

GROUND LEASES AND RESALE FORMULAS: THE “HOW” OF COMMUNITY LAND TRUSTS

Alongside the executive directors of two Florida CLTs, Cindee LaCourse-Blum from the CLT of Palm Beach County and Evelyn Dobson from the Delray Beach CLT, as well as Florida Community Bank Vice President Nancy Merolla, who has made mortgage loans to CLT homebuyers, I presented the “how” of community land trusts at the 2014 Affordable Housing Conference. The presenters discussed the underlying principles and basic components of the CLT model, and its advantages for low-income homebuyers, local governments, and mortgage lenders. In my segment of the workshop, I outlined the financial mechanisms at the heart of the CLT model’s success: the price structure with the initial public subsidy, and the resale formula commonly used to preserve affordability and “pay forward” the initial subsidy while allowing the homeowner to build equity. This article provides a recap from the workshop of the CLT model’s financial nuts and bolts.

The term “Community Land Trust” refers to both nonprofits that own and develop land in trust, and to the mechanism of separating land and building ownership to make homes affordable. A nonprofit CLT organization acquires land with the intention of holding it in perpetuity. A central feature of the model is the dual ownership structure whereby the CLT owns the land, but the homeowner owns the home on the land. The homeowner holds a long-term (99 year) renewable ground lease, which contains a resale formula that ensures af-

fordability in perpetuity, and gives the CLT the right to repurchase the home in the event of default.

The ground lease is equally protective of the individual homebuyer’s interests, providing long-term security, while at the same time providing an opportunity to build equity and benefit from a portion (typically 25 percent) of the appreciation on the home, should property values increase.

THE RESALE FORMULA

CLTs use what is known as a resale formula to determine what a CLT owner can sell their home for when they wish to move. Most Community Land Trusts use what is known as the “appraisal method” for setting the resale price. As you can guess from the title, when a CLT buyer wishes to sell, an appraisal is conducted to determine the current value of the home, not including the value of the land. The initial sales price of the home is subtracted from the appraised value at resale to determine the amount of appreciation. Resale formulas allow the seller to retain a percentage of the appreciation, usually 25 percent. The resale price is then set at an amount that covers the initial sales price, minus any subsidy, plus 25 percent of the appreciation. The premise is that incomes will have risen during the time the seller owned the house, allowing the next income-eligible buyer to purchase the home without any subsidy.



Left photo: Participants in “CLTs: The Why and How”. Right photo: From left to right: Stan Fitterman, Barbara Inman, Cindee LaCourse-Blum, Evelyn Dobson and Nancy Merolla. Stan Fitterman, Barbara Inman, Cindee LaCourse-Blum, Evelyn Dobson and Nancy Merolla.

THE APPRAISAL BASED RESALE FORMULA AT WORK

In the example below, a household earns \$39,180, is considered low-income, and lives in a community where it is difficult to find homes below \$180,000 (except for those in need of substantial repair). As we can see from Table 1, the family needs almost \$34,000 in subsidy to qualify for a mortgage to buy this home.

TABLE 1

Initial Borrower Income	\$39,180.00
Loan Term (months)	360
Market Price	\$180,000.00
Value of Dwelling	\$144,000.00
Value of Land	\$36,000.00
Down Payment	\$2,880.00
Subsidy to purchase dwellings	\$33,949.08
First mortgage (value of improvements less down payment and subsidy)	\$107,170.92

Fast forward 10 years and the original buyer is ready to sell. If we assume an average annual appreciation in housing prices of 4 percent, the home will be worth \$199,832, or \$55,832 more than the original price. At sale, the seller will receive 25 percent of the appreciation, or \$13,958. During the 10 years of ownership the seller will have paid off \$23,238 of the first mortgage. So, at sale, the seller will receive a total of \$40,076 (their share of appreciation plus the equity they have in the home, plus their initial down payment).

So how does this keep a home affordable? In this model, instead of a home being sold for the maximum amount it can get on the market, the resale price is determined by the resale formula – or how much is needed to pay off the outstanding principal on the first mortgage, provide the appreciation share and equity to the buyer, and sometimes a fee to the CLT. In our example, at resale in year 10, this home could sell for as little as \$124,009, as shown in Table 2.

TABLE 2

Original Sale Price	\$144,000.00
First Mortgage amount	\$107,170.92
Down Payment returned to seller	\$2,880.00
Seller’s outstanding First Mortgage principal	\$83,933.32
Seller’s equity	\$23,237.60
Appreciation share to seller	\$13,958.24
Resale Price (sum of outstanding mortgage principal, seller’s equity, share of appreciation to seller, and seller’s original down payment)	\$124,009.16

Let’s assume that over the 10 years our original buyer held this property, incomes rose 2 percent annually. At the time of resale, our family that was earning \$39,180 would be making \$47,760, and still be considered low income. Depending on the interest rate at the time of resale, the next income-eligible homebuyer with an income comparable to the seller’s could qualify for a mortgage on this home without any additional subsidy.

Like any affordable housing program, Community Land Trusts use subsidy to make the initial home purchase affordable. The difference is that by limiting the resale price, subsidy is not needed for a subsequent buyer, creating a supply of permanently affordable housing. [HNN](#)