

Bulletin Number Twelve

Campaign for Affordable Housing

- 1. Please review the article “Home Ownership III”, enclosed below.**
- 2. Progress since September 16th:**

The last two weeks have been focused on developing strategy and consensus on how to run the campaign given the options for ballot dates.

Please visit our website at <http://SanJuanHousingBank.org> or <http://orcasresearch.org> for copies of previous bulletins and other relevant publications.

Please contact Lee Sturdivant on San Juan Island at naturals@rockisland.com or Rollie Sauer on Orcas Island at rassmrs@aol.com if you would like to write a letter to the editor of either of the two newspapers.

If you would like to invite a speaker to address your organization, please contact Lee Sturdivant at naturals@rockisland.com or Craig Wier at craigw@eusers.com.

Tax deductible donations to help support the Housing Project and to help pay for educational materials and supplies are gratefully accepted through Navigating Our Future, Housing Project, PO Box 298, Deer Harbor, WA 98243. This is a totally volunteer effort, so your help is appreciated.

Signed,

Lee Sturdivant, San Juan Island
Paul Losleben and Steve Garrison, Orcas Island
Sandy Bishop, Lopez Island

Home ownership III

In the last two bulletins we briefly discussed changes that are happening in home ownership including changes in attitude about home ownership as the most important investment that many families make. In Bulletin #10 we showed how efforts to extend the benefits of home ownership to young families are falling short in today’s real estate market and in Bulletin #11 we examined one of the more innovative approaches to extending the open market through shared equity. Unfortunately, that fails also in regions experiencing rapid appreciation such as our own.

This bulletin will examine some of the approaches that still work in San Juan County. We will focus on two basic themes, reducing the effective cost of the home and extending the length of time that the home remains affordable. These approaches may be used individually or together. In all cases, the homeowner is obliged to give up something in return for purchasing a home below market value.

Sweat Equity: There are some of us who may recall that Sears, Roebuck & Co. produced house kits from 1908 until 1940. Anyone with a good knowledge of carpentry and a few friends to help could purchase one of several models including pre-cut and marked lumber, shingles, windows, doors, hardware, paint and instructions for a price of \$650 to \$2,500. Over 100,000 were sold and are still in demand today. Then, after WW II, homes for returning servicemen were partially built with unfinished space to add an additional bathroom and bedrooms.

More recently, no organization has been more successful than Habitat for Humanity which relies on donations, volunteer labor and sweat equity to build low and very low income homes. Using the slogan, “A hand up, not a hand out,” and celebrity studded publicity (including former president Jimmy Carter) the group emphasizes community action, often faith based, and a heavy dose of homeowner participation both through 500 hours labor and demonstrated financial responsibility. Specialized trades such as plumbing, HVAC and electrical are typically contracted for or volunteered by local tradesmen. There are Habitat groups all over the world including Bellingham and Mt. Vernon locally.

While there is no Habitat group in San Juan County, Homes for Islanders, a relatively new group on San Juan Island, is based on a slightly different sweat equity model. Partial support is received from the federal Department of Agriculture. There is an emphasis on learning a trade through the process of building a group of homes and homeowners in a development are expected to collectively do most of the work including the specialized trades. Eight homes are presently under construction.

There are some disadvantages to the sweat equity approach. While there are savings in labor costs, the clock is running on construction financing while the future homeowner splits time between working on the house and holding a full time job to support the family. Typically, up to 40% of the cost of the structure can be saved with volunteer labor and sweat equity with lower savings if some of the trades are contracted for. Habitat has a great deal of experience in this and works very hard to minimize this time and cost. Habitat is also enormously disciplined in requiring the homes to be completed before being occupied. It is likely that Homes for Islanders will attempt to exercise that same discipline and all homes in a project must be completed before any can move in. A second criticism of sweat equity is that some people should probably not attempt to build their own homes, either because they don't have the ability or because their skills and energy are better applied to their careers.

Land Trusts: Land trusts basically eliminate the cost of the land by leaving ownership in the hands of a parent organization, perhaps an employer or an affordable housing organization. Many universities, for example, provide affordable housing for faculty and staff using land acquired as part of a land grant. In a region like ours where land prices represent one third to one half of the cost of a home, land trusts provide the best approach that we have found to reduce the cost of home ownership.

