frolic

Creating new pathways to homeownership and wealth generation

Frolic is a social enterprise founded by Tamara Knox and Joshua Morrison at the MIT Center for Real Estate, with support from MIT's DesignX and Sandbox Accelerators and the PKG Public Service Center.

The Frolic Development Model was designed to offer a path to homeownership comparable to the cost of entering the rental market, while helping current homeowners remain in their neighborhood amid rising property taxes and development pressure. We aim to add density to cities in need of quality housing that is community-oriented, affordable over time, and that helps people build wealth.

The Model emerged through input from over 200 visionary city staff, developers, community organizers, lawyers, and finance experts. Frolic launched in 2019 with two pilot projects in Seattle, WA. Our first two projects target first-time homeowners earning 80-120% AMI, and will become more affordable over time.

Founders

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Sponsors & Partners

MIT DESIGN X

CENTER FOR REAL ESTATE

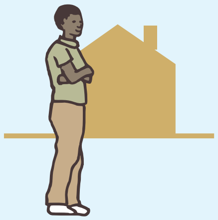
Sandbox Innovation Fund Program

PKG Priscilla King Gray Public Service Center IDEAS

Principles of the Frolic Model

1 Partner with Homeowners

We help homeowners unlock their equity and leverage it to create new, affordable homes for themselves and their community on their lot. Partnering allows us to design and permit a project with less upfront capital, and hese reduced costs translate to lower prices of the units built. Working with new zoning rules, we create multi-family communities on previously single-family lots.



2 Allow for Community to Invest

Nearly a quarter of all capital in a Frolic project comes from a Community Investment Pool, where we invite any investor – accredited or not – to invest in local real estate. This allows people in the community to build personal wealth while helping finance a local housing project. Their capital keeps unit costs low and the Community Investment Pool allows residents to accrue additional ownership over time as community investors are bought out by the co-op.

3 Balance long-term affordability with wealth generation

As a housing cooperative (co-op), approximately 20% of the capital in a Frolic project comes from homeowners who buy a unit – this means their cost is only about a fifth the cost of a normal home price. Plus, as a resident, you don't just get access to the equity contained in your unit's cost, but over time you capture part of the equity owned collectively by the co-op. Every 5-7 years, the co-op buys out community investors and transfers their ownership to residents, allowing their equity to grow as it would in conventional homeownership.

Long-term Affordability

LOW + STABLE MONTHLY COSTS

Each month, residents pay a co-op fee and a share loan payment, which stay stable and serve people earning 80-120% AMI at the outset, and lower AMI over time.

SMALL DOWN PAYMENT

Units cost 20% of full value throughout the life of the project, with an estimated downpayment of $7,500 for our first project.

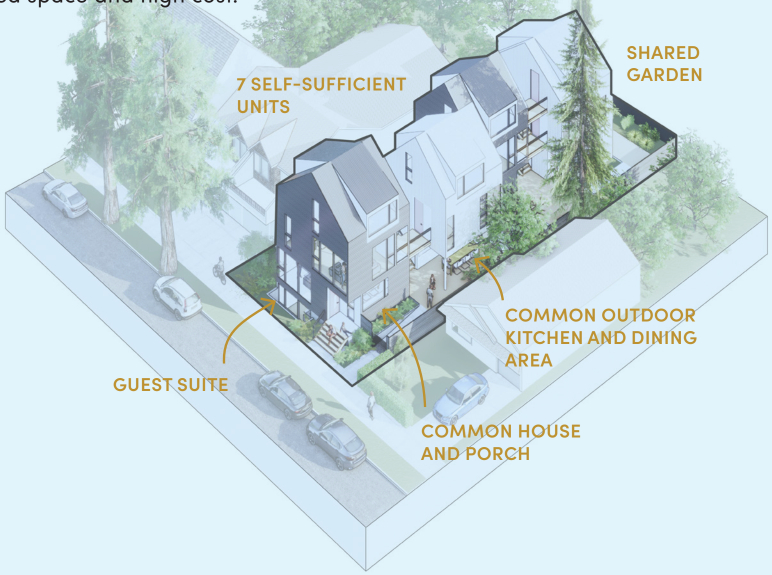
Wealth Generation

TRANSFER OF CO-OP EQUITY TO RESIDENTS

Beyond the growth of their unit value, residents are estimated to gain an additional $30,000 of equity every five years at refinance events.

4 Design for Community

Inspired by Danish Cohousing, thoughtfully designed indoor and outdoor common spaces in our projects encourage relationships between neighbors and allow for far less isolated living. Our projects accomodate 6-10 households each with private hosting space, as well as a common house that includes dining space, a kitchen and a guest suite. This provides each resident with the benefits of larger homes without the underutilized space and high cost.



