GROUNDED SOLUTIONS NETWORK
strong communities from the ground up

Metropolitan Council Affordable Homeownership Report

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Introduction

Communities across the seven-county Twin Cities region are working to create a broader range of housing options for their residents. Like many metropolitan regions in the country, the Twin Cities are experiencing rapidly rising rents and a lack of affordable homes for sale. The region also has some of the highest racial disparities in homeownership in the nation. To improve homeownership opportunities and reduce homeownership disparities, local governments must pursue a broad range of strategies and policies, aimed at filling various gaps in the marketplace. **This report focuses on strategies to foster affordable homeownership, with a particular emphasis on programs that promise lasting terms of affordability.** It celebrates what the region is already doing, and it identifies opportunities to strengthen and broaden these approaches going forward.

The Importance of Affordable Homeownership Opportunities

A healthy housing ecosystem includes a wide range of housing solutions, from crisis shelters for the homeless to luxury housing for the wealthy. These solutions meet the needs of people at different life stages and in different life circumstances. Affordable homeownership opportunities are an important part of this mix, providing benefits to both homeowners and the communities in which they reside.

Household Benefits of Affordable Homeownership

Homeowners benefit in numerous ways when homeownership is affordable. **Affordability makes the wealth-building benefits of homeownership available to low- and moderate-income homebuyers.** This is a benefit they cannot secure through rental. Each mortgage payment these owners make helps them accumulate equity in their homes. That equity continues to build every time their home increases in value. Research shows that for many low- and moderate-income homeowners – particularly homeowners of color – their house accounts for more than half of total household wealth. (Herbert and Belsky, 2008).

Affordable homeownership also provides much-needed stability for households. When housing costs are affordable, the rest of the household budget is much more manageable. Money becomes available for life's other necessities, such as food, clothing, transportation, health care, etc. Households may even have money left at the end of a paycheck to save for the future. When homeownership is affordable, unexpected expenses or small disruptions in income are not the crisis they might otherwise be. Home equity can help these households weather more significant financial shocks, such as periods of unemployment or significant medical expenses. Homeownership also shields owners from rent increases, making housing costs more predictable over the long term.

The stability that affordable homeownership provides benefits low- and moderate-income households significantly. Research has found greater educational attainment for low- and moderate-income homeowners' children, as compared to a similar group of renters. Research also finds lower rates of teen pregnancy, higher lifetime annual incomes, and diminished future reliance on welfare support. (See Aaronson 2000; Haurin, Parcel, Haurin 2001; Urahn, Wechslert Wilson, Colbert 2011). Accordingly, affordable homeownership can be an important building block for household and generational success.

Community Benefits of Affordable Homeownership

The benefits of affordable homeownership extend beyond homeowners themselves to the broader community. Developing affordable housing can provide a temporary boost to the local economy due to the construction activity it requires. It provides a longer-term economic boost as new residents spend money in local businesses. Affordable homeownership opportunities can improve employers' ability to attract and retain employees. Finally, homeowners are often actively engaged in the civic life of a community and tend to develop deep social connections to a neighborhood. This can lead to myriad intangible benefits, from greater volunteerism to better social control of public space and, hence, less property crime. (See Sampson, Raudenbush, Earls 1997; Lindblad, Manturuk, Quercia 2013; Ni and Decker 2009). Accordingly, creating affordable homeownership opportunities is a strategy that pays significant community dividends.

Regional Benefits of Affordable Homeownership

Promoting affordable homeownership offers some decided benefits to the Twin Cities region in particular. Multifamily rental is, by far, the dominant affordable housing strategy in the region. In 2016, for example, over 94 percent of all new affordable housing in the region was multifamily rental; in 2017 that measure increased to 97 percent (Metropolitan Council 2017, 2019). Supporting such housing production is undoubtedly important, as losses of previously subsidized units threaten to overwhelm new production. Nonetheless, increased affordable homeownership opportunities must be created as a part of an overall regional housing strategy. Not enough of that is happening today. For example, just over 5,100 single family detached homes were added in the region in 2017. Of these, only 52 were affordable to those earning 60 percent of area median income (AMI).

The heavy emphasis on multifamily rental as an affordable housing production strategy means that much of the region will see no new affordable housing. Single-family detached homes dominate the region's residential landscape. In 2016, 96 percent of all residential land uses in the region were single family; just 4 percent were multifamily. In many cases, this pattern is a product of zoning codes that prioritize single-family over multi-family development, rendering entire neighborhoods effectively closed to the region's dominant affordable housing production strategy. The good news is that local governments are working to allow more multifamily development in their communities. Land available for multifamily is closer to 10 percent of residential land uses planned through 2040. Nonetheless, many neighborhoods will see no new multifamily housing in the near term. Policies and practices to promote and preserve affordable homeownership, however, can reach these neighborhoods, significantly expanding the range and location of residents' affordable housing options.

Expanding these options is taking on additional importance as the region is becoming more racially and ethnically diverse. This diversity is growing fastest in areas outside of the central cities of Minneapolis and Saint Paul. This is good news for a region that once ranked as the second least-diverse large metropolitan region in the country (Metropolitan Council 2014). Providing affordable homeownership opportunities increases housing choice for low- and moderate-income earning households, which are disproportionately households of color. For too long, households of color, across all income levels, have faced constrained housing options, due in no small part to government policies and practices that have had exclusionary impacts. Investing in affordable homeownership opportunities is one step toward countering these exclusionary effects.

