Affordable Homeownership Pilot

Livable Communities Act
Local Housing Incentives Account (LHIA)
What will we cover today?

- Review Local Housing Incentives Account (LHIA) Affordable Homeownership Pilot Priorities and Engagement Efforts
- Address remaining questions or concerns
- Share examples of how competitive projects might be structured
- Next steps
Local Housing Incentives Account (LHIA) Affordable Homeownership Pilot

Pilot priorities:

1. **Geographic choice:** Increase affordable homeownership options in areas that are predominantly single-family and have higher sale prices.

2. **Reducing racial disparities in homeownership:** Increase affordable homeownership opportunities focused on serving Black, Indigenous, and other ethnic groups that own homes at disproportionately lower rates than white households.

LHIA Project: PPL Greenbelt (2020)
Pilot engagement summary

Staff engaged with numerous stakeholders to vet the idea in 2020 and followed up with those stakeholders in 2021 to provide feedback as the pilot took shape.

2020: Vetting the idea
- LCA participating cities
- Counties and county development authorities
- Affordable homeownership developers, funders and advocates
- The Council’s Housing Work Group
- The Council’s Land Use Advisory Committee
- The Council’s Community Development Committee
- Minnesota Housing
- Metro Cities

2021: Shaping the pilot
- LCA participating cities
- Counties and county development authorities
- Affordable homeownership developers, funders and advocates
- The Council’s Housing Work Group
- The Council’s Land Use Advisory Committee
- The Council’s Community Development Committee
- Minnesota Housing
- Metro Cities
- The Council’s Equity Advisory Committee
Pilot scoring criteria

Minimum Step One score to:

Sufficiently address one or both pilot priorities

All 76 LCA participating cities can achieve the minimum of five points.

<table>
<thead>
<tr>
<th>Pilot Priority</th>
<th>Points Available</th>
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<tbody>
<tr>
<td>Racial Equity</td>
<td>8</td>
</tr>
<tr>
<td>Geographic Choice</td>
<td>9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>17</td>
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STEP ONE SCORE BREAKDOWN

- 5 - points*
- 9 - 12 points
- 13 - 17 points

*This includes one city that can only achieve the minimum points in certain census tracts.
Questions on Step One criteria?
Balancing affordable homeownership outcomes

Expanded choice: more expensive, possibly larger home in a location the homebuyer prefers

Ability to build wealth: Share of property appreciation the homebuyer can keep upon resale
Why a 15-year affordability term?

- Does not require the initial homebuyer to remain in the home for 15 years
- Similar to most affordable homeownership programs
- Ensures that the goal of creating affordable homeownership opportunities throughout the region is met for a substantial period of time
Questions on the 15-year affordability term?
Affordable homeownership models

Types of Affordable Home Development:
- New construction
- Acquisition and Rehabilitation
- Acquisition

Ways to achieve 15 year or more affordability terms in homeownership:
- Restrictive deed
- 2\textsuperscript{nd} mortgage
- Community Land Trust
Proposal: Land Trust, New Construction

Developer plans to build four homes

Location: Woodbury

Total development cost: $460,000

Estimated market value: $400,000

Affordable price at 80% AMI: $316,000 (Sales Price)

Affordability gap per home: $84,000

Development gap per home: $60,000

Total Gap (four homes): $576,000

Project Funding Sources ($576,000):
- Met Council LHIA (request): $288,000
- Washington County GROW funding: $188,000 (local match)
- City of Woodbury down payment assistance: $100,000 (local match)
5 Years Later: New Construction Resale, Community Land Trust

Land Trust Resale Model

Estimated market value: $588,000*

Property Appreciation: $188,000

2026 Land Trust Sale Price: $363,000

$316,000 + $47,000

Original Affordable Price  
25% of Market Appreciation

Land Trust Equity Model

Property Appreciation = $188,000

$188,000 x 25% = $47,000  
Seller’s share of market appreciation

+ $32,000  
Principle paid on mortgage

- $25,000  
Down payment assistance repayment

= $54,000  
Seller’s equity upon resale

When the original homeowners sell the home, it is to another income-qualified buyer

*Assumes 8% annual market value increase; this is the 2012-2021 annual regional average.
Proposal: Acquisition Rehabilitation, Restrictive Deed

Developer plans to acquire, rehab, and sell one home

**Location:** Wayzata

**Home Acquisition Cost:** $599,000

**Hard Rehabilitation Cost:** $51,000

**Affordable price at 80% AMI:** $316,000 (*Sales Price*)

**Affordability gap:** $283,000

**Development gap:** $51,000

**Total Gap:** $334,000

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**Project Funding Sources ($334,000):**

- Met Council LHIA (request): $167,000
- Hennepin County AHIF: $75,000
- Energy Rebates: $50,000
- City of Wayzata: $42,000

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3 bedroom, 2 bath home
5 Years Later: Acquisition Rehabilitation Resale, Restrictive Deed

Restrictive Deed Resale Model

Estimated market value: $880,000*

Property Appreciation: $281,000

2026 Affordable Purchase Price: $388,000^* 

Income-based Appreciation: $72,000

Restrictive Deed Equity Model

$72,000 Income-based appreciation

+ $32,000 Principle paid on mortgage

= $105,000 Seller’s equity upon resale

Resale after 15 years would require repayment of initial subsidy ($283,000), which could be (partially) forgiven if insufficient market appreciation has occurred.

*Assumes 8% annual market value increase; this is the 2012-2021 annual regional average

^Assumes 4.2% annual AMI increase; this is the 2012-2021 annual regional average
Proposal: Acquisition, 2\textsuperscript{nd} Mortgage

City/Program Partner plans to acquire and sell one home

**Location:** Elko New Market

**Home Acquisition Cost:** $279,000

**Affordable price at 50% AMI:** $201,500 (*Sales Price*)

**Affordability gap:** $77,500

**Development gap:** N/A

**Total Gap:** $77,500

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**Project Funding Sources ($77,500):**

- Met Council LHIA (request): $38,750
- Scott County CDA: $38,750
5 Years Later: Acquisition, 2nd Mortgage

2nd Mortgage Resale Model

Estimated market value: $410,000*

Property Appreciation: $131,000

$410,000 - $279,000

2026 Price  2021 Price

Second Mortgage Equity Model

$131,000  Market-based appreciation
+$18,000  Principle paid on mortgage
-$64,500  83.3% of 2nd mortgage (25 of 30-year term)

= $84,500  Seller’s equity upon resale

*Assumes 8% annual market value increase; this is the 2012-2021 annual regional average

Amortized repayment of 2nd mortgage would be used to help another income-qualifying homebuyer to purchase an affordable home in the same city.
Questions about the example projects?

Any remaining concerns for staff to address?
Next Steps

• Staff will return for CDC to consider pilot approval in February as a part of the greater LCA Funding Distribution Plan
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