For Sale By Owner: Great Location, Shared Appreciation?

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After three years as the Director of Operations for Habitat of Lee County, I recently rejoined the staff of the Florida Housing Coalition to work primarily on community land trusts. Retaining subsidy to pass on to subsequent homebuyers is the keystone of community land trusts and represents what we learned through experience at Habitat.

Habitat for Humanity organizations in Florida, both large and small, have traditionally taken measures to require a certain amount of shared appreciation for two reasons. First, their zero-percent-interest mortgages allow the homeowner to rapidly gain equity. If homeowners sell out to reap a windfall profit, future donations would be very unlikely from community sponsors who give their cash and time to build the homes. In a barn- or house- raising approach, there is a reality in the shared community appreciation. Second, the rapidly increasing equity position that Habitat homeowners enjoy is a target for predatory lenders who will gladly repay the Habitat and SHIP mortgages, throw in some cash for the buyer, and then saddle them with a sub-prime interest-bearing loan with all sorts of fees. Before Habitat began placing a strong second mortgage on the homes, too many were lost to foreclosure when the very-low-income buyers could not keep up with the new loans.

In the 1990's, a second or third mortgage was a poison pill that held off the desire to cash out or to refinance with a sub-prime lender. Then rapid appreciation occurred. Habitat mortgages were positioned so that the first mortgage, upon which payments are made, was based on the actual cost of the home, with a term formulated to make the monthly payments roughly 30 percent of household income. The second or third mortgages, including SHIP, would add up to the total amount of the appraised value. Since the appraisals reflect the trend of escalating prices, there is a disincentive to sell out or refinance for at least five years. Because income levels have not increased in proportion to property values, a much greater SHIP mortgage will be required. This mortgage will be recaptured in the event of a sale, but not in a foreclosure unless the SHIP program participates in the bidding at foreclosure. Remember, there is no Fannie Mae lender involved, just the Habitat no-interest mortgage positions.

But what about retaining affordability of the unit? Habitat has traditionally had a right of first refusal in its mortgage deeds. A bona fide offer must be presented to Habitat to match or refuse. Most owners who needed to move for ordinary reasons were able to sell their homes back for all of their equity, plus a modest gain. Given today's mega-prices, Habitat organizations are not prepared to buy out homes at great profit to the homeowner – nor should they. Buying homes at market prices is not their mission. This dilemma will also be shared by community land trusts that promise to retain affordability by purchasing homes back for resale to other lower income buyers. However, community land trusts should be in a better position if they have a shared appreciation formula embedded in the ground lease that specifies how much the buyout will be. Habitats are now at that same juncture if affordability is to be preserved.

It seems ironic that the folksy, gospel-based homebuilders have had the tools in place all along to preserve affordability and retain the housing stock. Now other housing providers are seeking ways to do the same plus recapture subsidies that must increase. But there are lessons to be learned everywhere – once it is recognized that affordable housing is a community resource and a valuable part of our infrastructure. Shared appreciation mortgages, land trusts, and other repayment formulas will keep the hammers pounding on homes for Florida's low income housing stock.