



Building Equity

in Small Multifamily

Ownership

**RESULTS AND
KEY LEARNINGS**

JULY 2024



**FAMILY HOUSING
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Introduction

Small multifamily properties (defined as 2-4 units – duplexes, triplexes, and fourplexes) offer an affordable entry to homeownership and the potential to accelerate the process of building wealth. In 2020, Family Housing Fund and our partners established a Collaborative of organizations to pilot a set of strategies that would help Black, Indigenous, and People of Color (BIPOC) households purchase 2-4 unit properties and build wealth as owner-occupant landlords. With this initiative – Building Equity in Small Multifamily Ownership – we aspired to help BIPOC households build more wealth, more quickly with this homeownership option and prove out the concept’s potential to be a strategy for reducing racial wealth disparities in the Twin Cities region.

Late in 2020, the Building Equity initiative received a three-year, \$4 million grant from the national JPMorgan Chase *AdvancingCities* Challenge to pilot capital interventions in Minneapolis, with a particular focus on the seven City-designated cultural districts. In 2021, the Bush Foundation generously matched this grant with another \$4 million investment to expand the initiative’s reach to serve Saint Paul and the broader Twin Cities region.

These two grants allowed the initiative to establish a large Collaborative of partners and offer several new resources for prospective homebuyers of 2-4 unit buildings.

This report summarizes the approach, outcomes, successes, challenges, and key learnings of the three-year pilot initiative.

Overview of Strategies and Programs

There were two main components to our approach for realigning systems to make the small multifamily market more accessible to BIPOC homebuyers.

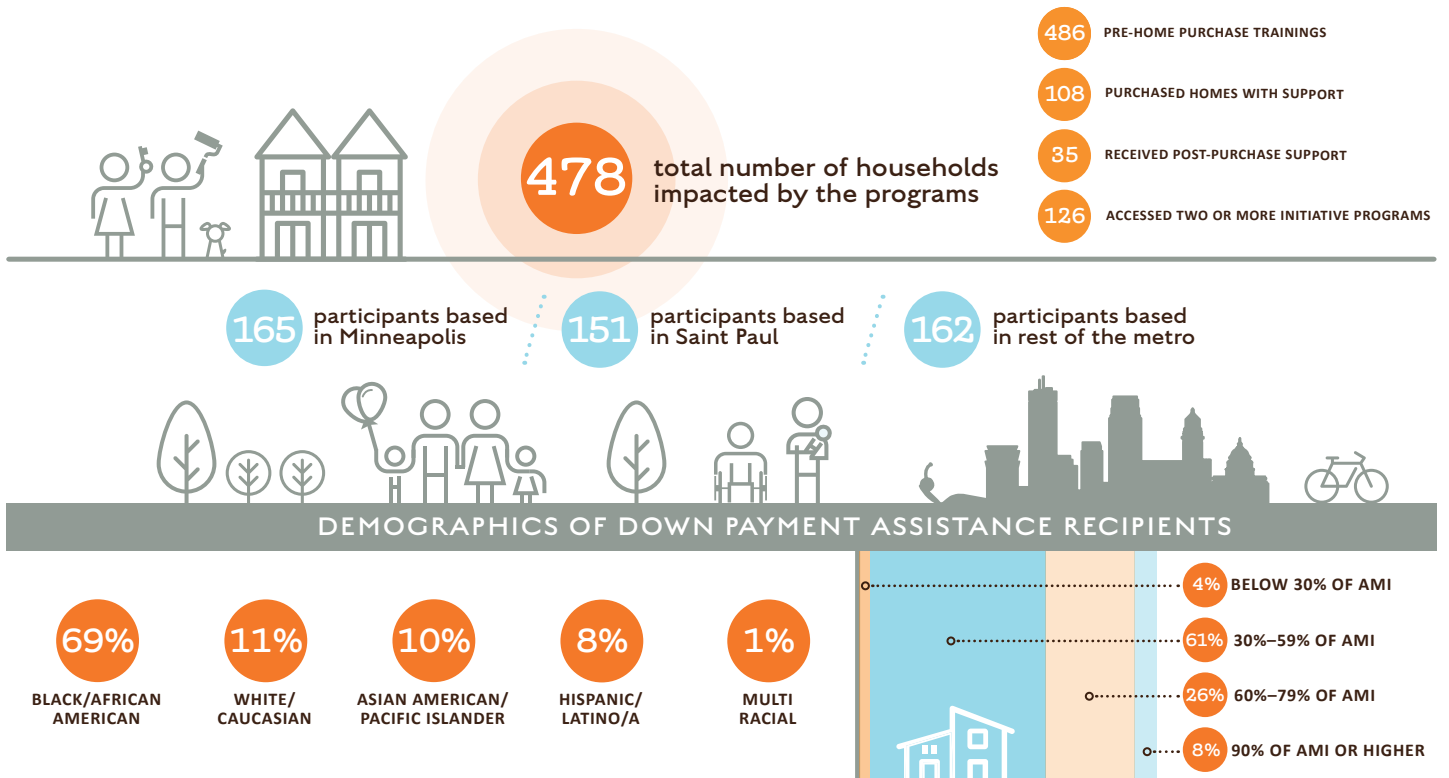
1) People: Ensure homebuyers have access to capital and training to become successful homeowners and responsible landlords. This included:

