

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

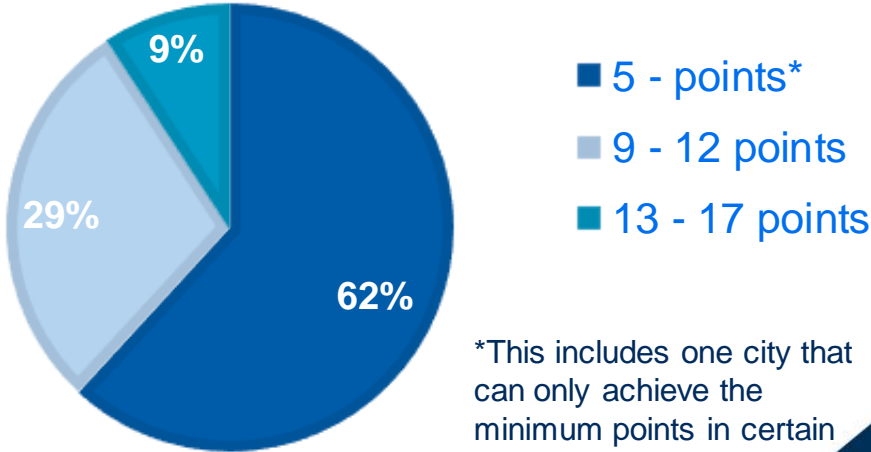
Minimum Step One score to:

Sufficiently address one or both pilot priorities

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

Pilot Priority	Points Available
Racial Equity	8
Geographic Choice	9
TOTAL	17

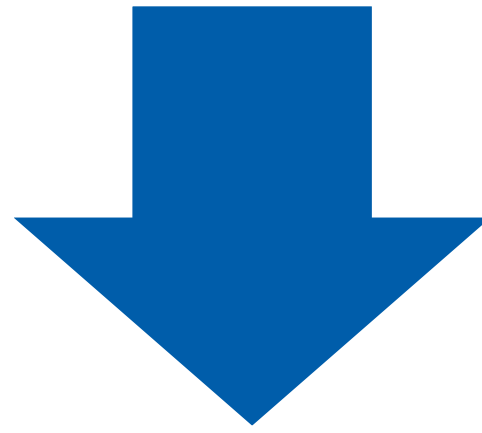
STEP ONE SCORE BREAKDOWN



*This includes one city that can only achieve the minimum points in certain census tracts.

Questions on Step One criteria?

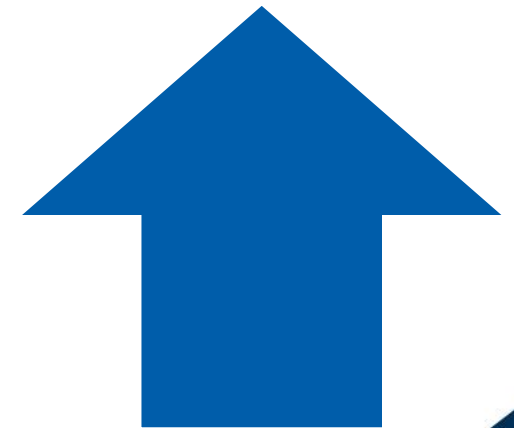
Balancing affordable homeownership outcomes



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
- 2nd 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



4 bedroom, 3 bath home

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



3 bedroom, 2 bath home

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

5 Years Later: Acquisition Rehabilitation Resale, Restrictive Deed

Restrictive Deed Resale Model

Estimated market value: \$880,000*

Property Appreciation: \$281,000

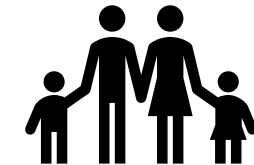
2026 Affordable Purchase Price : \$388,000^

Income-based Appreciation: \$72,000 → \$388,000 - \$316,000

2026 Affordable Price	2021 Affordable Price
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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, 2nd 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



3 bedroom, 3 bath home

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

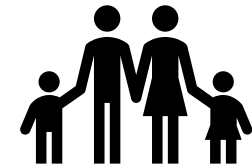
Estimated market value: \$410,000*

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**



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

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

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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