seen in Appendix 6, there will be no visible difference between the renter-occupied and owner-occupied townhomes. Three of the units will be three-bedroom units and three will be four-bedroom units. Based on the preferences of the current residents, PHA will target ownership of two units each for families that earn 30% AMI, 50% AMI, and 70% AMI. This income breakdown mirrors that of the broader Friendship Court residents.

As the units become available, PHA wants to leverage a shared equity model for ownership to support wealth generation for the Friendship Court residents by lowering the cost and risks of homeownership and focusing on community-centered, anti-racist intervention. Not all of the four SEH models lend themselves to the Friendship Court opportunity. RDUs are not a realistic alternative for PHA and the Charlottesville community because there is limited efficacy

evidence, RDU's disaggregated organizational structure, and the political environment in PD10 would not be supportive. Additionally, Friendship Court does not have any manufactured home units nor does it have plans to incorporate any. Thus, the remainder of this report does not further investigate DRUs or ROCs as options. Rather, the following analysis will consider if PHA should leverage the CLT or LEC model for the Friendship Court ownership units.

Criteria

Each alternative will be evaluated against the following criteria to contextualize a final recommendation. The goal is to provide PHA with the information necessary to make feasible, impactful programmatic decisions that support PD10's low-income families and families of color to generate wealth through homeownership and rebuild a sense of pride and self-determination in their community housing choices. Their decision about the Friendship Court units will act as a pilot program for future unit development opportunities either at Friendship Court or other PHA properties. Taken together, an evaluation against the following criteria will determine each alternative's capacity to address the problem at hand.

Wealth Generation

The primary objective for PHA's interest in shared equity housing models is to increase access to affordable homeownership Not because homeownership is the end goal in and of itself, but it is a means for low-income communities and communities of color to build intergenerational wealth. This criterion will estimate the average wealth built per household participating in the program over a 5- and 10-year time horizon. It is impossible to quantify the wealth creation definitively with the tiered AMI targets and complexity of homebuying; however, the model will assume the homebuyer is an average Friendship Court resident and the SEH model in question will leverage the most likely set of program parameters. The increase in wealth is quantified as the resale value of the home at 5 years and 10 years less outstanding debt less any incremental costs of homeownership versus renting in at market rates. Debt servicing, insurance, taxes, maintenance costs and other expenses are all included in calculation of the costs of each living arrangement.

Cost

As a small, local non-profit, PHA is financially constrained. The cost of any programmatic intervention will be a critical decision point. Costs will be thought of and quantified as upfront capital costs and ongoing administration costs. First, the upfront costs will include any investments needed to launch the program such as land purchases, new buildings, communication campaigns, staff training activities, and other investments. Second, ongoing administrative costs would include ongoing overhead, salaries for any additional staff, maintenance and upkeep, wraparound services, and other programmatic costs. Together, these costs will speak to PHA's capacity to take on this project.

Racial Equity

As an explicitly anti-racist organization, PHA wants to ensure any programmatic intervention will place a high premium on racial equity and correcting systemic harms to communities of color. The racial equity considerations of any alternative will primarily be a qualitative

assessment that will factor in many concerns. First, racial equity must factor in the potential for each alternative to protect and support families of color in the program's benefits. Second, it must consider the intervention's ability to mitigate the harmful impacts of gentrification, a major affliction in this region. And finally, this criterion will consider the alternative's potential to increase the beneficiary's access to capital, which has historically been more difficult for communities of color. Together, these factors will be combined to a robust racial equity assessment on a 1-5 scale.

Risk Mitigation for Homeowners

Homeownership is a risky investment and is not appropriate for all families. Wealth can only be created if families stay in the homes long enough to see property appreciation and reap the benefits of growing equity. But financial instability can lead to delinquency or foreclosure. Additionally, it can be damaging for a family if they are unable to move—whether in search of better jobs or other personal reasons—because they are unable to sell their home. An absolute assessment of an alternative's riskiness for the homebuyer is difficult to derive, so this criterion will be addressed as relative to one another on a 1-5 scale. The tenure protection for each model will be estimated based on the SEH model research. The mobility risk is caused by not having a strong secondary market for the home's resale. We will assess that possibility for each alternative by looking at the unrestricted housing market and demographic trends in the region.

Resident Receptiveness

Economic development and housing policy outcomes in PD10 have not benefited all members of this community and have actively harmed communities of color for generations. For that reason, there is a natural and justified wariness amongst the target population to housing interventions, especially ones managed by privileged outsiders. Any alternative must account for the community's receptivity to the program and be sure to return a sense of self-determination back to these communities from which those powers have historically been deprived. This criterion will be measured on a relative high-medium-low scale.

Analysis of Alternatives

Alternative 1: Include Units in the Thomas Jefferson Community Land Trust

This alternative will explore placing Friendship Court's ownership-designated units into Charlottesville's local CLT, the Thomas Jefferson Community Land Trust (TJCLT).[1] The Thomas Jefferson Community Land Trust was founded in 2008 to support affordable housing in the region by lowering the cost of homeownership. The organization has grown to include 12 homes in its portfolio and is currently working to onboard a new property in the 10th and Page neighborhood. The TJCLT has primarily been Board-run since its inception, though it does currently employ one staffer on a half-time basis.

[1] PHA and the Thomas Jefferson Community Land Trust have been in talks about merging since January 2020. The details are still being confirmed, but PHA will most likely take over oversight and management responsibilities for the organization in the coming months. After a year-long trial period, the TJCLT to merge with PHA indefinitely.