- Providing homeownership training options specifically for prospective owner-occupant landlords of 2-4 unit properties, building a pipeline of prepared homebuyers
- Providing forgivable down payment assistance loans for 2-4 unit home purchases
- Exploring innovative approaches to mortgage access
- Offering post-purchase support, increasing access to capital for future repair or replacement needs

2) Properties: Address the limited supply and high competition for 2-4 unit buildings available for purchase. This included:

- Establishing a capital pool for the construction, acquisition, and/or rehab of 2-4 unit properties to develop a pipeline of quality and affordable options for Building Equity participants
- Exploring additional tools and technical assistance to improve feasibility for developers, especially emerging and BIPOC-led developers

Participants Served in 3 Years



Collaborative Partners and Roles

PARTNER	TRAINING AND FINANCIAL SUPPORT TO HOMEBUYERS	CAPITAL STRATEGY TO INCREASE SUPPLY
Hope Community	Provide owner-occupant training cohorts	
Model Cities	Provide owner-occupant training	
Comunidades Latinas Unidas en Servicio (CLUES)	Provide culturally responsive owner-occupant training	
Minnesota Home Ownership Center	Provide online owner-occupant training module	
Build Wealth Minnesota	Administer down payment assistance, offer mortgage financing	Acquire and rehab properties, pursue opportunities for development
Prepare + Prosper	Administer post-purchase Matched Savings program	
Center for Energy and Environment (CEE)	Administer post-purchase repair loans for homeowners	
Rondo Community Land Trust	Implement a shared ownership model to increase financial support to homebuyers	Acquire and rehab properties, pursue opportunities for development
Land Bank Twin Cities		Acquire properties, administer construction/rehab loans
Greater Minnesota Housing Fund		Advise and leverage additional capital as needed
Family Housing Fund	Coordinate Collaborative, co-develop strategy for property acquisition	Coordinate Collaborative, co-lead homebuyer support strategy

Source: Wilder Research

The Collaborative also established a network of referral partners to expand our reach. These partners included:

- African Career Education and Resources (ACER)
- City of Lakes Community Land Trust (CLCLT)
- Lutheran Social Services (LSS)
- Neighborhood Development Alliance (NeDA)
- NeighborWorks Home Partners
- New American Development Center (NADC)
- Mni Sota Fund
- PRG, Inc.
- Urban League Twin Cities

Additionally, the Collaborative partnered with Wilder Research to conduct an evaluation of the initiative over three years. Wilder Research collected and analyzed program participant data, surveyed participants, surveyed partners, and interviewed homebuyers, partners, and developers. A comprehensive report of Wilder’s findings can be found in Wilder’s publication: [“Building Neighborhood Equity in Small Multifamily Ownership: Year 3 Pilot Program White Paper.”](#)

2-4 Unit Homeownership Training

To ensure that prospective homebuyers are prepared for the unique experiences and challenges of being both a homeowner and a landlord of a small multifamily property, the Building Equity Collaborative offered multiple options for pre-purchase training which allowed participants to choose the training option that best fit their needs, interests, and point in the homebuying journey.