Another driving force in the trend toward increased diversity in the region is immigration. The Urban Land Institute found that many immigrant households in the Twin Cities region strive for single-family homeownership, but find few practical opportunities (Sturtevant, 2017). Indeed, fewer than half of foreign-born households in the region own a home, compared to 72 percent of native-born households. Providing affordable homeownership options can help meet this demand, while simultaneously bolstering the trend toward increasing diversity in the region's suburbs.

Lasting Affordability and Affordable Homeownership: Three Models.

The role of local governments in fostering affordable homeownership opportunities is often indirect. They do not build homes and sell them to homebuyers. Rather, they work through for-profit and non-profit intermediaries, providing financial support and creating a regulatory environment that allows those entities to deliver housing at a price low- and moderate-income homebuyers can afford. These can be investments with a one-time pay-off, such as downpayment assistance programs that make a home affordable to a single purchaser. Or local governments can lend their support to strategies that foster lasting affordability, so that once affordable, homes remain so for generations to come. In this section, we highlight three approaches to producing affordable homeownership that, when properly structured and supported, can achieve lasting affordability: community land trusts (CLTs), housing cooperatives (co-ops), and manufactured home communities. After describing each model, we highlight examples already established in the Twin Cities region. We then identify ways that local governments could support the establishment or expansion of these models in their jurisdictions to foster affordable homeownership, with a particular emphasis on programs that promise lasting terms of affordability. It celebrates what the region is already doing, and it identifies opportunities to strengthen and broaden these approaches going forward.

Community Land Trusts

Cooperative Housing

Manufactured Housing

Community Land Trusts

A community land trust (CLT) is a distinctive approach to establishing and maintaining affordable homeownership. A typical CLT is a nonprofit, community-based organization whose mission is to provide affordable housing and other community assets in perpetuity. It does this by maintaining a legal connection to a property even after selling it. This legal connection allows the CLT to specify the terms on which the property may be resold – terms that ensure its ongoing affordability. It also gives the CLT a "stewardship" role – both with regard to purchasers and with regard to the home itself. The CLT facilitates an initial subsidy that makes the purchase price affordable, in exchange for legal rights to the property that are used to maintain perpetual affordability whenever the property is sold.

The Ground Lease

To establish and maintain the requisite legal connection to a property, a CLT will typically sell a home while retaining ownership of the land on which the home sits. The homeowner then leases the land from the CLT through a 99-year ground lease. It is this ground lease that ensures that a property will remain affordable in perpetuity. A ground lease typically specifies that homeowners may only sell the home to another purchaser who meets the CLT's income-qualification restrictions, at a price that is affordable to such purchasers. These requirements are spelled-out in a resale formula that is also designed to allow the seller to retain a share of the home's increased value at the time of sale. In this way, CLTs balance homeowners' goals of wealth accumulation with the community's goal of lasting affordability.

Stewarding Relationships

CLTs also play an important stewardship role, with regard to both properties and their current and prospective owners. CLTs will typically screen purchasers to ensure that they are financially ready for homeownership, and will train them to ensure that they understand the responsibilities and challenges of homeownership and how to meet them. During the ownership period, CLTs are partners with homeowners, strategizing with them on how to secure the resources to maintain or upgrade the home's major systems (e.g. roof, furnace, etc.), and how to weather financial challenges such as periods of unemployment. When it is time to sell, CLTs will facilitate the process by doing things like helping owners find qualified buyers and educating those buyers on the distinctive features of CLT ownership. Ground leases are renewable and inheritable as well, so that retention or transfer of ownership of a CLT home very closely approximates conventional homeownership arrangements.

CLTs in the Twin Cities Region

The Twin Cities region is rich with CLTs. Five community land trusts currently operate in the region, each with a somewhat different approach to the land trust model. The CLTs include:

- **Homes Within Reach. Homes Within Reach (HWR)** serves suburban Hennepin County. Since 2002, it has helped 169 households become homeowners in 12 communities. With funding from local governments and other sources, HWR acquires and rehabs homes, and sells them to eligible homebuyers.

! On average, the program is reaching purchasers earning 59 percent of Area Median Income.

- **Rondo Community Land Trust.** Rondo CLT operates in St. Paul and Suburban Ramsey County. It runs a Homebuyer Initiated Program (HIP) to help low-to-moderate income households purchase homes on the real estate market. The program offers buyers two grants – one to bring down the cost of purchasing a property, and another to help the purchaser address any safety, structural or mechanical concerns with the property. Homes assisted through HIP are placed in the land trust and subject to lasting affordability restrictions.

- **Carver County Community Land Trust.** The Carver County CLT has been operating county-wide since 2009. It typically acquires properties at market rate and resells them to homebuyers earning 50-80 percent of AMI. CCCLT is unusual in the Twin Cities region in that it is a program of the Carver County Community Development Authority.