Wealth Generation

Each Friendship Court homeowner would accumulate roughly $17,000 over a 5-year period or $83,500 over a 10-year period if the ownership-designated units are incorporated into the existing CLT (Figure 1). A complete breakdown of the financials can be found in Appendix 8. The baseline market value of the unit is estimated at $340,000, $23,000 of which is the value of the land under the units and thus removed from the sale price. An additional $100,000 would be funded through subsidies such as philanthropy, HOME funding sources, tax credits, and other government support programs before the sale to residents. These are estimates but based on current information from PHA experts (see Appendix 7). This would leave an average home value of $217,000.

Figure 1. Alternative 1 Wealth Generation by Tenure

5-Year Resale	
Appreciation	38,234
Owner's Appreciation	9,559
Resale Price	226,559
Less Debt	212,297
Less Incremental Costs	(2,869)
Total Wealth Generation	**17,130**

10-Year Resale	
Appreciation	92,128
Owner's Appreciation	23,032
Resale Price	240,032
Less Debt	192,327
Less Incremental Costs	(35,825)
Total Wealth Generation	**83,530**

The financial projections use the cost estimates, financing terms, and equity appreciation split currently used by the TJCLT. These are subject to change as the two organization's merge, but the status quo acts as a sufficient baseline. The asset appreciation was assumed to be 2.7% annually, which is based on the historical compound annual growth rate of the Friendship Court property value assessment conducted by the city (Charlottesville City Assessor, 2020). The cost of homeownership versus cost of renting analysis assumed that the resident would have otherwise rented in the market rate rental market, for which the average monthly rent is $1,321 (Partners for Economic Solutions, 2019). For the past two years, average rental prices have risen 5.8% annually, but this model assumed a growth rate equivalent to inflation to be conservative. The baseline model assumes that the initial external subsidies remain in the home at the point of resale and are not included in the wealth creation at sale. However, if PHA could secure additional external subsidies to invest in the property at the point of resale, the initial investment could potentially be transferred to the initial homebuyer either in part or in full. This would increase the wealth creation by the amount of external subsidies secured at resale with a max value of the original $100,000.

Cost

The cost of Alternative 1 would be mitigated becuase the TJCLT infrastructure already exists and the cost of development are already in place for the Friendship Court project. Six new units would increase the TJCLT portfolio size by 50%, which will require additional staff. PHA is already planning to convert the half-time TJCLT employee to full-time and hire a new financial and housing counselor, so those salary costs are omitted. As PHA's CLT capacity continue to grow, it might need to hire additional staff in the future. To be conservative, this model includes a new housing and financial counsel at $60,000 annually in year 5 (Glassdoor, 2019).. The only

other additional costs would be staff capacity building, resident education, and outreach efforts. These annual costs are estimated to be $2,000 for the Grounded Solutions Network (membership and annual conference attendance) and $7,500 for resident education and outreach. The costs total $107,500 over 5-years or $395,000 over 10-years, largely driven by the new staffer which might be deemed unnecessary.

Racial Equity

Alternative 1 rates as a 4 out of 5 in its promotion of racial equity, with many factors boosting the high rating. The Friendship Court redevelopment is explicitly working to correct for systemic racism that have excluded the city's low-income communities and communities of color from economic development and left them behind in poverty. Moreover, the decision to target 30% AMI, 50% AMI, and 70% AMI families will more easily support communities of color specifically, as there is a correlation, not a causation, between race and earnings. Given PHA's anti-racist mission, this alternative will protect and prioritize communities of color. Gentrification is a powerful and destructive force in Charlottesville, but there is evidence that the CLT model effectively pushes against it (Choi et al., 2018). Access to capital for education or launching small businesses is difficult for low-income communities and communities of color. However, this alternative would support that access because residents will be building their credit and have access to collateral to support their applications.

On the other hand, the greatest threat to the racial equity of this alternative is in the financing terms. The alternative requires each individual family to obtain a loan, which the data illustrates is disproportionately difficult for families of color. Among low-income applicants, mortgage denial rates are 50% for Native American applicants, 19% for black applicants, 27% for Hispanic applicants, 12.1% for white applicants, and 7.1% for Asian applicants (Thomas Jefferson Planning Commission, 2019). This would need to be monitored closely and ameliorated as much as possible by PHA's financial counseling team.

Risk Mitigation

The homeownership risk mitigation of this alternative is rated as a 3 out of 5. There are three risk factors that combine to this metric. First, wealth creation is predicated on the home appreciating in value overtime. Historically, property values in the United States have increased over the long-term despite the potential for short-term fluctuations. The value of this property will certainly follow that trend, especially given its proximity to the Charlottesville Downtown Mall. PHA's stewardship of this property would also protect against down swings in the real estate market. Second, there is always tenure risk to homeownership caused by financial instability. While this alternative does not explicitly mitigate the potential for job loss or other exogenous shock to a homeowner's income, the wraparound services and community built into the Friendship Court model mean that financial literacy course, job training, and foreclosure diversion programs are just in a homeowner's backyard. Third, there is a risk to infringed mobility if a homeowner is unable to sell their home. However, the rest of Friendship Court's residents could all be potential buyers, which would support the secondary resale market. Additionally, PHA's stewardship and the infusion of external subsidies increase the attractiveness of the property amidst the affordable housing crisis in Charlottesville.