Current Projects

1. Corvidae Coop

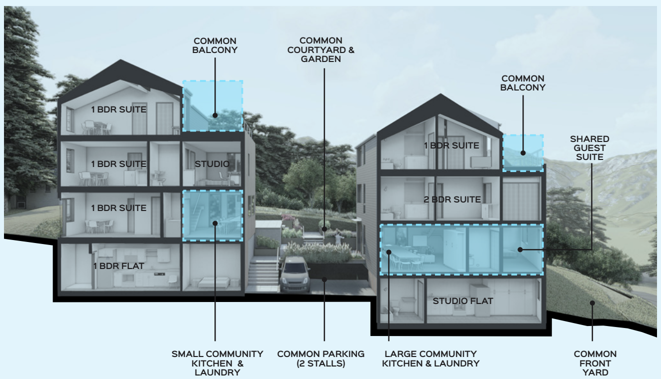
- 2 Studios
- 5 One-bedroom apartments
- 3 Two-bedroom apartments
- Large Common Kitchen + Dining Space
- Small Common Kitchen + Dining Space
- Common Guest Suite

Architect: Allied8
Estimated average home price: $75,000
Estimated down payment: $7,500
Zoning: Single-Family

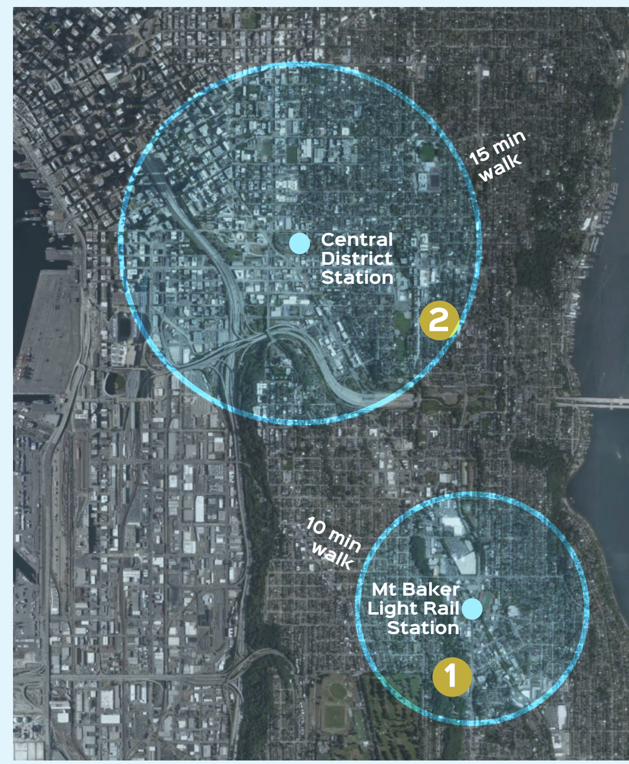
2. The TreeHouse

- 2 Studios
- 5 Two-bedroom apartments
- Common Kitchen + Dining Space
- Common Guest Suite
- Common Terrace and Outdoor Kitchen

Architect: Hybrid
Estimated average home price: $80,000
Estimated down payment: $8,000
Zoning: LR1

