

Grounding Your Investment: *Partnering with CLTs in your Community*

NW CLT Coalition, May 13, 2019



Community Land Trusts



Agenda

- Introductions
- Background
- Why a CLT?
- How does it work?
- Panel discussion



Community Land Trusts



Introductions

- Name
- Organization
- What did you come here to learn?
- #1 burning question





Introduction & Background

LOCAL BIZ/TECH SPORTS ENTERTAINMENT LIFE TRAVEL HOMES OPINION | JOBS AUTOS SHOP ▼ All Section

Boeing & Aerospace Amazon Microsoft Technology Economy Real Estate

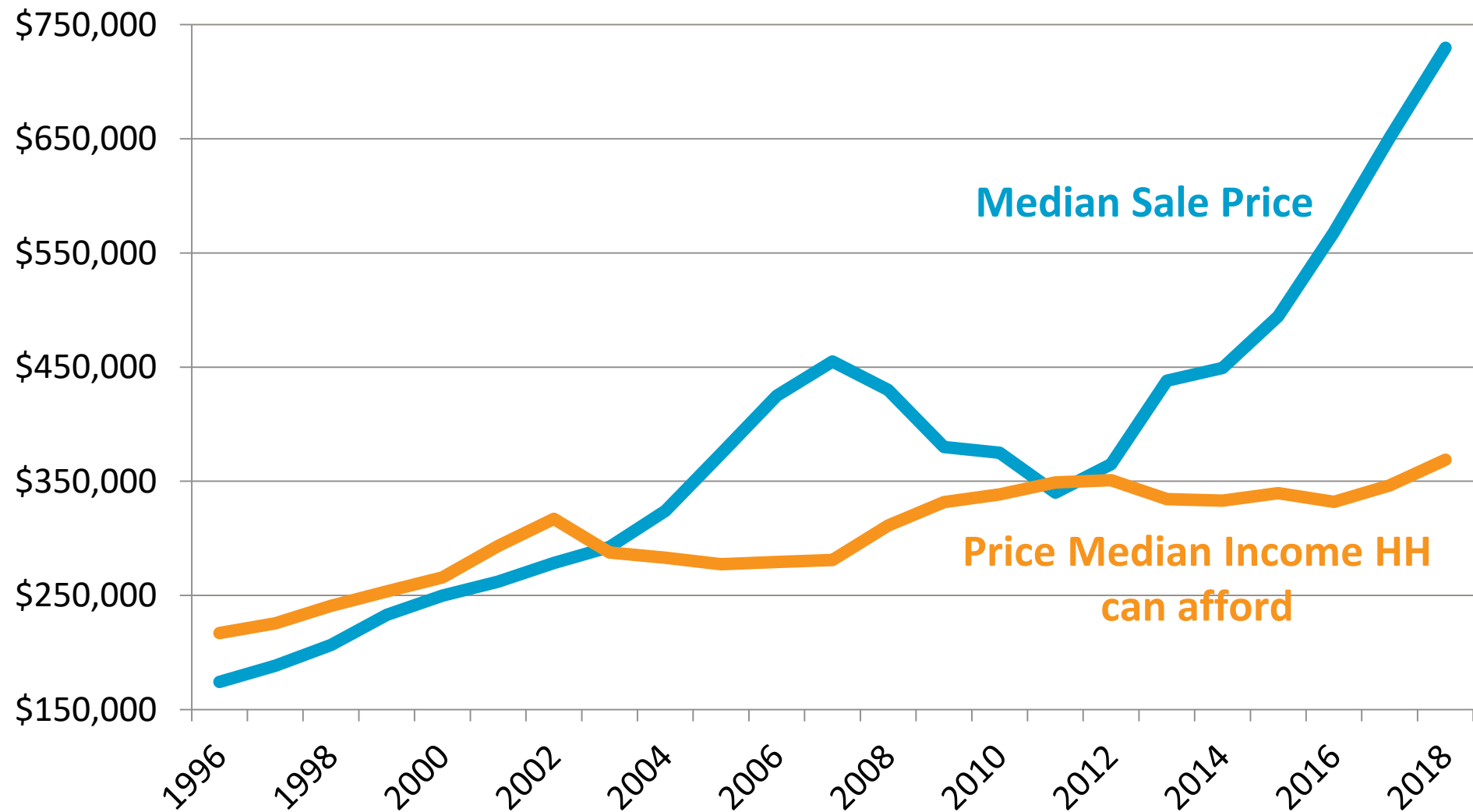
[Business](#) | [Local News](#) | [Real Estate](#)