Resident Receptiveness

Resident receptiveness will be moderately high. While the TJCLT does not have the greatest reputation with the target population, PHA does. PHA is a long-standing trusted partner. This model is also relatively low-maintenance, which will increase the likelihood of a positive reception from residents. There are complications around the points of sale, but otherwise, homeowners are mostly left to their own devises as long as they live within the ground lease obligations. This means that they are more likely to feel a sense of autonomy and self-determination in their ownership. CLT homeownership is different than traditional homeownership, but it functions more similar than an LEC model.

One potential resident concern with this alternative is not the CLT model, but rather the TJCLT itself. There is a concern that while well-intentioned, the current leadership structure and operating model of the TJCLT perpetuates a system in which decision-making power is not in the hands of residents. Instead, it rests in the hands of the Board members, who are primarily from privileged backgrounds. The TJCLT bi-laws encourages resident representation to make up a third of the Board of Trustees, that has not happened. As the TJCLT merges with PHA, this is an opportune moment to reassess the CLT's governance structure and operating model to center power and autonomy in the hands of the target populations it seeks to support. This the CLT could be a good proof point for the CLT model and newly merged organization among a community wary of gentrification and harmful housing policy. This alternative could open the door to greater CLT expansion in PD10, which has been slow.

Alternative 2: Create a Limited Equity Coop for the Friendship Court Units

This alternative explores creating a limited equity cooperative (LEC) to manage the homeownership units in the Friendship Court development. In this model, the LEC purchases the units at their post-subsidy rate, $1,440,000. The purchase would be financed by a blanket loan and a down payment made up of the six LEC shares from residents, $7,500 each. PHA would serve as the long-term steward for the LEC and act a consistent resource for the LEC management and maintenance. To execute this alternative, PHA would need to create the legal LEC entity with the homeownership units as its assets and then sell shares in the LEC, which would give the shareholders the right to live in one of the units.

Wealth Generation

Alternative 2 would generate approximately $16,000 in wealth over a 5-year period and $37,000 over a 10-year period for each homeowner (Figure 2). The baseline assumptions were the same as the CLT model as it relates to the underlying value of the home, $340,000 pre-subsidy or $240,000 post-subsidy (see Appendix 7). Building this financial projection was less clear than the CLT model because there is less published literature about how to LECs are structured and financed. However, a complete breakdown of the financials can be found in Appendix 9.

Figure 2. Alternative 2 Wealth Creation by Tenure

5-Year Resale	
Appreciation	787
Resale Price	8,287
Less Debt	4,350
Less Incremental Costs	(11,836)
Total Wealth Generation	**15,772**

10-Year Resale	
Appreciation	1,967
Resale Price	9,467
Less Debt	5,100
Less Incremental Costs	(32,966)
Total Wealth Generation	**37,334**

This base model made three key assumptions. First, the monthly LEC fees, which are paid by each shareholder in lieu of rent or a mortgage payment, were estimated to include each resident's share of the total blanket loan servicing costs, maintenance fees, management fees, and reserve fees. The specifics will be set by the LEC at incorporation. As Figure 2 illustrates, the largest driver of wealth creation is that the monthly cost of living is actually 15-20% cheaper in a cooperatives over traditional rent (Northcountry Cooperative Development Fund, n.d.). This model assumes those cost savings are saved rather than spent, but it does not assume they are reinvested. Second, in most LEC models, the home appreciation is tied to some economic index rather than increases in the market rate property value. This ensures long-tern affordability in the unit. In this model, the LEC share value is tied to inflation, approximately 1.5% annually. Many LECs actually tie the appreciation to the percent change in the AMI. Third, the initial share price was set at $7,500. There are no guidelines in the literature for setting this figure. This price is an estimate of the capital on-hand the LEC would be required to compile a 3% down payment for the blanket loan. This share price would be a significant barrier for many low-income families. Down payment assistance program funding cannot be used to purchase co-op shares, but there are banks that will help families secure a co-op share mortgage. The lower individual loan amount would likely mitigate any access to capital barriers for those families.

The wealth generation per resident of this alternative is lower than that of the CLT. However, the true value of this alternative lies in the possibility of the entire Friendship Court development transitioning into the LEC after the current private investors exit. This would happen 15-17 years after the project is finished. Thus, it is out of the scope of this criteria analysis. However, PHA would consider transferring the ownership of the Friendship Court development to the LEC for the price of the outstanding project debt plus any transaction costs. The LEC would acquire the property and building for significantly below market rate. Thus, LEC fees for each resident would be lower than monthly LEC fees paid previously and significantly lower than market rate rent at that point in time. This would lead to greater wealth creation not just through the limited equity ownership, but from the cost of living savings than can be invested or deployed in more productive ways. This economic value cannot be estimated at this point, but it would be sizable.

Cost

The cost of Alternative 2 would be higher than Alternative 1 because PHA would need to stand up a brand-new legal entity without a preexisting knowledge base among the staff or the residents themselves. The upfront legal costs to structure and incorporate the entity would be approximately $50,000. PHA would need to hire someone to serve as the LEC liaison for approximately $60,000 annually. As the LEC was starting up, PHA should set aside a one-time $2,000 for general staff and resident training. On a recurring basis, PHA could anticipate annual

operational expenses totaling $13,500: $2,000 for ongoing training and capacity building, $4,000 to maintain the legal entity, and $7,500 in resident education and outreach. This would total $363,500 over a 5-year period and $785,000 over a 10-year period.