- **City of Lakes Community Land Trust.** CLCLT was founded in 2002 and serves the entire city of Minneapolis. It has helped over 340 households become homeowners. The CLT follows a variety of strategies to acquire properties, including partnering with developers, acquiring market-rate properties, and operating a "Homebuyer Initiated Program" that subsidizes the acquisition and rehab of a property selected by a qualified homebuyer, in exchange for placing the property into the CLT.

- **Two Rivers Community Land Trust.** Two Rivers CLT was founded in 1999 and serves the St. Croix River Valley. It has 56 homes in its portfolio scattered across 14 communities. It operates on a traditional CLT model in which the land trust purchases a market-rate home and resells it to income-qualified purchasers subject to the restrictions of a ground lease.

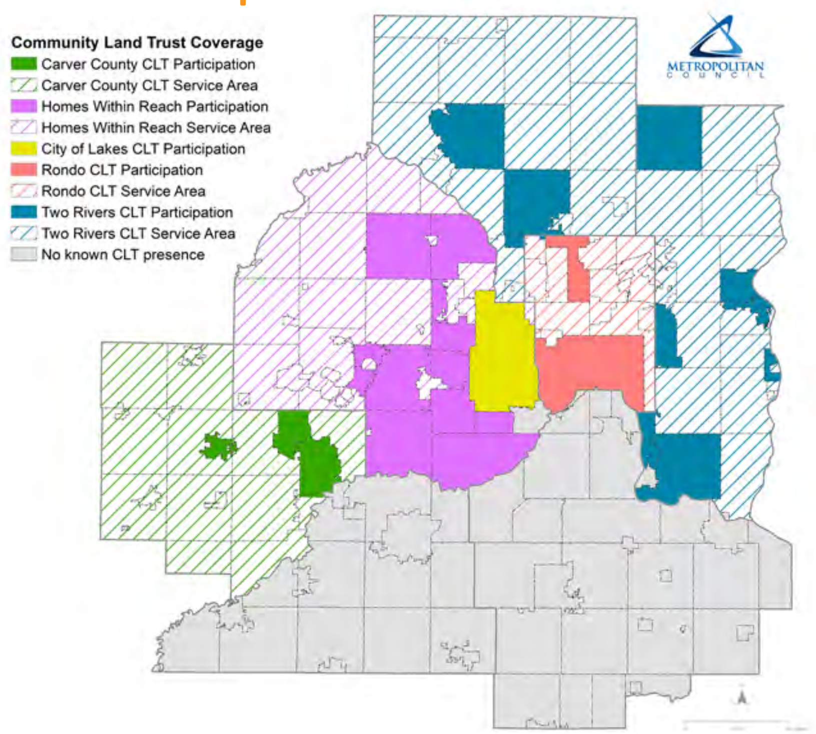
Despite the wealth of CLT options in the Twin Cities region, coverage is spotty. The map below shows the declared service area of the region's CLTs, and the communities in which CLT homes exist. The gap in coverage is clear. CLTs serve much larger geographic areas in theory than they do in practice. Moreover, much of the southern portion of the Twin Cities region has no CLT coverage at all.

Community Land Trust Coverage and Ownership

Homes Within Reach

Carver County CLT

Two Rivers CLT



Sources: Carver County Community Land Trust, Homes Within Reach, Two Rivers Community Land trust, Rondo Community Land Trust

Did you know?

All Community Land Trusts in the region began with support from public entities.

What will your community do to support Community Land Trusts?

Case Study: Housing and Redevelopment Authority Levies

A key tool for promoting housing initiatives at the local level in Minnesota is the Housing and Redevelopment Authority (HRA). HRAs are legally distinct public corporations chartered by a city or county to undertake certain types of housing or redevelopment and renewal activities. HRAs are funded by a special levy on property within the HRA's service area (city or county, depending on which entity chartered it). Once established, HRA levies can become a dedicated and continuous source of funding for affordable housing.

Some local governments use HRA levies to promote affordable homeownership. The City of Bloomington, for example, has an HRA levy that raises $2.3 million. This funding goes to a variety of purposes, including a deferred loan program to support owner-occupied rehab for homeowners earning up to 100 percent of area median income. Bloomington has also used its HRA funds to acquire and demolish blighted property and resell it at a discount to community land trusts and others to build affordable homeownership units.

Want to learn more?

[Bloomington Housing and Redevelopment Authority]
[League of Minnesota Cities' Handbook for Minnesota Cities]

Case Study: Affordable Housing Trust Funds

Another flexible tool for funding affordable housing projects is an affordable housing trust fund. Such funds receive ongoing public funding from dedicated sources to support the preservation and production of affordable housing. This helps stabilize planning for affordable housing as it moves the planning horizon from short-term, annual budget allocations to a longer-term vision. Moreover, as these funds are not tied to federal sources and the restrictions that usually come with those sources, they are more easily adapted to local priorities.

Hennepin County's Affordable Housing Incentive Fund (AHIF) is an excellent example of a local affordable housing trust fund. Funded with a portion of the county's Housing and Redevelopment Authority levy, it receives approximately $3.5 million per year. AHIF prioritizes long-term affordable housing for very-low income households in its allocation of funds. Accordingly, while the bulk of its funding goes to rental or supportive housing, when it funds affordable homeownership, that funding ordinarily goes to support a community land trust (CLT) project.

