Shared Appreciation: Balancing Wealth Building with Future Community Needs

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Housing prices have risen dramatically in Florida over the past few years, while incomes have stayed relatively flat. As a result, to assist the same income levels today as seven years ago, local government housing programs are in the position of having to provide deeper and deeper subsidies, in some cases as much as $80,000-$100,000 per unit. When a SHIP-assisted family decides to sell their home, (often within ten years), they do not have to sell the home to a SHIP eligible household. As a result, these SHIP assisted units are often lost from a community's affordable stock. In other words, for its $80-$100,000 investment, a SHIP program is helping one family purchase a unit that will only be affordable for that one family, usually for less than 10 years.

This rapid appreciation in the housing market has also resulted in substantial capital gains for SHIP assisted families. While wealth building has always been a driving force behind increasing the homeownership rate in this country, some local governments are starting to ask, how much wealth should the SHIP program generate for the people it assists? And what if generating this wealth makes it virtually impossible for these programs to assist families in the future? In an effort to balance wealth building with being able to assist families in the future, some communities in Florida are starting to explore a tool known as shared appreciation. With this tool, a portion of the appreciation a SHIP assisted families realizes from the sale of their home is returned to the original subsidy provider, who in turn uses this repayment to supplement its housing trust fund so the program can continue to help somewhere near the same number of families in the future as it assists today.

According to the Office of Federal Housing Enterprise Oversight's Housing Price Index, housing costs in Florida increased almost 111 percent between June 30, 1998, and June 30, 2005, an average annual increase of almost 16 percent. Table 1 shows an example of how this rapid increase in housing price affects subsidy level. A family purchases a home in 1998 for $90,000 with $10,000 worth of subsidy. At a 16 percent annual appreciation rate, that family could sell their house in 2005 for over $254,360.

After repaying the $10,000 SHIP loan and the remaining amount on the first mortgage, this family would receive nearly $162,416 at the sale. During the seven years that they owned the home, the family paid $42,500 in principal and interest, resulting in the proceeds at sale exceeding the amount of principal and interest paid by $119,942.

Table 1

Skyrocketing Home Prices + Sluggishly Growing Wages = Exponential Growth in Subsidies Needed

	1998	2005
Home price, appreciating at 16% annually	$90,000	$254,360
Family income, 76% median, increasing at 3 percent annually	$32,275	$40,000
Subsidy needed	$10,000	$137,000

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TABLE 2
SHARING THE EQUITY EXAMPLE

Annual Housing Price Appreciation 10%	2005	2012
Home price	$180,000	$350,769
Family income, 76% median (3% annual increase)	$40,000	$49,195
Subsidy needed for family at 76% of median	$90,000	$181,000
Appreciation distributed to buyer at sale (if 50-50 split)		$94,448
Appreciation distributed to subsidy provider at sale (if 50-50 split)		$85,384
Subsidy repaid to subsidy provider		$90,000
Funds available for subsidy provider to assist the next family		$175,384

In 1998 a $90,000 home was affordable to a family earning 76 percent of median ($32,275) with just $10,000 worth of subsidy. In 2005, 76 percent of median income is $40,000. Given a 111 percent increase in housing cost during that time a family at 76 percent of median income level would need over $137,000 in subsidy to buy that same house, now valued at $254,360. The $10,000 repaid to the SHIP program at the time of the sale is barely 7 percent of the total amount of subsidy needed for the next family. Even with a more modest annual appreciation rate of 10 percent, this same home would sell for over $175,000, in 2005, requiring $70,000 in subsidy for that family with a similar income level.

It is these types of numbers that are causing housing staffs around the state to ask the question of whether purchase assistance programs should continue to allow the purchaser to realize 100 percent of a home's appreciation. Under a shared appreciation policy, the assisted family repays the initial subsidy and returns a predetermined portion of the proceeds to the subsidy provider. These funds are then used to assist future home buyers. Table 2 shows an example of how a shared appreciation approach works. A family buys a home in 2005 for $180,000, and receives $90,000 in subsidy. At resale, the housing program requires the repayment of all of the initial subsidy plus 50 percent (or whatever pre-determined percentage) of the appreciation. If the family sells at the end of year 7, and there has been a 10 percent annual appreciation rate, this home would sell for $350,770. At sale, the first mortgage is repaid and the initial $90,000 in subsidy is repaid, leaving $170,770. With a 50/50 split between the seller and the local government, the seller receives $85,384 of this appreciation, along with the $9,063 in principal paid over the seven years. At sale, the seller receives a total of $94,448, more than twice the $47,784 paid in principal and interest over the seven year life of the loan. The subsidy provider receives the $90,000 for repayment of the initial subsidy, plus 50 percent of the appreciation, for a total of $175,384.

In 2005, $40,000 is 76 percent of the state's median income. Given a 3 percent annual increase, a family earning 76 percent of median in 2012 will make $49,195 per year. In order to purchase this $350,770 house, this 2012 family will need about $181,000 in subsidy, or just over the $175,384 repaid from the sale of the unit that was assisted in 2005. The shared appreciation tool does not insure that assisted units stay affordable. Instead, recaptured funds from the sale of assisted units are used to help another family purchase a home in the market.

Subsidy recapture has long been a feature of virtually every SHIP-funded purchase assistance program. Historically, programs have been structured to provide the difference between the cost of a house and what an income eligible family can afford. When the family eventually sold their house, the amount of the initial subsidy was repaid to the SHIP program and then used to assist another family. As prices have risen, the amount being repaid is nowhere near the amount needed to assist subsequent families. Shared appreciation offers a way to provide SHIP recipients with opportunities for wealth building while still enabling local government programs to continue to help more families in the future than its SHIP allocation would ordinarily permit.

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