Racial Equity

Alternative 2 would rate as a 4 out of 5 for the racial equity criterion. This alternative would carry all the same benefits as Alternative 1 as far as the racial outcomes for the lower-income target populations and PHA's anti-racist commitment. Limited equity co-operatives can be powerful tools for enabling first-time equity ownership and empowering autonomy and self-determination. They can also protect against external building ownership models which can become extractive and exploitative in pursuit of profits. While there is less academic research on LEC's efficacy in stopping gentrification, the LEC would be deeply affordable in the long-run which would certainly be mitigate the potential for poor financial outcomes for vulnerable populations. The biggest boon to Alternative 2's racial equity criterion relates to the financing. Rather than each individual needing to secure a mortgage, the LEC would secure a blanket loan for the entire building. Individuals would only need to secure the funding to purchase their share of the LEC, which at a much lower price point, would be much easier to do. Therefore, the bias against families of color in the banking system would be nullified. On the other hand, residents would not have the same asset collateral as in Alternative 1, which would help them access short-term capital for education or economic development purposes. However, as part owners of the LEC they would still be able to build their credit history, which will have long-term benefits across a number of dimensions.

Risk Mitigation

The homeownership risk mitigation of this alternative is rated as a 4 out of 5. Similar to Alternative 1, the realities of the affordable housing space in Charlottesville and PHA's stewardship, negative financial outcomes due to property devaluation are unlikely. There is always tenure risk to homeownership caused by financial instability. While Alternative 2 does not prevent job loss or other exogenous shocks to a homeowner's income, the relatively small financial commitment upfront and debt required in this alternative minimize this likelihood as well. Additionally, Friendship Court has wraparound services and community resources onsite. There is a risk to infringed mobility if a homeowner is unable to sell their home. The limited upfront cost and large affordable housing market would make resell fairly smooth. The rest of Friendship Court's residents could all be potential buyers, which would support the secondary resale market. Additionally, PHA's stewardship and the infusion of external subsidies increase the attractiveness of the property amidst the affordable housing crisis in Charlottesville.

Resident Receptiveness

Alternative 2 would have moderately low resident receptiveness. The biggest hurdles center on resident engagement and autonomy. Alternative 2 would require frequent and consist engagement from residents to monitor the day-to-day operations of the LEC and make decisions about upkeep, regulations, and other community decisions. With only 6 units, this will likely not fall to a small, rotating subset of the residents, but much more on the shoulders of those residents specifically. This would take time, a steep learning curve, and open residents up to conflict. Alternative 2 would require residents to relinquish some of the autonomy that comes with home

ownership. They could not do any major projects, renovations, etc. without the approval of the LEC Board. Again, this would open the community up to conflict and could diminish the psychological benefits to homeownership. That said, residents might respond strongly to these units being fully resident-owned independent of PHA, even though the organization will be nearby to lend resources if need be. Additionally, because the LEC will be a new entity, there is no preexisting negative connotation as there is with the TJCLT.

Figure 3. Outcomes Matrix

Criteria	**Alternative 1: CLT**	**Alternative 2: LEC**
Wealth Generation (5- or 10-yr)	$17,130 or $83,530	$15,772 or $37,334
Cost (5- or 10-yr)	$107,500 or $695,000	$363,500 or $758,000
Racial Equity (high = good)	4 out of 5	4 out of 5
Risk Mitigation (high = good)	3 out of 5	4 out of 5
Resident Receptivity	High	Low

Recommendation and Implementation

After careful consideration and analysis, it is my recommendation that PHA pursue Alternative 1 to place Friendship Court's six ownership-designated units into the existing TJCLT. Doing so will generate greater wealth per resident over the 5- and 10-year time horizons at a lower cost to PHA. The trade-off for this greater wealth creation is the slightly lower risk mitigation provided by the alternative. This is because the costs of resident participation are higher in Alternative 1 and the residents are more financially entangled with debt and resale restrictions. They generate more wealth, but that wealth is tied up in the home itself unless the home can help them access new avenues for capital. Alternative 1 equally promotes racial equity in PHA's programmatic outcomes and will likely be adopted by a more receptive resident community. In the short-run, it appears more cost effective to simply give the families the money that would be expended to fund the program. However, this does not factor in the second order benefits of this program including the risk mitigation benefits of the program, positive externality benefits to the community, and the long-term affordability of this housing stock which can help more families in perpetuity.

PHA can design Alternative 1's programmatic details to enhance its positive outcomes and minimize its negative outcomes. First, the size of external subsidies that lower the initial sale price of the unit has a large impact on the overall financial viability. PHA should maximize these and secure additional subsidies for the second owner such that the original owner can pock those subsidies as more equity value. Second, the financing terms on the mortgage loan is crucial to capture Alternative 1's value. A one percentage point difference in the interest rate can drive $13,500 of value over a 5-year period and $22,000 over a 10-year period. This is also the Alternative's greatest weakness from a racial equity standpoint. PHA must work with local lenders and with residents through financial counseling to ensure positive financing terms on the mortgage. Third, the CLT wealth creation projections assume zero property taxes for CLT homes because there is momentum to pursue state legislation that would create this tax exemption. If this legislation does not come to fruition, that would erode approximately $10,500 or $19,000 of

wealth creation over 5-year or 10-year periods. PHA must continue to support these advocacy efforts, as it would support the Friendship Court units, the other 12 TJCLT properties, and could encourage the expansion of other CLT housing units around Charlottesville.