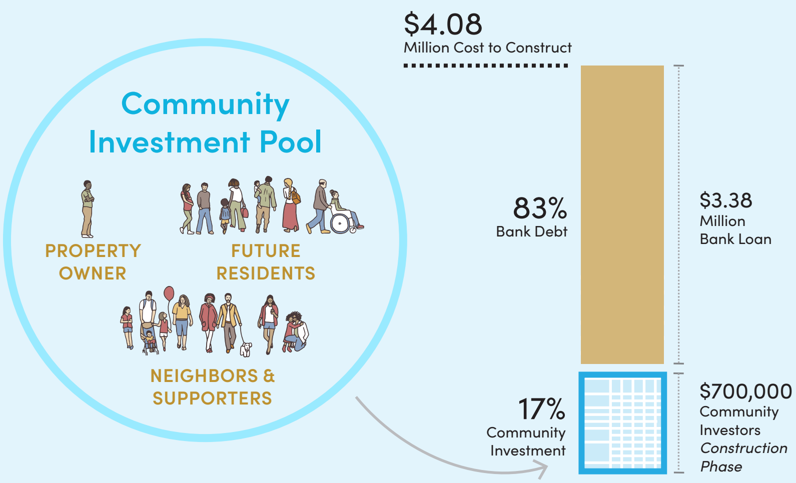


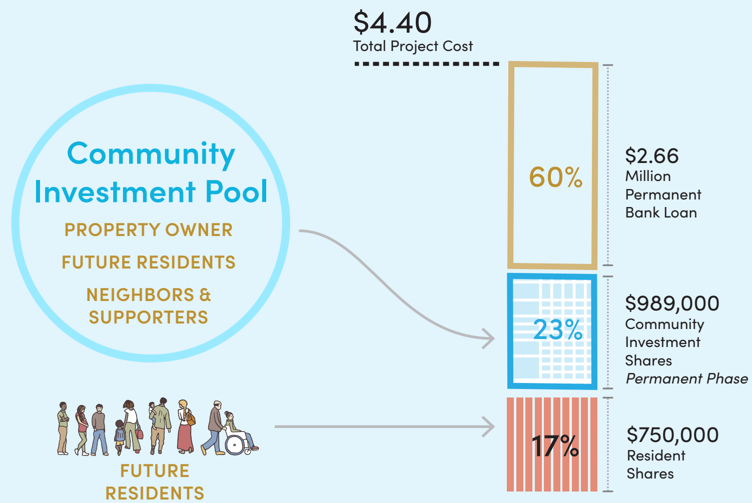
Locations



How it works: Financing

This shows an example of how the model works, given a sample project.





A Construction Financing

An LLC is formed, which begins taking in capital contributions from the property owner (a portion of the equity in their property), as well as cash investments from future residents and community members. All contributions at this phase receive a 10% return on their investment.

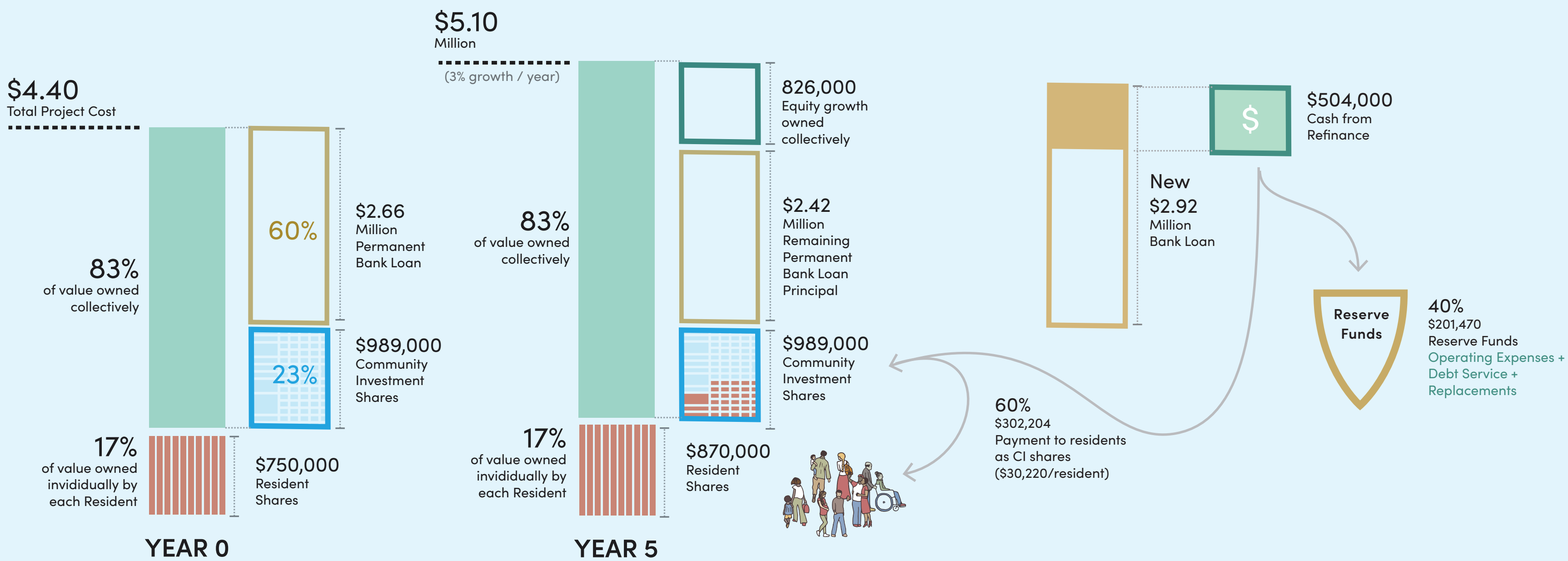
Both accreddited and non-acreddited investors are able to invest in the project as silent partners for amounts as low as $1,000. Frolic and our partners manage the development and construction process, as well as compliance with securities law.