In Land Trusts, the land is leased to the homeowner, typically for a token fee and usually for a long term (\$1 for a 99 year renewable lease is not unusual.) However, taxes on the market value of the land are typically passed through to the homeowner and a fee is

charged for upkeep of the grounds and common services.

Community Land Trusts (CLTs) have seen major acceptance across the country (approximately 200,) especially in regions like ours experiencing rapid price appreciation. There are four CLT organizations in San Juan County. The oldest is OPAL on Orcas Island with 56 homes to its credit. San Juan Island and Lopez Island have also built 10 and 22 homes respectively. A fledgling organization also exists on Waldron Island. They are funded through a variety of grants and donations.

There are two primary disadvantages to Land Trusts. First, the homeowner does not own the land and this is sometimes an important psychological issue. Land ownership is deeply rooted in the American psyche as we pointed out in Bulletin #10 and this may be unacceptable to some prospective homeowners. More importantly, someone has to purchase and own the land. This is typically only possible through a charitable donation or grant. These funds are often limited by government grants with strings attached, often difficult to obtain, and narrowly restricted to those making less than 80% of median income.

Revolving loan funds are based on using a pool of money to finance various aspects of affordable housing. These funds may be used as construction funding, down payment assistance and even mortgages. The fund receives income in either the form of interest or return on equity when a property is sold. In some cases, the loan is forgiven after a predefined period of time. Habitat for Humanity, for example, provides interest free mortgages, but requires reimbursement upon sale that is a percentage of the sale price (a shared equity model.) San Juan County maintains a small revolving loan fund administered by the Affordable Housing Fund Commission which is used primarily to assist very low and low income families with their down payments and the payment of permitting and other regulatory fees.

The difficulty with revolving loan funds in regions with rapid appreciation is that the effective value of the fund diminishes over time as the cost of real estate increases more rapidly than the value of the fund. It is unreasonable for the fund to charge enough interest or retain a sufficiently high equity share to keep pace with our high property appreciation. There is an excellent animation of this on the Burlington Associates web site at <http://www.burlingtonassociates.com/SubsidyRetention1.6.BA.Txt.html>. In order for a revolving loan fund to remain effective over time in San Juan County, it must be periodically subsidized by an amount equal to the difference between the return on investment and the rate of appreciation.

Indexing is an approach used to limit the rate of appreciation of the home. This is controversial since it effectively removes the home from the open market and reduces the resale value (and necessarily the homeowner's profit.) It is justified on the grounds that housing is provided to families who would otherwise not be able to afford a home.

Habitat for Humanity uses a complex formula to control resale price and thereby assure that a home remains affordable. In the interest of promoting long term home ownership, they use a vesting strategy where the index changes over time to allow the homeowner to realize more profit if he remains in the home for 20 years or more. In addition, Habitat is given first right of refusal to repurchase the home.

Community Land Trusts use the land lease agreement to determine the resale value of the home. Each CLT designs their own unique resale formula depending on the needs of the organization and the community. OPAL, for example, uses the local consumer price index to set the rate of appreciation. A better measure might be to use a local wage index since wages are the primary factor in determining qualification for a mortgage.

There is a great deal of flexibility in how indexing can be used depending on what objectives are desired for the duration of affordability and the desired return on investment to the homeowner and/or investors. If the primary objective is to achieve parity with neighboring communities, for example, the index might be set at the rate of appreciation for those communities. On the other hand, if perpetual or permanent affordability is desired, a lower index reflecting local inflation is appropriate.

Indexing is the best approach that we have found to assure that the investment in affordable housing is retained with a minimum of subsidy over time. It can effectively create a pool of housing that is protected from the rapid appreciation that would otherwise occur. In addition, as we saw in the last bulletin, it is essential to assuring that a homeowner can buy out the investor in an equity sharing strategy.

The primary disadvantage to indexing is that a homeowner (and sometimes an investor) do not benefit from the rapid appreciation of real estate in this region. That may be unacceptable to some, but when the alternative is to not be able to afford a home, we believe that it is a reasonable compromise. The home is still a good investment through forced savings as the homeowner accumulates equity through his mortgage payment and his investment is protected against inflation.