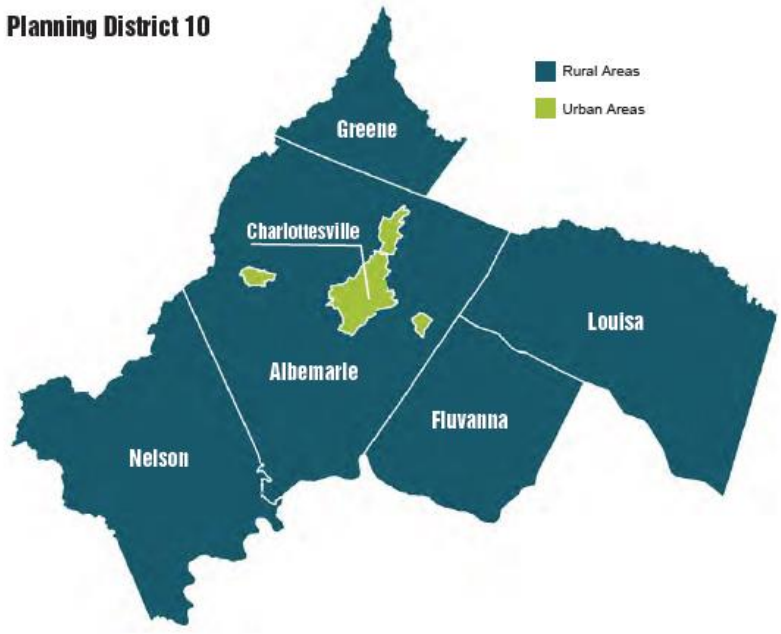
Over the long-term, PHA should pursue opportunities to concert the entire Friendship Court development into an LEC. This would create equity ownership opportunities for over 150 low-income families and families of color. At that scale, the cost of standing up and supporting a separate legal entity would be sufficiently dispersed on a per-resident basis. Additionally, the co-op Board responsibilities would be split among a smaller sub-set of the residents, which would lessen the burden on each individual. And finally, PHA would transfer ownership of the development's capital assets deeply below market value, which would lower the monthly cost of living for residents. Those savings could be invested in the stock market or deployed for other useful investments such as education, job training, or business ventures.

To make the Friendship Court ownership transition, PHA should begin supporting advocacy efforts for state-wide legislation to require apartment buildings to offer the first right of purchase to residents before seeking other buyers. To be successful, this legislation would need to consider the types of apartment building sales to which this restriction would pertain, the amount of advanced notice to which the residents would be entitled, and the types of support residents would need to make the purchase a realistic option. Washington, DC and other locations have experimented with similar legislation, which would inform Virginia legislation. This alternative is focused less on direct impact to the local PD10 region but could lay the foundation for a much broader impact across the state. PHA is well situated to conduct this advocacy because it is a trusted, well-respected non-profit in this arena, but also because Sunshine Mathon, the Executive Director, currently holds a seat on Virginia Housing Alliance, which is a powerful advocacy organization in Richmond.

In conclusion, PHA should leverage both CLT and LEC models in Friendship Court to best serve the residents over the short- and long-term. PHA should place the current six ownership-designation units into the CLT and pursue creating an LEC for the entire Friendship Court development after the private financing has exited the investment. By putting the currently available ownership-designated units into the community land trust, PHA can support wealth generation for the Friendship Court residents by lowering the cost and risks of homeownership and focusing on community-centered, anti-racist intervention. PHA can then scale its usage of share equity housing models by laying the groundwork for Friendship Court, and other apartment complexes across the state, to be bought and managed by their residents via a limited equity cooperative.

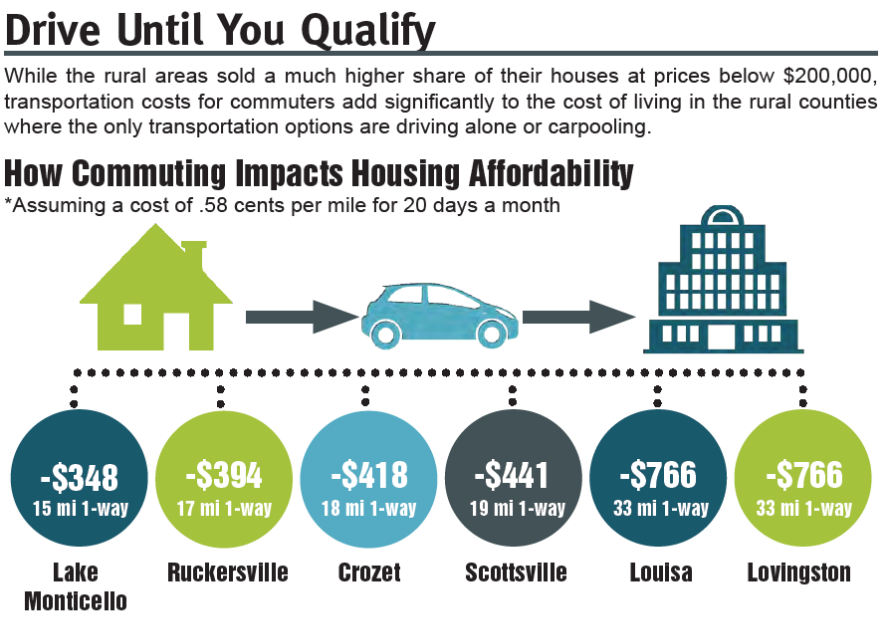
Appendix

Appendix 1: A Map of Planning District 10 (PD10)