B Permanent Financing

When the project is built, it converts to a non-profit (the co-op), which owns and operates the building. To buy a unit, residents purchase a resident share in the co-op, either outright or with a share loan. Permanent financing is made up of resident share purchases (17%), debt from the community investors (23%) and a blanket mortgage (60%). For a project that is 10 units, each unit will sell for $75,000, requiring a downpayment of $7,500. Community investors at this phase receive a 5% annual return, with term lengths of 5, 10, and 15 years - after which, they get their initial investment back.

"What do we pay each month?"
In addition to paying off your share loan, you pay a monthly co-op fee, which covers utilities, the blanket mortgage, and returns for community investors. It also contributes to savings for the co-op that cover maintenance, improvements, and emergencey reserves.

How it works: Financing



C Value Growth

Our projects are located near transit in desirable neighborhoods where we expect to see growing real estate values. As the value of the project grows, resident shares grow in value correspondingly. A unit that was worth $75,000 initially is now worth $87,000.

Community investment shares do not change in value, but continue to receive their 5% return every year.

As the blanket mortgage slowly gets paid off, and the project grows in value, equity begins to form that is owned by the co-op as a whole (shown in dark green). This value can be accessed by refinancing or taking a line of credit.

D Refinance

Every 5-7 years, the project refinances in order to capture the value growth that is held collectively.

40% of the cash received is placed into reserves that ensure long term value for the project and provide significant cushions to reduce risk.

60% of the cash is used to buy out community investors and transfer their shares proportionally to residents. Residents have the same rights as silent investors when owning these shares and receive an annual 5% return. This return offsets their co-op fee, lowering monthly expenses the longer someone lives in a project.

"What happens when we move out?"

You sell your unit but hold on to your Community Investment Shares, that continue to pay you 5% a year. You become an outside community investor. Over time, the co-op will purchase these shares from you.

This means the person moving in only has to buy your unit, not your CI shares, which keeps the project affordable to new people over time.

How it works: Resident Experience

What you pay when you move in

Any of these gives you ownership of your unit:
A. Take out a share loan and pay a downpayment of 20% ($15,000),
B. Buy your resident share outright for the full price of $75,000, or
C. Buy your share and invest in the project, giving you an annual dividend.

What you pay each month

- Mortgage on share loan, if you've taken one (approx $330/month)
- Co-op fee ($1,600 - $2,600 depending on unit size)
- If you own Community Investment Shares, you receive an annual dividend offsetting your monthly expenses.

What you get when you move out

Resident Share
When you move, you sell your resident share. Your share will have grown in value proportional to the project's overall value. Assuming a growth of 3% a year, a $75k share will be worth $87k after 5 years.

Community Investment Shares
You will accumulate approximately $30k worth of CI Shares every 5 years you live in the project. These will continue to give you a 5% dividend ($1,500/year) until new residents purchase them from you in the next refinance event (likely within 5-10 years of moving).

What the coop fee covers

The co-op fee never increases by more than 2% per year. It covers:
- Blanket Mortgage Debt Service
- Community Invester Returns
- Utilities
- Property Taxes
- Insurance
- Property Mangement
- Repairs and Maintenance
- Replacement Reserve
- Operating and Debt Service Reserve

Because the coop fee grows slowly, units become more affordable over time. For example, in 2014, 100% AMI for a one bedroom apartment was $1,498/month. If this rent increased by only 2% per year, by 2019 this same unit would only cost $1,653/month **(80% AMI in 2019)**.[1] An 80% AMI unit in 2014 increasing at 2%/year would only be **64% of AMI today**. If housing costs in the city continue to rise at a similar rate, we can expect that units in this project will hit deeper and deeper levels of affordability over time.

1. 2019 Seattle Rental Housing Program - HUD Income and Rent Limits

More about Frolic

Company Structure

Frolic organizes and develops projects, typically working with local builders and designers.

Depending on the specifics of the project, Frolic may take on the following roles:
- Identifying and organizing property owners and future residents
- Facilitating the community design process
- Organizing financing with lending institutions and investors
- Overseeing the management of community investors
- Setting up legal entities and ensuring compliance with securities law
- Managing development process including design, permitting, construction and resident onboarding
- Licensing other developers and organizations to use the Model

Frolic charges a set fee as a part of a project's soft costs, aligning our interests with the goal to create affordable, high-quality projects.

Replicability

Our model unlocks a large market of land by partnering with homeowners eager to remain on their property amid rising property taxes and development pressure. As homeowning baby boomers enter retirement age and cities upzone their land to encourage densification, there is a growing number of low-income homeowners the Model provides with the means and tools to stay in their neighborhoods.

In Seattle, New York, L.A. and Portland alone, there are over 1.7 million owner-occupied single family homes. Portland and Seattle have recently rezoned many of these lots and other cities are following suit. By providing an alternate option to selling their property, The Frolic Model has the potential to empower hundreds of communities to become owners of the development happening in their neighborhoods.