

A Survey of Nationwide Community Land Trust

Resale Formulas and Ground Leases:

A Report Prepared for the Madison Area Community Land Trust

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Introduction

This report examines some of the main issues identified in a recent survey of community land trusts around the country. The goal of the survey was to assess the range of resale formulas that Community Land Trusts (CLTs) are currently using and to gain an understanding of why a specific formula was chosen. A short survey with questions focusing on resale formulas, ground leases, and general background information (see Appendix A) was sent electronically to each CLT in the Institute for Community Economics' listserv. Follow-up calls were made to CLTs and some surveys were completed by telephone, based on the preferences of the CLT staff person. A total of twelve CLTs were surveyed, with the majority of the surveys conducted by telephone. A summary of the information gathered from the surveys can be seen in the CLT Summary Table (Appendix B). Data on the CLT's start-up date, number and type of units owned, operating budget, ground lease terms, and the resale formula are included in the table, along with a brief discussion of the goals of the resale formula. The remaining sections of this paper discuss the different kinds of resale formulas that were discovered and report on other topics that came up in some of the interviews.

Resale Formula Overview

A resale formula is used to determine the sale price when a CLT homeowner decides to sell a unit. Most resale formulas are based on the assessed value of the property at the time of sale and allow the owner to realize some of the appreciation in value. Resale formulas encourage CLT homeowners to make improvements to their houses because those improvements will likely be reflected in the assessed value of the unit when sold. Resale formulas are also designed to keep the prices of CLT units in check so that they can remain affordable for future CLT homeowners. This report will discuss the different resale formulas used by different CLTs and demonstrate how resale formulas are often designed to best fit with the local housing market in which the CLT is located.

Target Population

For most of the 12 CLTs studied, the target population is households earning between 50 and 80 percent of the area median family income (MFI). The CLT in Tempe, Arizona (Community Land Trust of Tempe) has the lowest target and aims to sell homes to families earning less than 50 percent of the MFI. At the other end of the range is Burlington, VT (Burlington Community Land Trust), one of the oldest in the country. In Burlington, households earning up to 100 percent of the area MFI are eligible to purchase a CLT home. The decision to expand eligibility to 100 percent of MFI was made only recently, in the light of the rising housing prices in the Burlington market; without expanded eligibility, fewer and fewer applicants would be able to qualify for mortgages for (increasingly expensive) homes.

Services to Applicants/Homeowners

The CLTs surveyed vary greatly in the amount and type of services they provide to applicants and owners. The Greater Iowa Housing Fellowship (Iowa City, IA) provides no services to applicants or owners, relying solely on receipt of the ground lease fee to keep in touch with owners. In contrast, the Burlington program operates a Home Ownership Center with services available to the entire community (including homeownership courses and pre-approval mortgage preparation and screening) as well as targeted workshops and services to land trust applicants and owners. The Center also allows the land trust to conduct outreach and improve relations with local realtors, banks, landlords, and potential owners, increasing the community's understanding of the land trust model and creating a "pipeline" of mortgage-ready customers every month. The CLT in Ashland, Oregon (Ashland Community Land Trust) also provides numerous services to its owners, as a means of encouraging current owners to stay in their land trust homes and create stability.

Differences in CLTs Based on City Characteristics

The CLTs that responded to the survey were in cities of varying sizes. There were large cities (St. Paul, MN, and Portland, OR) as well as small ones (Kulshan, WA) and suburban areas (Tempe, AZ, and Clackamas County, OR). The CLTs in larger cities tend to own a larger number of properties. For example, CLTs have 110 properties in Durham, NC (Durham Community Land Trustees) and 21 in St. Paul, MN (Rondo Community Land Trust⁰). Two of the oldest CLTs included in the survey were Durham, (founded in 1987) and St. Paul (founded in 1993), which happened to be large cities.

Many CLTs are located in cities that are also home to major universities, such as Portland, OR; Tempe, AZ; Iowa City, IA; Bloomington, IN; Athens, GA; and Burlington, VT. Some of the more unique resale formulas are used by CLTs located in those cities (e.g., Durham, Athens, and Bloomington).