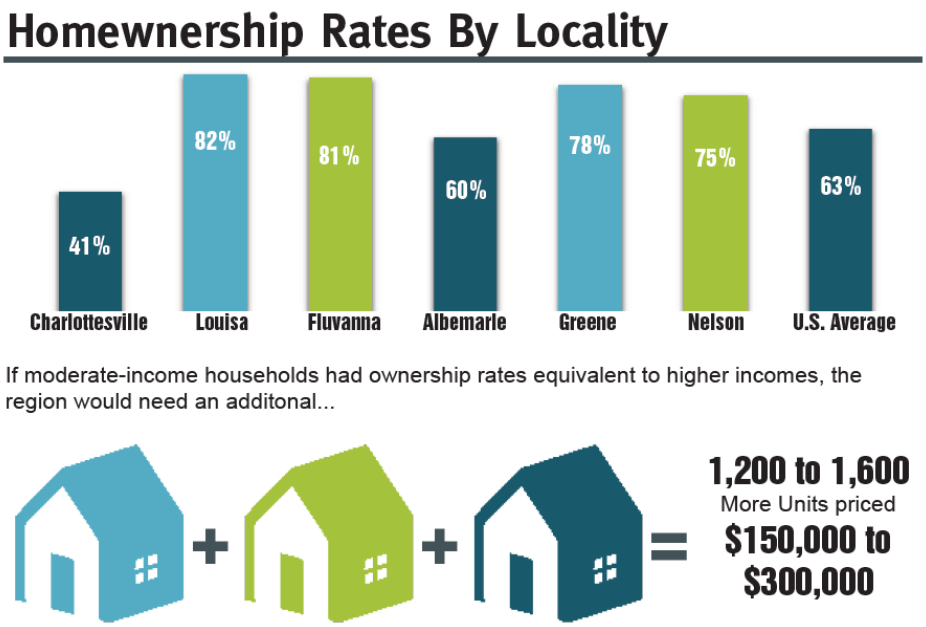
Source: Partners for Economic Solutions, 2019

Appendix 2: The Cost of Commuting for Low-Income Communities in PD10



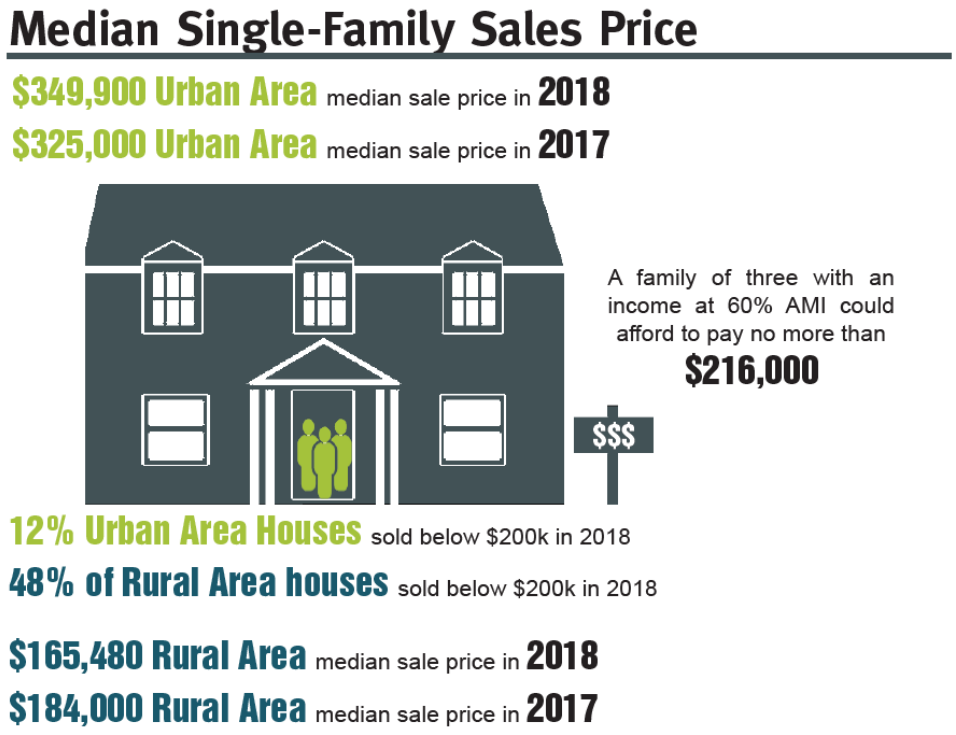
Source: Partners for Economic Solutions, 2019

Appendix 3: Homeownership Rates for Middle- and High-Income Communities in PD10



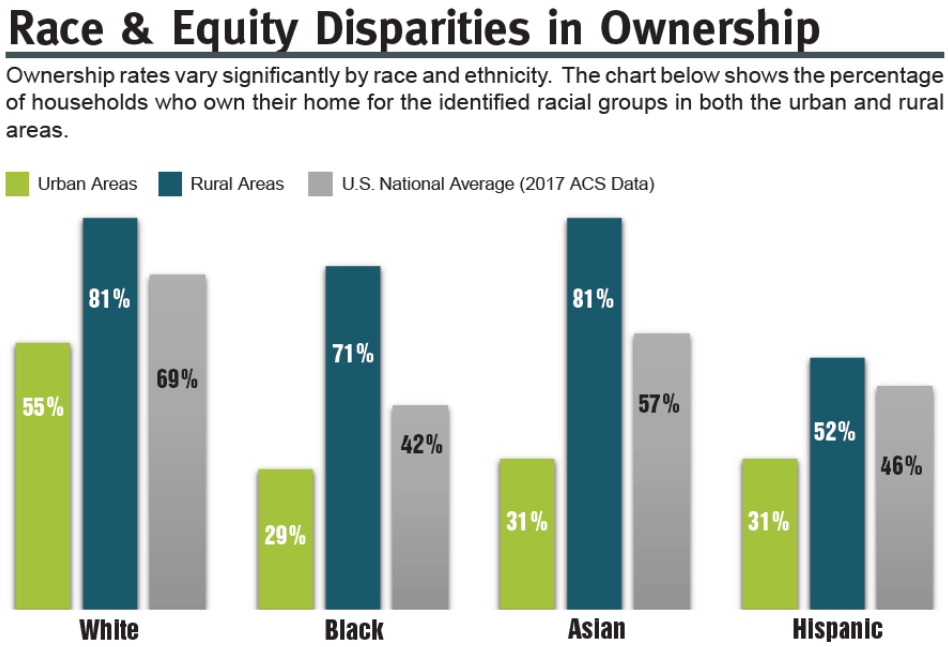
Source: Partners for Economic Solutions, 2019