Hope Community provided owner-occupant training through their Community Ownership cohort program. The cohort spans six weeks and covers a number of topics, ranging from credit building to affordability options such as the Community Land Trust model. 65 clients were served. The majority identified as people of color; 78% identified as Black or African American.

The Minnesota Home Ownership Center (HOC) developed and delivered an online owner-occupant landlord curriculum, available in both English and Spanish languages. This curriculum was designed to support aspiring homebuyers who may have already taken another homeownership education option, complementing pre-existing education programs with additional information specific to the unique experience of owning a 2-4 unit home. 345 individuals were served.

Model Cities and CLUES offered culturally adapted owner-occupant training and counseling services to support families – especially Black / African American and Hispanic / Latinx community members – interested in becoming owner-occupant landlords. In total, 76 participants were engaged through these two organizations. 49% of participants identified as Black or African American and 43% identified as Hispanic or Latinx.

When surveyed, sixty-five participants reflected on their likelihood of purchasing a multifamily rental property before and after the training. 60% of respondents indicated they were more likely to purchase a multifamily rental property after the training, with another 25% maintaining the same level of interest as before the training. Survey respondents also indicated that participating in the Collaborative’s programs significantly reduced their concerns about purchasing a multiunit property. The table below shows that after participating, the percentage of respondents noting each topic as “a big concern” was reduced by 6-31%, and the proportion of respondents noting each item as “not a concern” was increased by 6-21%.

CONCERN	BEFORE PARTICIPATING			AFTER PARTICIPATING		
	NOT A CONCERN	SOMEWHAT OF A CONCERN	A BIG CONCERN	NOT A CONCERN	SOMEWHAT OF A CONCERN	A BIG CONCERN
Having the necessary down payment	10%	28%	63%	30%	38%	32%
Having the knowledge to do the paperwork to get financing	32%	31%	37%	52%	37%	11%
Knowing who to talk to about financing	26%	36%	38%	44%	44%	12%
Finding a suitable property to purchase	8%	38%	54%	28%	41%	30%
Conducting maintenance & repairs required on available properties	17%	42%	41%	32%	48%	20%
Being approved for a home loan	25%	39%	36%	44%	32%	24%
Having a stable stream of money to pay the mortgage	35%	41%	25%	41%	40%	19%

Source: Wilder Research



Forgivable Down Payment Assistance Loans

The Collaborative offered forgivable down payment assistance (DPA) loans for homebuyers of 2-4 unit properties. Administered by Build Wealth Minnesota, the DPA loan program provided up to \$40,000 to qualifying homebuyers and is forgivable over five years of living in the property. DPA recipients interviewed by Wilder Research reported that they would not have been able to buy a multi-unit building without down payment assistance and believed that the DPA helped them secure a mortgage.