Housing Markets and Resale Formulas

Resale formulas express the values of individual CLTs as agency policy. Among the CLTs interviewed, the two most important influences on resale formulas are local housing markets and agency objectives. Ensuring long-term housing affordability is inextricably linked to the nature of the local housing market, especially the availability of moderately priced homes to low-to-moderate income families. Thus, the nature of the local housing market helps determine a CLT's resale formula. The Ashland Community Land Trust (Ashland, OR) is located in a resort town with extremely wealthy 'part-time' residents that drive up housing prices. Carlus Harris, the Executive Director of the Ashland CLT estimates that the average price of a lot is between \$100,000-\$150,000. The CLT in Ashland, therefore, strives to keep houses as affordable as possible to ensure that moderate-income 'full-time' residents can remain in the community. To this aim, the CLT designed a resale formula that allows homeowners to capture only 1 percent of the purchase price of their home per year of home ownership. The primary goal is not to help families build equity in order to move up into full tenure (owning a home and land) but to keep families in the community while ensuring that if a CLT home sells, it will remain affordable.

Among the communities surveyed, there were numerous resale formulas in use. The most common resale formula allowed homeowners to capture between 25-30 percent of the growth in equity of their home and land. Several CLTs use this formula but do not include any equity capture for land. Broad generalizations are difficult because of the interaction between agency objectives and housing markets, but overall, if CLTs exist in tight housing markets and value continued affordability over an individual family's accumulation of wealth (through equity capture) the resale formula allows for less equity capture. CLTs in more affordable markets, such as Bloomington, IN (Monroe County Housing Solutions), can allow greater equity capture without sacrificing continued affordability. If CLT homeowners in Bloomington sell their house to a pre-approved, income-eligible buyer, the seller is able to capture up to 50 percent of the growth in equity. This shows clearly how housing markets and agency objectives merge to create any individual CLT's resale formula. Bloomington's resale formula could never work in Ashland, OR if CLT homes were to remain affordable and Ashland's formula would not work in Bloomington because few homeowners would be enticed by a 1% equity capture. The most important lesson learned is that CLTs must have open, honest discussions regarding the goals they wish to achieve, the values they hold dear, and how the housing market in which they are located influences their decisions before they can create a resale formula that matches their values and the needs of their community.

Reasons for Changing Resale Formula

The majority of CLTs appear to be satisfied with their original resale formulas. Of the CLTs surveyed, Monroe County Housing Solutions (Bloomington, IN) is the only one to have changed its resale formula, though the Greater Iowa City Housing Fellowship (Iowa City, IA) is contemplating change. The primary reason given for making changes was to clarify ambiguous or complicated language. The Monroe County Housing Solutions CLT's resale formula was changed because the original resale formula was rife with convoluted and contradictory language. There was imperceptible growth to the value of the house and it was actually possible to lose money on the investment. The CLT viewed this as a barrier to

its goals and subsequently changed to an appraisal-based formula. The Greater Iowa City Housing Fellowship is considering changing its resale formula, which currently bases recapture rates on years in the home, with owners who live in the house more than nine years capturing 100 percent of the new equity. This resale formula was designed with the homeowner in mind, but is simply not bringing in any money to the CLT itself, since none of the Housing Fellowship's original eight owners have sold their units yet.

The most prevalent resale formula is based on the appraised value of the house and land. The appraised value formula has been mutually beneficial to the CLT and the homeowner. Using the appraised value became the standard because it allows the homeowner(s) to reap the benefits of their investment in the house. The CLT also benefits because it captures part of the appraised value when the house is sold. Additionally, this formula is simple to understand and considerably less ambiguous than other formulas.

Equity Capture for Improvements on Land

Most CLTs that responded to the survey created the resale formula to take into account not only improvements on the housing unit itself, but also on the land where the unit sits. This was not the case for all CLTs, however. For example, the Burlington CLT (Burlington, VT) only allows owners to capture 25 percent of the appreciated value on the unit, and does not include the land. Though the issue has not yet arisen, the possibility does exist in Burlington for homeowners to claim Burlington's Capital Improvement Credit for improvements made to the land itself. The Rondo Community Land Trust (St. Paul, MN) also does not allow owners to capture increases in the assessed value of the land during a resale. Those CLTs that include improvements to the land in the resale formula tend to do so because they feel that it is only fair to the owners, particularly given the market for housing in their city.