Appendix 4: House Prices in Rural v. Urban Communities in PD10



Source: Partners for Economic Solutions, 2019

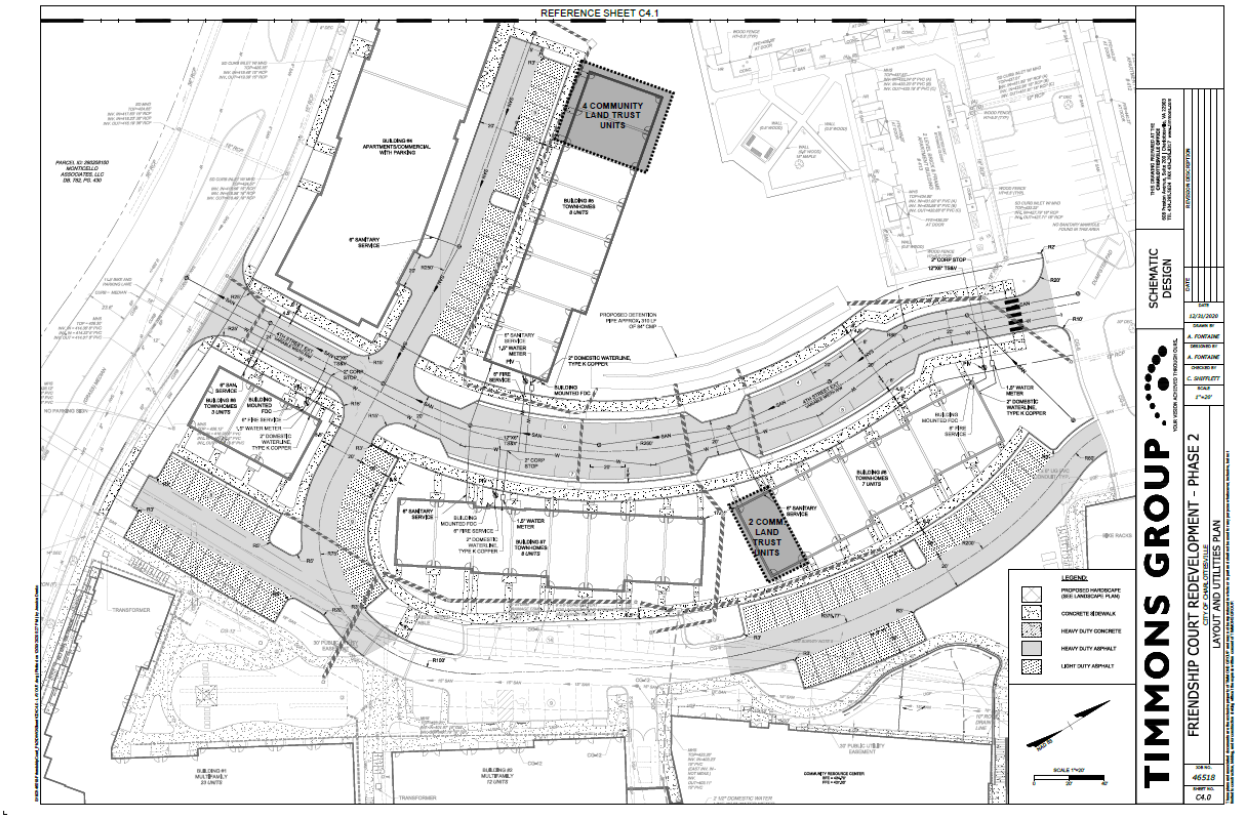
Appendix 5: Homeownership in Rural v Urban Communities by Race in PD10



Source: Partners for Economic Solutions, 2019

Appendix 6: Friendship Court Schematics

Source: C'ville Tomorrow, 2018



Source: Piedmont Housing Alliance

Appendix 7: Explanation of Home Valuation and Market Assumptions

Market Rate Home Value	$340,000	This market rate value is based on townhome and condo units currently for-sale in Charlottesville. I filtered units by the number of bedrooms, square footage, and location to best approximate the Friendship Court units. Then I took the averages of the 3- and 4- bedroom units and then averaged those estimates.
Available Subsidy	$100,000	This figure is a very variable estimate based on conversations with PHA staff. It will be comprised of philanthropy, HOME funds, social impact funds, and market tax credits.
Value of the Land	$23,000	I started with the City of Charlottesville's 2021 valuation of the full 11.75-acre lot: $6.965 million. From there, I could calculate the value of the 3-acre Phase II lot. I assumed that the stacked townhomes comprised two-thirds of the lot and the flat-style apartments could take the remaining third. From there, I calculated the per-unit land value by dividing that by the 52 townhome units.
Home Price Appreciation	2.7%	This figure uses the compound annual growth rate of the increase in total property value for Friendship Court by the City of Charlottesville.
Rent	$1,321	This is the average rent in Charlottesville as of 2019.
Escalator	1.5%	This is an historical estimate of U.S. inflation.