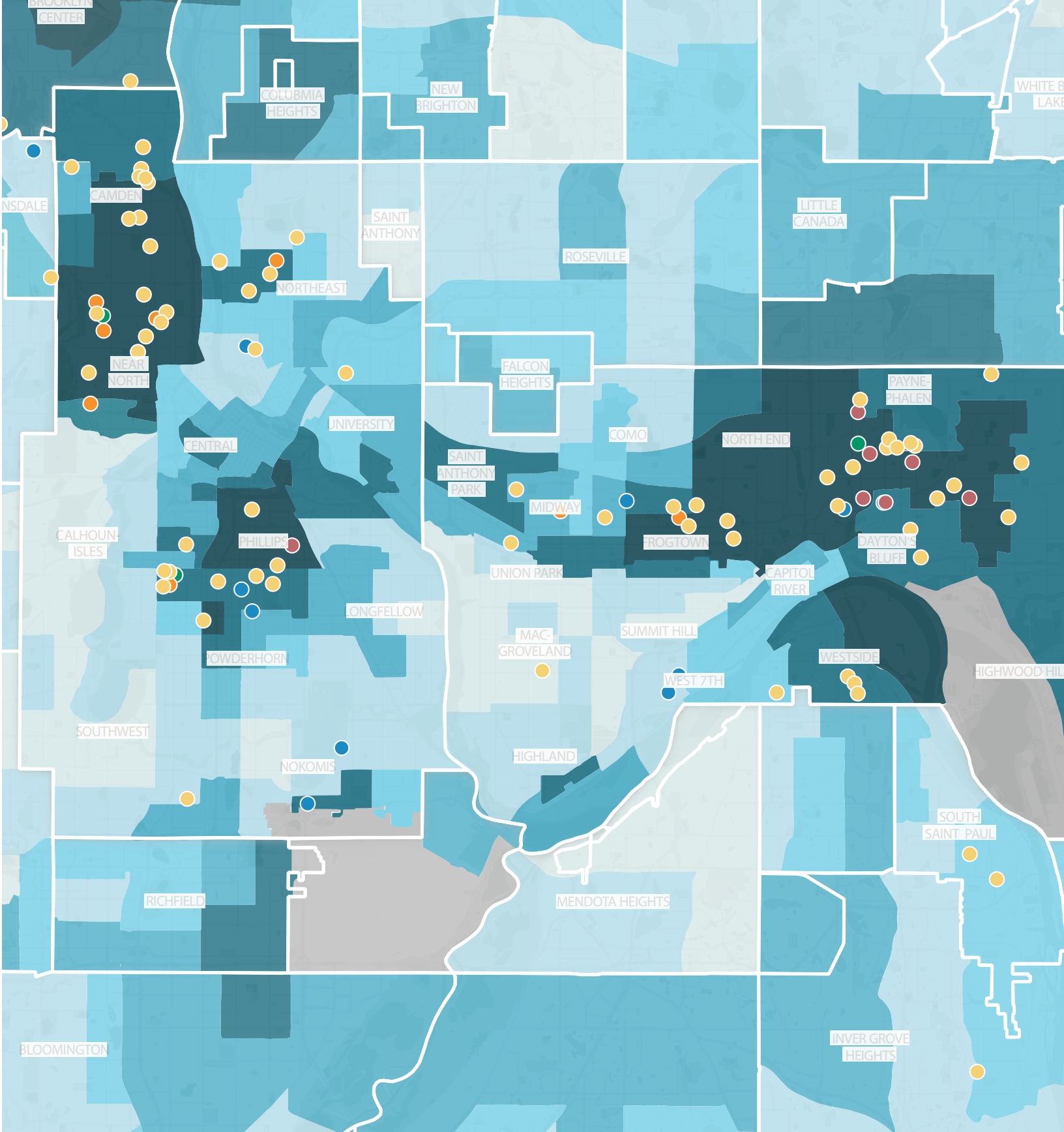
By April 2024, 108 households had purchased small multifamily properties with support from the Building Equity DPA program. Of the 99 DPA recipients who closed on homes by December 2023, the majority (69%) identified as Black or African American, 11% as white or Caucasian, 10% as Asian American or Pacific Islander, 8% as Hispanic or Latinx, and 1% as multiracial. The majority (93%) were first-time homebuyers, 93% purchased duplexes, and 88% had income levels between 30% and 80% of AMI. The average purchase price was \$321,423. The average DPA loan amount was \$22,302. Approximately 67% of properties purchased were not homesteaded prior to the purchase of the Building Equity buyer, indicating that these properties were transitioned from investor ownership to owner occupancy as a result of this work.

Homebuyers interviewed by Wilder Research confirmed that they had a positive experience with the DPA loan and reported that they would recommend purchasing a multifamily property to a friend or family member in similar circumstances.

Participants purchased homes throughout the Twin Cities region, including neighborhoods with both low and high BIPOC populations (see Map 1). Notably, a number of Black participants purchased homes in neighborhoods where, according to our analysis of Census data, there were no Black homeowners previously (see Map 2).

“I’m helping myself and my family by getting a stable home for us, and I’m helping the community by offering affordable rent prices.”