Asked why the county includes affordable homeownership in its funding priorities, Spencer Agnew, Principal Planning Analyst for the County, cited three reasons. First, the ability to work with a CLT and ensure that the property will remain affordable for the long term makes it an attractive public investment. Second, the county wants to support a range of housing options for its residents. Multifamily housing often does not provide sufficient space for larger families. Single family homes do. Third, the county is committed to advancing racial equity, and creating more housing options does that.

Want to learn more?

Hennepin County Affordable Housing Incentive Fund
Minnesota Housing Partnership's Local Housing Trust Funds legislation overview

Case Study: CDBG & HOME Funds

The bread-and-butter of many local governments' housing programs are Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) funds. Both are federal block-grant programs that award funds to communities based on a set formula. Recipients have a great deal of flexibility in the allocation of this funding. Priorities for spending are set through the adoption of a three- to five- year consolidated plan. Communities must incorporate input from local stakeholders in the planning process, which becomes an opportunity for local governments and their housing partners to develop a shared vision of the kinds of projects and initiatives that should receive support.

Interviews with local government leaders emphasized the importance of using available funds strategically. Bryan Hartman from the City of Bloomington, for example, noted that different pots of money come with different income restrictions.

Thus, for projects targeting homebuyers earning up to 80 percent of AMI, the City will use CDBG dollars to support the project. For those projects targeting AMI levels of 80 percent to 100 percent, the City will use Housing and Redevelopment Authority (HRA) levy funds.

Mr. Hartman also commented on the city's rationale for supporting affordable homeownership. The bulk of its affordable housing dollars go to rental and other housing initiatives. However, the city has committed about $150,000 in CDBG funds per year to a homeownership initiative with the Homes Within Reach CLT. The initiative provides sufficient gap funding to add two to three houses per year to the CLT. This was a strategic decision of the HRA board to support affordable homeownership. The board's goal is to support a range of housing options in the city, and affordable homeownership is part of that.

Want to learn more?

Bloomington Community Development Block Grant Program

Hennepin County's Federal Housing Programs

Local Government Support for Community Land Trusts

Local governments can do a lot to support and expand the role of CLTs in their communities. Effective policies and practices include:

1 Support CLT Start-ups.

For cities not currently served by a CLT, a municipality can play an important role in getting a CLT started. It can:

- Lobby county or other regional partners to explore the creation of a local CLT
- Provide municipal staff to support organizational efforts, or even staff the start-up in early years.
- Hire outside expertise to guide organizational efforts.
- Provide start-up funding to support CLT operations.
- Commit to early projects to ensure success.
- Review and revise existing policies to ensure they support the ongoing success of the CLT (see below).

2 Expand CLT Operations.

For cities already served by a CLT, a municipality can help it expand its operations. It could:

- Establish policies that favor donating surplus land and buildings to entities that provide lasting affordability (e.g. CLTs), or selling such entities properties at a discount, for development as affordable housing. Cities can also partner with counties to identify homes in foreclosure that may be good candidates for the CLT model. As a policy (rather than an ad hoc decision) this gives CLTs greater predictability and stability in the development process.
- Establish policies that favor CLTs and other organizations that provide lasting affordability when awarding grants and low-cost loans to support operations or specific projects. (See case studies below.)
- Adopt inclusionary housing policies that require long-term affordability; CLTs are perfectly positioned to be the stewards for these units or may benefit from the in-lieu fees that developers pay instead of providing units.
- Provide regulatory relief for CLTs by waiving application and impact fees, relaxing zoning requirements for parking or lot coverage, or offering other concessions.

For further information on starting a CLT, please see the Community Land Trust Technical Manual and Grounded Solutions Network's CLT Start-up Hub. For further information on municipal support for CLTs, see the Lincoln Institute of Land Policy's **The City-CLT Partnership.**

Cooperative Housing

Housing cooperatives use a different ownership arrangement to achieve lasting affordability. Rather than own a structure itself, co-op members own shares in a corporation, which in turn owns or controls housing and the land on which it sits. Share ownership entitles members to occupy a unit in the cooperative and gives them a say in the governance of the cooperative. However, co-op owners also must help meet the cooperative's financial, maintenance and other obligations. In practice, this means there is usually a modest buy-in fee for new co-op members, plus ongoing monthly fees to help cover a share of the co-op's expenses, such as the co-op's mortgage payments, property taxes, and maintenance costs. These monthly obligations are spelled-out in a lease agreement. Co-op members may claim income tax deductions on their share of the co-op's mortgage interest costs and property taxes, much like a conventional homeowner.

Unlike traditional homeownership arrangements, individual households often need not take out a mortgage to access housing in a co-op. Rather, the co-op itself holds the mortgage, with members paying their share of the overall cost. This means there are no "closing costs" and other transactional fees when a unit changes hands. Indeed, what is being sold when a unit changes hands is not the unit itself but shares in the corporation that owns the unit. This difference alone can go a long way toward making co-op housing accessible to those with modest means.