Use of Ground Lease Fees

Most of the CLTs surveyed use the ground lease fees collected to cover the cost of running the organization. For the newer CLTs (especially those with a small number of units), the ground lease simply does not generate a significant amount of funds. However, even for those CLTs, the ground lease serves an important function that goes beyond the dollars coming into the organization. For example, the Greater Iowa Housing Fellowship (Iowa City, IA) collects less than \$2000 per year in ground lease fees, but the receipt of these monthly fees serves as a critical means of keeping in touch with their land trust owners in a simple, non-bureaucratic, non-intrusive manner.

Sale by Owner vs. Sale by CLT

The general trend among the community land trusts that responded to the survey was for homeowners to sell their homes back to the CLT. The CLTs adopted buy-back policies as a means of streamlining the selling/buying process. Selling the property to the CLT has several advantages. The most obvious is that most CLTs already have a waiting list of buyers, and thus can execute briefer searches for buyers and reduce transaction costs. All of the CLTs surveyed have a policy to pre-screen prospective buyers, so owners have little choice in who can purchase the property. When the CLT itself controls the resale of a property, it ensures that the overall message about land trusts is consistently delivered and controlled – rather than relying on an owner to explain the principles of the land trust model to a perhaps less knowledgeable new owner. Furthermore, the CLTs are well versed in the legal intricacies of land trust agreements and can provide thorough procedural advice without requiring expensive legal advising. CLTs prefer a buy-back exchange because it gives them more control over the property and ensures a fair exchange. CLT goals include ensuring that housing goes to those in need and maintaining permanently affordable housing stock, and a buy-back policy helps achieve these goals.

For the majority of CLTs, there is no discernable financial advantage to owner sales. The CLTs generally permit the owners to capture 25 percent of the appraised value of the property whether they sell it themselves or sell it back to the land trust. Some CLTs, such as the Athens Land Trust (Athens, GA)

Greater Iowa Housing Fellowship (Iowa City, IA), and Ashland, OR differentiate capture rates based on duration of ownership.

Fannie Mae and FHA Financing

Fannie Mae is a private company that works to ensure that private mortgage lenders have available funds to grant mortgages for financing a home. The Institute for Community Economics (ICE) reports that it has worked successfully in designing a CLT mortgage product with Fannie Mae (RuralHome, *Community Land Trusts and Rural Housing*, 1993). According to the ICE, the Fannie Mae Foundation is also promoting the CLT concept by offering a CLT mortgage option to lenders and nonprofit organizations. The option is designed to be combined with one of Fannie Mae's community lending mortgage products to create financing that is appropriate to the given community and to potential buyers (see Fannie Mae homepage at <http://www.fanniemae.com>). The CLT mortgage option offers the following affordability features:

1. Lower cash requirements for down payment and closing costs,
2. Reduced income requirements to qualify, and
3. A higher debt allowance and loan-to-value ratio than required for traditional conventional mortgages.

The collaborative effort from ICE and Fannie Mae is critical to the success of CLTs and represents a shift from the way Fannie Mae financing used to negatively affect CLTs. A 1993 report by Rural Home documented that when Fannie Mae purchased a mortgage from a private lender or nonprofit, it imposed several regulatory requirements. According to Rural Home, the regulations that Fannie Mae imposed included the following:

1. The land must be owned free and clear by the CLT,
2. Fannie Mae must approve all ground leases,
3. Program is limited to single-family, owner-occupied homes,
4. CLT must exercise right of first refusal to buy back a CLT home within 90 days, and

5. Resale restrictions terminate upon foreclosure.

The requirement that CLTs must own the land without any outstanding debt would have affected new CLTs that had not had much time to service their debts. Limiting the program to single-family homes would have meant that in certain communities, the program would not support the type of housing most suited to the needs of low-income homeowners. The 90-day requirement for first refusal put an unfair burden on newer CLTs that might not have had as much experience in administering the purchase and resale of a home. Finally, terminating resale restrictions in the unfortunate incidence of a foreclosure meant that the property would be lost to the affordable housing market.