Appendix 8: Alternative 1 Financial Model

Year	0	1	2	3	4	5	6	7	8	9	10
Cash Flow											
Down Payment	6,510										
Closing Costs	8,680										
Insurance		420	426	433	439	446	452	459	466	473	480
Taxes		1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Upkeep		600	609	618	627	637	646	656	666	676	686
Ground Lease		300	300	300	300	300	300	300	300	300	300
Private Mortgage Insurance		1,980	1,980	-	-	-	-	-	-	-	-
Mortgage Principle Payments		3,152	3,278	3,409	3,545	3,687	3,834	3,988	4,147	4,313	4,486
Mortgage Interest Payments		7,291	7,165	7,034	6,898	6,756	6,608	6,455	6,296	6,130	5,957
Total Costs	15,190	15,243	15,258	13,294	13,309	13,325	13,342	13,358	13,375	13,392	13,409
FV of Total Costs	$24,743	$23,647	$22,543	$18,705	$17,836	$17,007	$16,217	$15,464	$14,746	$14,061	$13,409
Alternative Costs if Renting											
Rent		15,852	16,090	16,331	16,576	16,825	17,077	17,333	17,593	17,857	18,125
Renters Insurance		240	244	247	251	255	259	262	266	270	274
Total Costs		16,092	16,333	16,578	16,827	17,079	17,336	17,596	17,860	18,128	18,399
FV of Total Costs		24,964	24,132	23,327	22,550	21,798	21,072	20,369	19,690	19,034	18,399
Net Wealth											
Asset Value		340,000	349,180	358,608	368,290	378,234	388,446	398,934	409,706	420,768	432,128
Owner's Asset Value		217,000	219,295	221,652	224,073	226,559	229,112	231,734	234,426	237,192	240,032
Mortgage Debt		182,280	179,128	175,851	172,442	168,897	165,210	161,376	157,388	153,241	148,927
Down Payment Debt		43,400	43,400	43,400	43,400	43,400	43,400	43,400	43,400	43,400	43,400
Net Wealth		(8,680)	(3,233)	2,401	8,231	14,262	20,502	26,958	33,639	40,551	47,705

Assumptions		
Owner Appreciation Capture	25%	TJCLT policy
Closing Costs	4%	TJCLT assumption
Monthly Ground Lease Fee	25	TJCLT policy
Down Payment Requirement	6,510	TJCLT policy requires 3%
Down Payment Loan	43,400	Max is 20% of home sale price in Charlottesville; PHA average is $40K-$50K; assumed bullet loan with 0% interest
Mortgage Loan	182,280	
Mortgage Term	30	
Mortgage Interest Rate (annual,	4%	TJCLT assumption
Annual Mortgage Payment	10,443	
Monthly PMI	165	Estimated with NerdWallet calculator; assumes zero at 20% equity

Appendix 9: Alternative 2 Financial Model

Year	0	1	2	3	4	5	6	7	8	9	10
Cash Flow											
Share Price	3,750										
LEC Owner Fees		14,014	14,014	14,014	14,014	14,014	14,014	14,014	14,014	14,014	14,014
Total Costs	3,750	14,014	14,014	14,014	14,014	14,014	14,014	14,014	14,014	14,014	14,014
FV of Total Costs	$6,108	$21,740	$20,704	$19,718	$18,780	$17,885	$17,034	$16,222	$15,450	$14,714	$14,014
Alternative Costs if Renting											
Rent		15,852	16,090	16,331	16,576	16,825	17,077	17,333	17,593	17,857	18,125
Renters Insurance		240	244	247	251	255	259	262	266	270	274
Total Costs		16,092	16,333	16,578	16,827	17,079	17,336	17,596	17,860	18,128	18,399
FV of Total Costs		24,964	24,132	23,327	22,550	21,798	21,072	20,369	19,690	19,034	18,399
Net Wealth											
Asset Value (share)		7,500	7,650	7,857	8,069	8,287	8,510	8,740	8,976	9,218	9,467
Debt		3,750	3,900	4,050	4,200	4,350	4,500	4,650	4,800	4,950	5,100
Net Wealth		3,750	3,750	3,807	3,869	3,937	4,010	4,090	4,176	4,268	4,367

Assumptions		
Mortgage Amount	1,440,000	Post-subsidy home value ($230K*6 units)
Down Payment Percentage	3.0%	Same assumption as Alternative 1
Down Payment Amount	43,200	
Initial Share Price	7,500	Down payment amount divided by 6
Share appreciation measure	2%	Designed to slightly outpace inflation
Co-Op Blanket Loan Term	30	
Co-Op Blanket Loan Interest Rate	3.5%	National Community Bank quote
Annual Co-Op Loan Payments	77,961	
Monthly Fees to LEC	1,168	Sum of the below
Monthly Maintenance Fees	25	Same assumption as Alternative 1
Monthly Management Fees	25	Same assumption as Alternative 1
Monthly Reserve Funds	35	Same assumption as Alternative 1
Monthly PITI	1,083	One-sixth of the co-op loan servicing

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