The cooperative housing model is frequently used for student housing and for senior housing. Because of the markets these cooperatives serve, and through efforts of their member-owners, these cooperatives tend to be somewhat more affordable than more conventional housing arrangements. However, affordability is not guaranteed unless it is expressly incorporated into the co-op's operations. Limited equity co-ops (LECs) are set-up precisely for this purpose.

Limited Equity Cooperatives

In an LEC, a resale formula limits the resale value of membership shares to keep them affordable and restricts purchasers to those within certain income limits. These provisions ensure that the housing remains permanently affordable to families and households of modest means, providing stability for both residents and neighborhoods. Indeed, according to a study of 487 buildings in New York City comprising five different approaches to housing affordability:

"[A]ffordable housing cooperatives were found to have lower crime rates and the highest quality housing. Residents of LECs were more likely to participate in the civic life of the neighborhood, had longer tenure, and expressed a strong desire to remain in the neighborhood. This "social capital," which was higher in affordable housing cooperatives than any other housing model, adds value to government investment in housing."

(Saegert and Benitez, 2002).

Accordingly, limited equity cooperatives represent an approach to affordable homeownership that is well worth daylighting and supporting. According to data collected by the Urban Homesteading Assistance Board (UHAB), there were 11 limited equity co-ops in Minneapolis in 2015.

Case Study: The Nokoma

Minneapolis' Nokoma Housing Cooperative is an excellent example of a limited equity cooperative. In 2005, the Nokoma was a largely vacant and run-down apartment building located in the Steven Square neighborhood. The median annual income in the neighborhood was $21,000, but the demographics were changing. Neighborhood residents were concerned by early signs of gentrification in a neighborhood largely made-up of renters. Some condo-conversions had taken place, at prices that long-term residents could not afford. Residents were worried that a lack of affordable homeownership opportunities would push low-income and long-term residents out of the neighborhood as gentrification took hold. They approached the Plymouth Church Neighborhood Foundation (now part of the Beacon Interfaith Housing Collaborative) for help.

The Foundation responded by buying the Nokoma, rehabbing it, and organizing it as a limited equity housing cooperative, with 19 one-bedroom units. It sold its first units in 2009. Shares cost between $45,000 and $48,000, with a $3,000 down payment required to take possession. Monthly fees ranged between $685 and $750, which included mortgage, taxes, insurance, utilities, maintenance, administrative expenses and reserves for unforeseen repairs or other cost increases. Purchasers may earn up to 50 percent of area median income. The co-op sets the resale price of shares at their original cost plus up to 4 percent of the appreciation in value of the shares over the ownership period. The Nokoma estimates that the units would sell for $115,000 to $130,000 today if the price were not restricted. (See Beyer 2009; Weyer 2009)

Local Government Support for Limited Equity Co-ops

Local governments can support the establishment of limited equity cooperatives in their communities in many ways:

1 Give tenants an opportunity to purchase.

Communities often lose unsubsidized affordable housing and subsidized affordable housing that has reached the end of its affordability restrictions when landlords sell older apartment buildings to a developer who plans to upgrade the units and raise rents. Washington, DC, has empowered tenants to preserve this affordable housing through a Tenant Opportunity to Purchase Act (TOPA), which has become a model for other communities. A TOPA requires landlords to give tenants notice of their intent to sell. The residents then have a brief period (e.g. 30 days) to decide whether to purchase the property, and a longer period (e.g. 90 days) to close on the purchase. This arrangement is intended to give tenants time to organize themselves to make a purchase and open up the possibility of forming a limited equity cooperative for this purpose. In practice, the timeline may need to be extended to make this possible – or cities can engage residents of properties that are most vulnerable to turnover to organize before the property goes on the market to be prepared to make an offer if the opportunity arises. Moreover, municipalities may need to work with residents to tap an entity like Land Bank Twin Cities to acquire and hold the property in the short term while tenants get organized and raise funds to close on the purchase of the building.

2 Make Funding Available.

LECs need to be able to tap subsidy dollars just like other affordable housing providers. It is important that local homeownership programs and policies do not exclude LECs from the list of eligible entities.

3 Favor lasting affordability in housing decisions.

Like community land trusts (CLTs), LECs provide affordable housing for the long term. Local governments can support this mission and value in the same ways they might support CLTs, including:

- Establishing policies that favor donation of surplus land and buildings to affordable housing developments with lasting affordability, including LECs.
- Establishing policies that provide grants and low-cost loans to nonprofits that establish LECs to support operations or specific projects.
- Adopt inclusionary housing policies that require long-term affordability; LECs should qualify.
- Provide regulatory relief for organizations that provide lasting affordability (including LECs) by waiving application and impact fees, relaxing zoning requirements for parking or lot coverage, or offering other concessions.

For further information on housing cooperatives, see the Northcountry Community Foundation's Cooperative Housing Toolkit. The Sixth Principle Coalition provides support specifically for limited-equity cooperatives.