-Marquita, Building Equity DPA recipient



MAP 1. BUILDING EQUITY DOWN PAYMENT ASSISTANCE PROGRAM

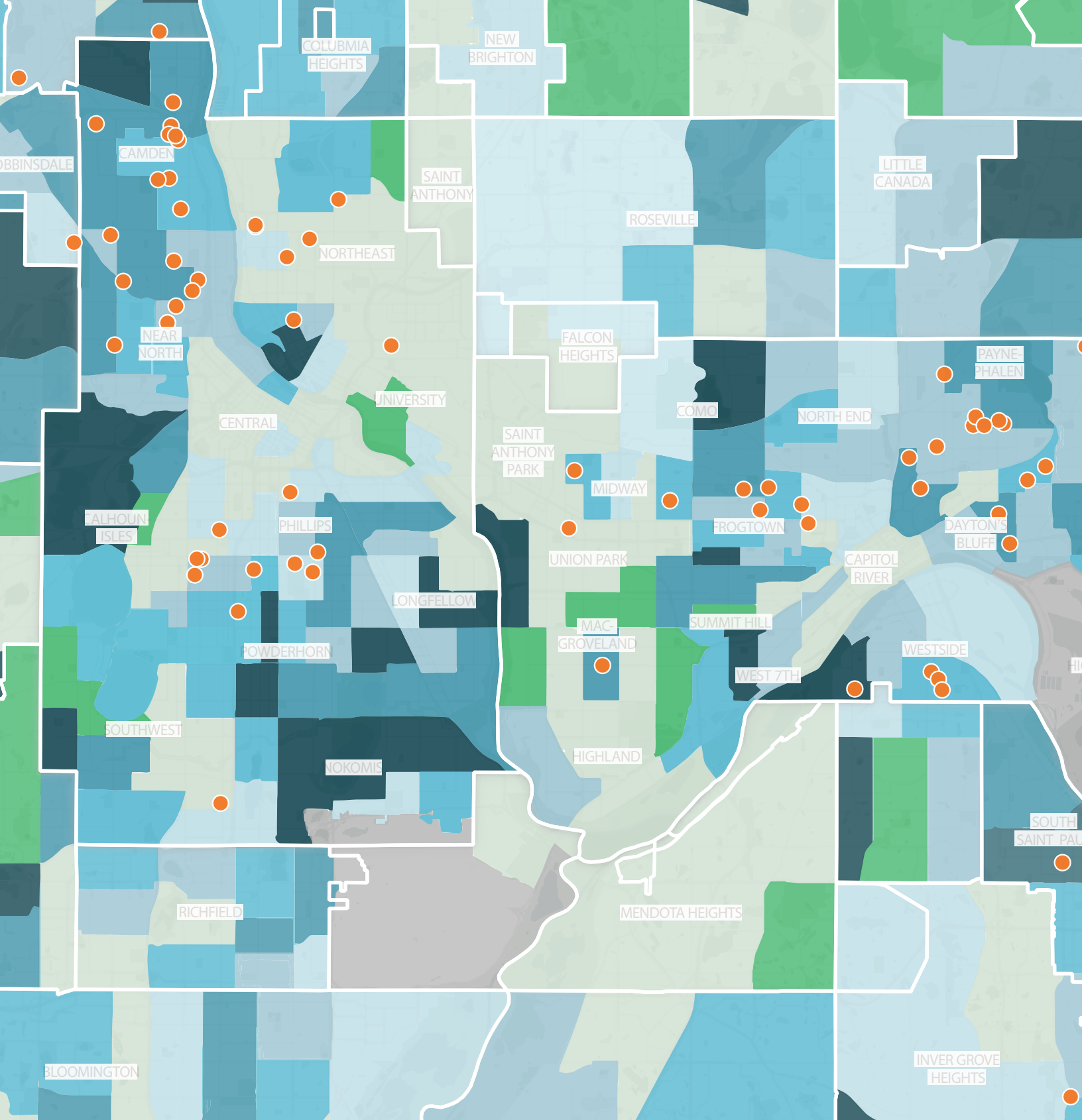
Buyer Race + Surrounding BIPOC Population

- Asian/Hmong
- Black/African American
- Hispanic/Latinx
- Another race/ethnicity
- White/Caucasian

% BIPOC (per Census Tract)

- 6.5% – 15%
- 15.1% – 25%
- 25.1% – 32%
- 32.1% – 45%
- 45.1% – 70%
- 70.1% – 95.7%
- No residents/households

Data sources: Family Housing Fund + Build Wealth MN, US Census Bureau, MnGeo, City of Minneapolis, City of Saint Paul, OpenStreetMap. Analysis and map created by Visible City.