Now, the Federal Housing Administration (FHA) poses more threats to the success of CLTs. The Millennial Housing Commission recently submitted a report to the ICE in which it suggested changes to the FHA regulations in order to allow CLTs to operate more freely (Millennial Housing Commission Finance Task Force, Issue Paper, 2001). According to HUD, which oversees the organization, FHA is designed to expand access to mortgages for first-time homebuyers. The most significant barrier for CLT homes is that FHA requires the elimination of resale restrictions, which conflicts directly with the CLT goal of maintaining permanent affordability.

Lessons Learned

The information collected via our survey was not intended to serve as ‘proof’ for any specific thesis or conclusion. Our hope is that this information will help inform the Madison Area Community Land Trust’s discussion of possible revisions to their resale formula and ground lease.

- It is important for CLT’s to assess their agency’s objectives in relation to the local housing market and ensure that the agency’s policies accurately reflect these realities.
- Resale formulas should be simple, easy to understand, and should not contain contradictory or confusing language.
- In considering whether or not to eliminate or reduce the ground lease fee, it is important to assess the non-financial benefits provided by the receipt of the monthly lease fees

(i.e. simple way of ensuring that owners are still meeting payments) as well as the more obvious financial implications of the ground lease fees.

- In determining whether a CLT should control unit resales or allow the current owner to do so, the CLT should consider the value of being able to deliver a consistent message about land trusts to potential new owners.

Appendix A

CLT Survey Regarding Partnerships and Resale Formulas

As part of a research project conducted for the Madison Area Community Land Trust in Madison, we are researching 1) partnerships between CLTs and Habitat for Humanity and 2) CLT resale formulas and ground leases. If you could please take 10-15 minutes to complete the attached survey, it would be greatly appreciated. Results from this survey will be reported to the entire listserve.

CLT: _____ Contact person: _____
Phone number: _____ Location: Urban Rural Other (circle)
How long has your CLT existed? _____ Total operating budget? _____

Type of Households served (% of median income)? _____

Median income of your community? _____

of CLT members? _____ # of acres: _____ # Units/houses: _____

Kind of units (flats, duplexes, single family): _____

1. COLLABORATIONS WITH HABITAT FOR HUMANITY

Are you now, or have you ever, collaborated with Habitat for Humanity in any fashion?

IF YES, why? What does the partnership entail? How long have you partnered? Is it "successful?" Why do you think it is/was successful?

IF NO, have you ever considered collaborating? If so, why did you decide against it? Do barriers exist?

Do you collaborate with other housing non-profits? If yes, what do those partnerships entail? Have they been successful? If yes, why?

Is there anything else about collaborating or partnering with Habitat or other non-profits that you would like to share with the Madison Area Community Land Trust?

2. CLT RESALE FORMULA

Please describe your resale formula. (How was it developed? Were other formulas considered and why were they not chosen? Are you thinking of revising the formula? What concerns, if any, do you have about your current resale formula?)

3. CLT GROUND LEASE

Please describe the terms and conditions of your ground lease; specifically address whether homeowners are responsible for paying property taxes or whether property abatements apply. Please also discuss what the revenue generated from the ground lease is used for.

4. ADDITIONAL RESOURCES/INFORMATION

Is there additional information you would like to share about your land trust? Are your resale formulas and/or ground leases available in electronic format? Do you recommend that we contact anyone else?