Manufactured Housing

Another model for achieving affordable homeownership is through manufactured home communities. Such communities are typically clusters of manufactured homes located on a single parcel. They range in size from fewer than 10 homes to hundreds. Manufactured housing can cost half or less of a site-built house of comparable size. Because of its affordability, manufactured housing is the largest source of unsubsidized affordable housing in the United States. (Housing Assistance Council 2011). It offers homeownership to low- and moderate-income people including those who have incomes at or below 50 percent area median income (AMI). Accordingly, it reaches deeper into the market than most conventional affordable homeownership programs. The HOME Investment Partnership Program, for example, targets homeowners earning up to 80 percent of AMI. The map on the following page identifies the location of manufactured home communities in the Twin Cities region.

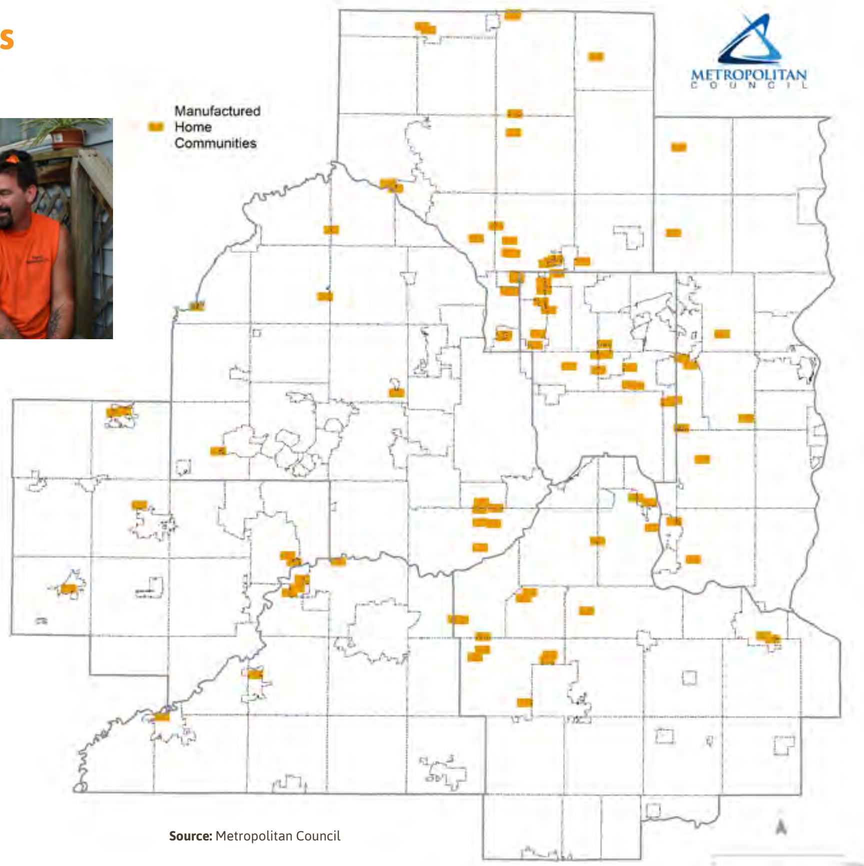
Myths of Manufactured Housing

It is important to dispel some myths about manufactured homeownership. One such myth is that manufactured homes are poorly built. In fact, the Manufactured Home Construction and Safety Standards Act of 1974 (in effect in 1976) directed HUD to develop quality and safety standards for manufactured housing. The 1976 HUD code, amended and strengthened in 1994, set standards that ensure the quality of manufactured housing. The Manufactured Housing Improvement Act of 2000 created new mandates for installation and dispute resolution. In one examination of manufactured homes, the Consumers Union found that manufactured housing was lasting as long as site-built housing and 82 percent of manufactured homeowners were satisfied with their homes.

Another myth is that owners of manufactured homes cannot build equity. In truth, manufactured housing on individual parcels can appreciate in value, and evidence suggests that manufactured homes in resident-owned communities also can gain value. (U.S. Department of Housing and Urban Development 2003). Manufactured homes also support financial stability in other ways because homeowners have lower monthly housing expenses, freeing resources for other expenses and savings.

Manufactured Home Communities

Maple Hill Estates, Corcoran MN Source: Metropolitan Council



Source: Metropolitan Council

Did you know?

Manufactured home communities provide some of the most affordable opportunities for families to live in top performing school districts.

Assisting manufactured home communities in transition to self-ownership/cooperatives brings stability to your community.

How does your city support the preservation of manufactured home comunities?

Vulnerability of Manufactured Housing

One vulnerability of manufactured housing communities, however, lies in who owns the underlying land. Manufactured home communities are like community land trusts (CLTs) in that residents typically own their homes but rent the land on which it sits. Unlike CLTs, however, that land is usually privately owned, held by a landlord as an investment.

These can be mom-and-pop enterprises or larger corporations that own multiple communities. In either case, there is no overarching affordability requirement or stewardship commitment guiding or restricting their actions. When land values increase or when infrastructure maintenance becomes too costly, investors might choose to close the community and sell the property for a more profitable use. Because manufactured homes are costly to move and alternative sites are limited, residents can be forced to abandon their houses when a community closes. Many communities also become less affordable over time due to rent increases.