MAP 2. BUILDING EQUITY DOWN PAYMENT ASSISTANCE PROGRAM
 Black/African American DPA Recipients + Black Homeownership Rates

Black/African American DPA Homebuyer

% of Black Households Who Own Their Homes (per Census Tract)

- 0%
- 0.6% – 10%
- 10.1% – 25%
- 25.1% – 40%
- 40.1% – 80%
- 80.1% – 100%

No Black households

No residents/households

Data sources: Family Housing Fund + Build Wealth MN, US Census Bureau, MnGeo, City of Minneapolis, City of Saint Paul, OpenStreetMap. Analysis and map created by Visible City.

Exploring Innovative Approaches to Expanding Mortgage Access

To increase access to first mortgage financing, the Building Equity Collaborative provided capital as early-stage equity to support Build Wealth Minnesota's 9000 Equities mortgage fund. This unique mortgage product in the Twin Cities market provided additional flexibility to homebuyers who were struggling to meet traditional mortgage qualification requirements, using a customized underwriting process to address barriers to credit that commonly prevent BIPOC homebuyers from entering the mortgage market. Available on a limited basis as Build Wealth continues to grow the product, four homebuyers purchased 2-4 unit properties with support from 9000 Equities between spring 2022 and December 2023. All four also received Building Equity DPA and identified as Black or African American.

Additionally, Family Housing Fund launched its "Valuing

Homes in Black Communities" (VHBC), an outgrowth of the Building Equity initiative that was initially focused on expanding mortgage access through the development of a new product with a built-in savings component. Pressure-testing the idea, FHFund conducted a deep engagement process with ecosystem partners as well as Black aspiring homebuyers and homeowners. The insights surfaced through this process encouraged FHFund to think more broadly about what interventions are needed to transform the full spectrum of the homeownership journey – from early-stage preparation before purchase to sustaining and growing the home value after purchase – to ensure Black communities have equitable access to the benefits of homeownership. The learnings and strategies that emerged are guiding the next evolution of the Building Equity work for Family Housing Fund.

Post-Purchase Support

MATCHED SAVINGS PROGRAM

Partnering with Prepare + Prosper, the Building Equity Collaborative developed a post-purchase Matched Savings program to help new homeowners replenish their savings after making a home purchase and ensure they have access to resources for financial emergencies or home repair needs. Recipients of the Building Equity DPA loan program were eligible to enroll in this Matched Savings program and open a savings account through Prepare + Prosper's FAIR banking initiative. When homeowners make monthly contributions to their account, Prepare + Prosper authorizes one-to-one match payments to the account. As a pilot, there were 30 slots available in the program; 30 individuals are enrolled. By December 2023, participants collectively deposited \$17,837, which was matched equally, resulting in a total savings of \$35,674. The program will continue matching payments at least until 2026.

The Collaborative observed that varying property conditions coupled with economic realities related to income level and home purchase expenses impacted participants' ability to save as anticipated. In conversations with FHFund staff, several participants described being unable to contribute to their savings accounts because of immediate home maintenance or repair needs. In response, the program introduced catch-up payments that allowed participants to make additional contributions in later months if they had missed a scheduled payment.

ZERO INTEREST REPAIR LOANS

Partnering with the Center for Energy and Environment (CEE), the Building Equity Collaborative established a post-purchase repair loan program to support new homeowners of 2-4 unit properties. This program provides a 0% interest loan up to \$10,000 to support preserving the livability and rentability of 2-4 unit properties for all owner-occupant landlords. According to Wilder Research's findings, the loans were used for repairs or improvements such as new appliances, a new roof, or remedies to potential code violations.

By December 2023, just five homeowners had received loans from this program. At the same time, the Collaborative heard from many new homeowners that they were experiencing many post-purchase repair and maintenance challenges, indicating a disconnect between the design of the loan program and the actual needs of new homeowners.

"With this house, I'm building generational wealth. This isn't just for me, but for my kids, too."

