


Permanently Affordable Homeownership - What is it all about?

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Agenda in Brief

- What are Community Land Trusts?
- What is Permanently Affordable Homeownership (PAH)?
- Why create PAH?
- How do CLTs create PAH?
- How are the values of CLT land and improvements restricted and encumbered?
- How best to achieve a fair, simple and efficient valuation process
- Q & A



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What is a Community Land Trust?

- They create, develop and steward permanently affordable homes
- Non-profit corporations registered with the State
- 501(c)(3) IRS tax-exempt status
- Usually membership based
- 13 CLTs in Washington with units
- Over 300 units stewarded by CLTs in WA
- Both the number of organizations and number of units are growing



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What is Permanently Affordable Homeownership?

- Re-sale price and market is limited by a recorded legal instrument (ground lease or covenant)
- Home must be sold at an affordable price
- Home must be sold to an "income-eligible" household
- Includes an occupancy requirement and rules regarding rental or sub-leasing the home.



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Why Create Permanently Affordable Homeownership?


- Efficient use of scarce public resources
- Asset building for households of limited-means
- Traditional up-sides of homeownership
 - Stability
 - Security
 - Legacy
 - Control



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How do CLTs Create Permanently Affordable Homeownership?

- Public and/or Private Resources Invested
 - Homes built and sold at affordable price
 - "Down Payment Assistance" for scattered-site
- Different Types of Homes
 - Single family detached
 - Shared wall/zero lot line
 - Condominium units
- Then secured by legal instrument
 - Ground Lease
 - Covenants



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The Ground Lease

- Non-profit owns the land and leases it to the homeowner for 99-years
- Lease is . . .
 - Renewable
 - Inheritable
 - Stipulates monthly ground rent
- Restricts the price at which the house can be sold through a “resale formula”
- Restricts to whom the house can be sold
- Restricts the use – must be leased for 198 years.
- Creates property “of a complex nature”



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Condominium Covenant

- Restricts the deed to the unit
- Restricts the price at which the unit can be sold – “formula resale price”
- Restricts to whom the unit can be sold
- Requires owner occupancy
- Places unusual and atypical conditions on marketability of the unit



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Fair Market Value

12 C.F.R. Part 34.42(g) 1990 - The most probable price which a given property should bring in a competitive and open market under all conditions requisite to a fair sale: The buyer and seller, each acting prudently and knowledgeably, and assuming the price is not affected by undo stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. Dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

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Fair Market Value of CLT Land

- Use the income method to determine value of land
- There really are no good comparable sales
- Very limited market appeal due to 99 -year lease
- Ground rent is typically \$25 - \$45/month
- What would a prudent and knowledgeable investor pay for the right to receive an annual income stream of \$420?



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Fair Market Value of CLT Restricted Improvements

Value of the improvements = The Formula Resale Price

- Restricted Price – derived from the formula in the ground lease
- Restricted Market – limited buyers
- Restricted Use – must be owner occupied



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How We Can All Work Together

- The CLT can submit a document annually to the assessor’s office listing -
 - All properties in trust
 - The current monthly ground rent (for income method calculations to determine Fair Market Land Value)
 - Restricted resale price of the improvements of each home “in trust”
 - Any properties that were formerly in trust that are no-longer (sold out of the program, lease terminated for any reason etc.)



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Questions?



Thank you so much!

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