Collective ownership can mitigate these threats. When faced with the closure or sale of their communities, residents have sometimes banded together to form a cooperative in order to take ownership of the property. This shared ownership places the residents themselves in charge of maintenance decisions and rent increases, and can help ensure that the homes remain affordable for the long term. However, affordability is not guaranteed in these arrangements unless it is incorporated into the ownership structure through limited equity co-operative provisions, or the cooperative's land is placed in a CLT. See the case study on the next page for an excellent example of this strategy from the Twin Cities region, in which residents came together to form a housing cooperative to purchase the mobile home community where they lived.

Case Study: Park Plaza

Park Plaza was a privately-owned manufactured home community in Fridley, Minnesota. In 2010, the landowner notified the residents of his intent to sell the property. This left community residents facing the prospect of eviction with few, if any, alternatives available to meet their needs.

The Minneapolis-based Northcountry Cooperative Foundation stepped in to help. At a meeting of community residents, the foundation explained that the residents could purchase the property themselves by forming a cooperative. This would place the residents in charge of decisions like rent increases or infrastructure investments for the property. However, the residents would have to come up with $4.3 million to meet the landowner's purchase price. While this sum seemed daunting, the Foundation, in partnership with ROC USA, was able to provide the necessary financing, relying on the rental payments that residents were already making in order to cover loan costs. Residents voted that same night to form a cooperative and completed the purchase of the property a few months later.

Park Plaza also illustrates the hazards of resident-ownership, and the importance of public support for such communities. The water and sewer infrastructure in the Park Plaza community were in poor shape when residents acquired the property. At a Metropolitan Council workshop in February 2019, Natividad Seefeld, the president of the cooperative and a leader of the effort to purchase the property, reported that the cooperative found itself paying $47,000 per year just to repair and maintain the system. This was an unsustainable cost faced by a community with few additional resources to tap to address it. Ms. Seefeld reported that the cooperative recently received a $1 million grant from the Metropolitan Council to address these infrastructure issues.

Local Government Support for Manufactured Home Communities

There is much that local government can do to support manufactured home communities, including:

1 Zoning

Zoning codes often have lot size and density restrictions that can be impediments to siting new manufactured home communities. Municipalities can also be proactive and designate sites as manufactured housing to help prevent landowners from selling for speculative development. In 2012, the United States Court of Appeals for the Ninth Circuit upheld a city's authority to zone an existing manufactured housing community as manufactured housing.

2 Infrastructure

Rents rarely cover the cost of infrastructure upgrading in manufactured home communities. Accordingly, owners often defer infrastructure upgrades. Landowners might decide to sell when infrastructure needs a substantial upgrade, and the rents will not be high enough to cover upgrade cost. Lenders may require that infrastructure improvements be included in the financing. If residents or a CLT are to purchase the property, they will need to secure funds upfront to tackle deferred infrastructure. This can add millions of dollars to a deal. Local governments can facilitate such transactions by making grant dollars or low-cost loans available for infrastructure upgrades.

3 Transitions.

When residents receive notice that their community will be put up for sale, their first reaction is often shock. The idea of residents purchasing the property may not even occur to them, or if it does, the process for doing so may seem daunting. Local government leaders can ease this process by bringing residents together with potential intermediaries, such as a CLT or the Minneapolis-based Northcountry Cooperative Foundation. This "soft support" can make all the difference between retaining a significant affordable homeownership opportunity in the community, or losing it to the marketplace.

The Metropolitan Council offers a variety of resources for local governments to help preserve and support manufactured home communities. The Minneapolis-based Northcountry Cooperative Foundation is a particularly strong resource to support cooperative ownership in manufactured home communities. Additional resources are available from Grounded Solutions Network as well.

Doing Even More: Policies and Practices to Enhance Support for Affordable Homeownership in the Twin Cities Region

In the section above, we highlighted three models to promote affordable homeownership and identified local government actions to support each model. In this section of the report, we highlight additional policies and practices that local governments might adopt to further expand affordable homeownership in the Twin Cities Region. These policies and practices are not specific to any one model or approach, but cut across and support all of them. This is not intended to be a comprehensive list. Rather, it highlights best practices and practical changes to increase affordable homeownership options. Our hope is to focus on areas where reforms to policy and practice will have the greatest impact, given the current context of local efforts.

Talk to each other.

Our first and foremost recommendation is that local government practitioners in the region talk to each other. As noted above, the region has many strong examples of local efforts to support affordable homeownership. What is also clear, however, is that coverage is spotty. What one community may be doing to support affordable homeownership, a neighboring community may not be. Peers in government and nonprofit organizations are the best sources of expertise on what works well in the local context. Continued dialogue among local leaders, like those facilitated by the Metropolitan Council, will help surface these practices and the benefit of the entire region.

Improve the quantity of funding for affordable homeownership.

When we ask affordable homeownership providers – both locally and nationally – what would most help them expand their operations, the first answer, invariably, is funding. They need more dollars to do their work. However, it is important to acknowledge a principal challenge: Funding decisions are a balancing act. Local governments only have so much funding available, and they must allocate it between competing priorities – rental vs. homeownership, homelessness prevention vs. workforce housing, etc. As discussed above, an investment in homeownership programs that promise lasting affordability can be a particularly effective and efficient use of public dollars – one that pays dividends for generations. Even a relatively small investment, made year after year, can have a significant cumulative effect. The housing it funds contributes to an ever more inclusive region that is ready to meet the needs of its residents in a wide range of life circumstances.