Appendix B

Summary of Community Land Trust Interviews

<i>CLT and Start Date</i>	<i>Operating Budget</i>	<i># of Properties</i>	<i>Type of units</i>	<i>Targeted Population</i>	<i>Lease Fee/Month & Property Tax</i>	<i>Resale Formula (and Goal of Formula/History)</i>
Burlington Community Land Trust (Burlington, VT) 1984		260	Single family homes & condos; also 300 rental units & 130 co-ops	60-100% of MFI	\$25 on single family homes; \$10 on condos (called a “membership fee”) Owner pays prop tax – no abatement.	Owners capture 25% of appreciated value measured by appraisal. Applies only to improvements in the structure itself – not the land. Owner can also get Capital Improvement Credit = up to 100% of value of major improvements made to the structure. <i>Extensive services provided to applicant & homeowner through Home Ownership Center -- includes workshops on repair, remodeling, taxes, and delinquency intervention; open to entire community, not just potential LT buyers. Increases community support & knowledge of LT model, allows them to reach “critical mass.”</i>
Durham Community Land Trustees (Durham, NC) 1987	\$400,000	110	60% single family homes; rest are mixed type	60% MFI	\$25/month lease fee Owner pays property tax on unit, exempt from taxes on land	Seller captures a % of appraised value based on how long owner has owned the unit. Up to 10 years, seller gets 35%; 10-15 get 40%; 15+ years get 45%.

<i>CLT and Start Date</i>	<i>Operating Budget</i>	<i># of Properties</i>	<i>Type of units</i>	<i>Targeted Population</i>	<i>Lease Fee/Month & Property Tax</i>	<i>Resale Formula (and Goal of Formula/History)</i>
Monroe County Housing Solutions (Bloomington, IN) 1989	\$120,000	43		65% of MFI	\$60 Owner pays tax on unit; CLT pays tax on land	50% of difference between appraised original price and appraised at time of sale if sold by owner to another eligible buyer 25% if sold to CLT <i>Old formula too complex;</i>
Rondo Community Land Trust (St Paul, MN) 1993	\$155,000	21	Single family; duplexes	60-70% of MFI	\$15 Owner pays taxes in mortgage	25% of improvements
Athens Land Trust (Athens, GA) 1994	\$150,000	2	Single family homes	80% mfi and below	\$5/month lease fee Owner pays property tax	Seller captures 25% of appraised value contingent upon eight years or more of residence. The ALT also has first refusal to buy the house back. If the land trust does not repurchase the house, then it must be sold to a prescreened family.
Greater Iowa City Housing Fellowship (Iowa City, IA) 1996	\$425,000	8 (4 more planned)	Single family homes	60-80% of MFI	\$20 Owner pays property taxes	Based on years of ownership; after 1 year, owner captures 5%, after 2 years, 10%, 3-5 years = 25%, 6-8 years = 50%, 9+years = 100% <i>Had the homeowner in mind; no services to homeowner; 1st come, 1st served basis; are rethinking because CLT not making any money</i>

<i>CLT and Start Date</i>	<i>Operating Budget</i>	<i># of Properties</i>	<i>Type of units</i>	<i>Targeted Population</i>	<i>Lease Fee/Month & Property Tax</i>	<i>Resale Formula (and Goal of Formula/History)</i>
Ashland Community Land Trust (Ashland, OR) 1999	\$684,000	3 (and 6 under construction)	Single family townhomes	50-72% of MFI	\$35 Owner pays taxes	1% per year of ownership plus improvements minus damage/repairs needed (only way to retain affordability because of local housing market) <i>Encourage people to stay; many services provided to homeowners; help people stabilize their housing costs</i>
Community Land Trust of Tempe (Tempe, AZ) 2000	\$50,000	2 (and 2 under construction)	Single family homes	Under 50% of MFI	\$35 Owner pays tax on unit and land	25% of appreciated market value
Missoula, MT 2000	\$44,439	1	Single family homes		\$25	Apply the investment ratio to the change in appraised value; ratio determined by how long owned <i>To encourage investment and longevity</i>
Cuyahoga, OH 2001	\$47,000	7 under construction	Single and two family homes	Under 80% of MFI	\$0 Owner pays property taxes only; 10-15 year abatement of property taxes	20% of: % of initial value of house that purchase price was multiplied by the market appreciation amount; to give owner share of market appreciation based on value investment. Once share determined, add to price paid plus capital improvements credits <i>Out of fairness, give credits for capital improvements</i>

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Portland Community Land Trust (Portland, OR) 2001	\$125,000	15			\$40 Owner pays property taxes	25% on improvements and land
Kulshan Community Land Trust (Kulshan, WA) 2001		0	Single family homes		\$35 Owner pays property taxes	Down payment plus mortgage amount plus 1.5% of that total; compounded annually and plus improvements. Formula chosen for simplicity