- Jason, Building Equity DPA recipient

Property Acquisition, Development, and Rehab

To combat the high competition and limited supply of 2-4 unit properties, FHFund partnered with the Land Bank Twin Cities to establish a dedicated funding source to support development, acquisition, and rehab of 2-4 unit properties. This capital pool also intended to address potential housing quality issue in the aging small multifamily housing stock before Building Equity homebuyers purchased them, in order to set them up for success. The Land Bank prioritized loans to emerging BIPOC developers, with the intent of helping them grow their businesses and further expanding equitable wealth building opportunities.

The capital pool made one loan in Minneapolis, \$300,000 for rehabbing a duplex. The loan was made to Build Wealth Minnesota as they expanded their role in housing development. Six loans averaging \$340,000 were deployed for acquisition and construction lending in Saint Paul to Rondo Community Land Trust, and six properties were acquired. In total, roughly \$2.5 million was deployed towards acquisition and construction activities.

The Collaborative faced challenges to increasing the supply of small multifamily properties. When interviewed by Wilder Research, Collaborative partners and developers both described high construction costs and financial challenges impacting the feasibility of development of small

multifamily properties, most notably citing:

- Challenges with navigating and securing additional funding for affordable housing development, specifically challenges related to regulatory constraints and inconsistencies in funding and subsidy policies across the region.
- External forces such as supply chain issues, rising interest rates, and inflation.
- Delays in approvals that resulted in extended project timelines, affecting overall project efficiency and making it increasingly risky for emerging and BIPOC developers to advance projects as originally planned under the initiative.

Given the challenges that impacted supply efforts, Collaborative partners did not produce or have access to a pipeline of quality properties for Building Equity buyers. Though the Collaborative had some success with acquisition, only one of the properties was available for purchase to an owner-occupant homebuyer during the course of the initiative.





Key Learnings

Building Equity efforts were particularly successful in preparing and facilitating access to homeownership opportunities. The Collaborative built effective organizational partnerships which resulted in successfully reaching and serving BIPOC households with low and moderate incomes. Reflecting on the successes and challenges of the initiative, our key learnings include:

- The runway to homeownership is longer for buyers of color, particularly Black homebuyers. Many training participants were not ready to purchase during the initiative's pilot period. Many of the DPA recipients had been working towards homeownership for years with support from community-based or culturally rooted organizations before they were ready to purchase. The Collaborative's success in deploying DPA is due in part to the groundwork laid by these partner organizations before the Building Equity initiative was launched.
- Community partnerships were critical to ensuring we were able to reach and support BIPOC communities, which was done without the use of product restrictions such as Special Purpose Credit Programs.
- We were successful in serving buyers with low incomes, but with lower incomes can come limited capacity and heightened financial challenges for the homeowner after purchase. For many buyers, affordability came with quality tradeoffs that underscored a systemic lack of sufficient post-purchase supports.
- Homeownership is a journey, and there are multiple stages to build wealth. Building Equity buyers reported believing that their new home would significantly improve their long-term financial picture, yet struggled with post-purchase challenges and voiced a need for additional supports to guarantee their investment would become an equitable wealth building vehicle.
- As we explored innovative approaches to mortgage financing, we learned that there is a need for culturally responsive products; however, institutions and organizations offering flexible terms and culturally responsive products lack access to sufficient capital and secondary market outlets, hindering their ability to scale.
- Development challenges persist. The Collaborative initially intended to complement local upzoning efforts, with the assumption that more small multifamily development would follow recent zoning reforms. However, upzoning alone was insufficient to facilitate the development of small multifamily properties.

Thank You

We are deeply grateful for our core partners in the Building Equity initiative, who have been instrumental in developing and implementing this strategy: Hope Community, Build Wealth Minnesota, Model Cities, CLUES, Rondo Community Land Trust, Land Bank Twin Cities, the Minnesota Home Ownership Center, and the Greater Minnesota Housing Fund.

We also want to thank the initiative's referral partners: ACER, City of Lakes Community Land Trust, Lutheran Social Service of Minnesota, Mni Sota Fund, Neighborhood Development Alliance (NeDA), New American Development Center, NeighborWorks Home Partners, PRG, and Urban League Twin Cities.

Additionally, thank you to Prepare + Prosper, Center for Energy and Environment, Wilder Research, and the many private, nonprofit, and public sector stakeholders who have informed and participated in this project.

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