In addition to prioritizing affordable homeownership, local government leaders can work to expand the overall pool of affordable housing resources to address a wider range of housing needs. There are many mechanisms already available and in use in the region to achieve this goal, including Minnesota Housing's Community Homeownership Impact Fund. Communities that are not yet tapping this fund need to do so, to access much-needed gap funding for local projects. Likewise, some communities collect their maximum Housing and Redevelopment Authority (HRA) levies, others just a portion, and still others none at all. This is a readily available source of funds to expand support for affordable housing. Affordable Housing Trust Funds – whether funded through HRA levies or another dedicated revenue source – can play a similar role.

Some communities also make extensive use of "Tax Increment Financing (TIF) pooling" to fund affordable housing. TIF pooling is a unique feature of Minnesota's tax increment finance law. Ordinarily, a TIF district is established to pay for improvements associated with a particular development project. Often, the costs of those improvements have been paid before the term of the district has expired. TIF pooling allows communities to collect this excess increment and use it for other purposes, which can include affordable housing development.

TIF pooling is not readily used for affordable homeownership due to restrictions within the program. However, it does work well with multifamily housing development. By tapping into TIF dollars for these purposes, communities can potentially free other resources (e.g. HRA levies) to support affordable homeownership. More details on TIF pooling are available from the state legislature.

Improve the quality of funding for affordable homeownership.

Another priority to support affordable homeownership is funding quality. This concern goes to several issues. First, if programs that support lasting affordability are going to succeed, they need to be prioritized in funding allocation formulas. Minnesota Housing already does this at the state level, in both its Impact Fund program and its Housing Infrastructure Bonds. Some local governments are also doing so at the local level, whether through HRA allocations or CDBG funding. As more local governments follow suit, it will be easier for CLTs to expand their operations.

Second, affordable housing providers need consistency and predictability in resource allocation and program implementation. Affordable housing programs (and real estate activities in general) benefit from consistency and predictability. This applies both to program operations and building a development pipeline. Programs with long-term stewardship responsibilities particularly benefit from the ability to plan ahead to the extent that market conditions allow. Unfortunately, many decisions that affect providers – whether related to resource allocation, land provision, and/or development approvals – occur on a case-by-case, often politicized basis. Though some site-by-site or ad hoc approvals are inevitable, to the extent possible there should be an inclusive outreach, engagement, and mobilization process that sets a sound overarching policy framework. This framework should guide subsequent decisions such that practitioners have a reasonable expectation of how allocation decisions will be made on a case-by-case basis.

Sidebar: Minnesota Housing's Community Homeownership Impact Fund

The state housing finance agency – Minnesota Housing – offers a very flexible funding source termed the Community Homeownership Impact Fund. It is available to cities, Housing and Redevelopment Authorities and for-profit and non-profit developers, among others. It supports the development of affordable owner-occupied single-family housing, whether through new construction or acquisition and rehab. Funds can be provided as a deferred loan to bridge affordability gaps for homebuyers. They can also be provided as grants to bridge value gaps between a project's total development cost and its fair market value. This has proved important to community land trusts (CLTs) who often acquire property at market rate and resell it to income-eligible buyers at an affordable price. Impact Fund dollars can make this kind of transaction possible.

An important feature of the Impact Fund is its allocation process. Minnesota Housing evaluates applications for Impact Fund dollars based on project feasibility, community need and organizational capacity. It also incorporates several other criteria in its scoring system. One of these is whether the project will incorporate long-term affordability. Thus, proposals from CLTs and other shared-equity homeownership programs automatically receive a scoring bonus in the allocation formula.

Minnesota Housing also administers revenue from the state's Housing Infrastructure Bond (HIB) program. The bulk of these funds go to multifamily rental housing. However, when they are allocated for homeownership, state law specifies that they must be allocated to CLTs for the acquisition of land (HIB funds cannot be used to acquire housing). Inasmuch as limited equity co-ops and manufactured home communities can exist on CLT land, this funding is available for all of the principal affordable homeownership models discussed in this report. This is yet another instance in which Minnesota favors lasting affordability at the state level.

Conclusion

The Twin Cities region is rich with examples of programs and policies to promote affordable housing solutions that last. Community land trusts, limited equity cooperatives and manufactured home communities are already providing affordable homeownership opportunities to households with modest means throughout much of the region. These are success stories often made possible through local government policies and practices. While we celebrate these achievements, we are confident even more can be done. By prioritizing affordable homeownership – and particularly lasting affordability – in local policies and practices around funding, land disposition, zoning and land use decision, and more, the scale and scope of local efforts can increase considerably. This work can be enhanced even further through "soft support" by local governments – efforts to engage government leaders and key stakeholders in deeper dialogue and education around the opportunities and barriers to expanding affordable homeownership opportunities locally and throughout the region. These efforts will pay dividends for years to come, as neighborhoods and cities become more diverse and inclusive places ready and able to meet the needs of residents from a wide range of backgrounds and life circumstances. We hope this report helps local governments in the Twin Cities region achieve their collective goal of enhancing the housing options for all residents.

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