Seattle's median home price hits record: \$700,000, double 5 years ago

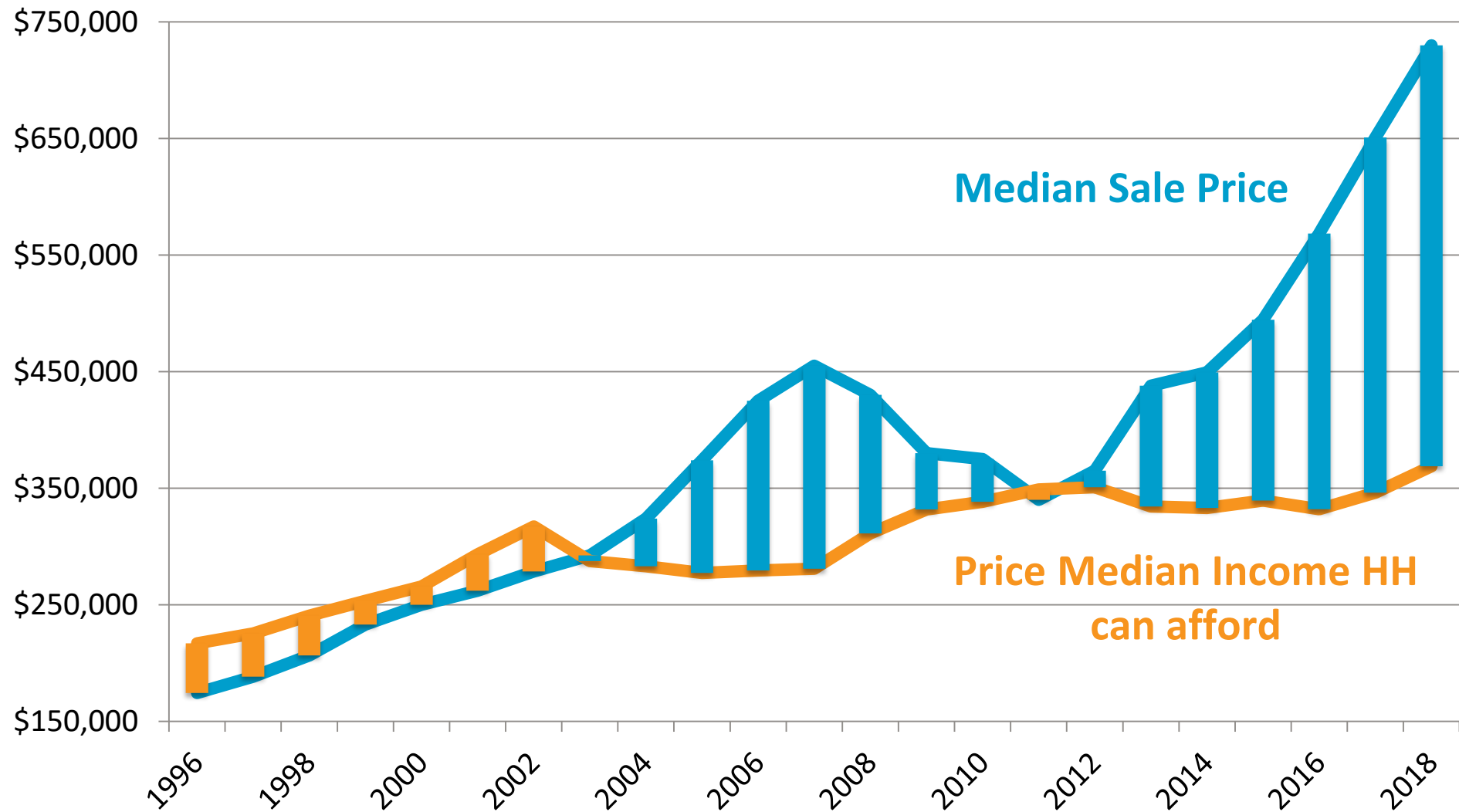
Originally published April 6, 2017 at 2:33 pm | Updated April 7, 2017 at 7:52 am



Housing Affordability



Housing Affordability



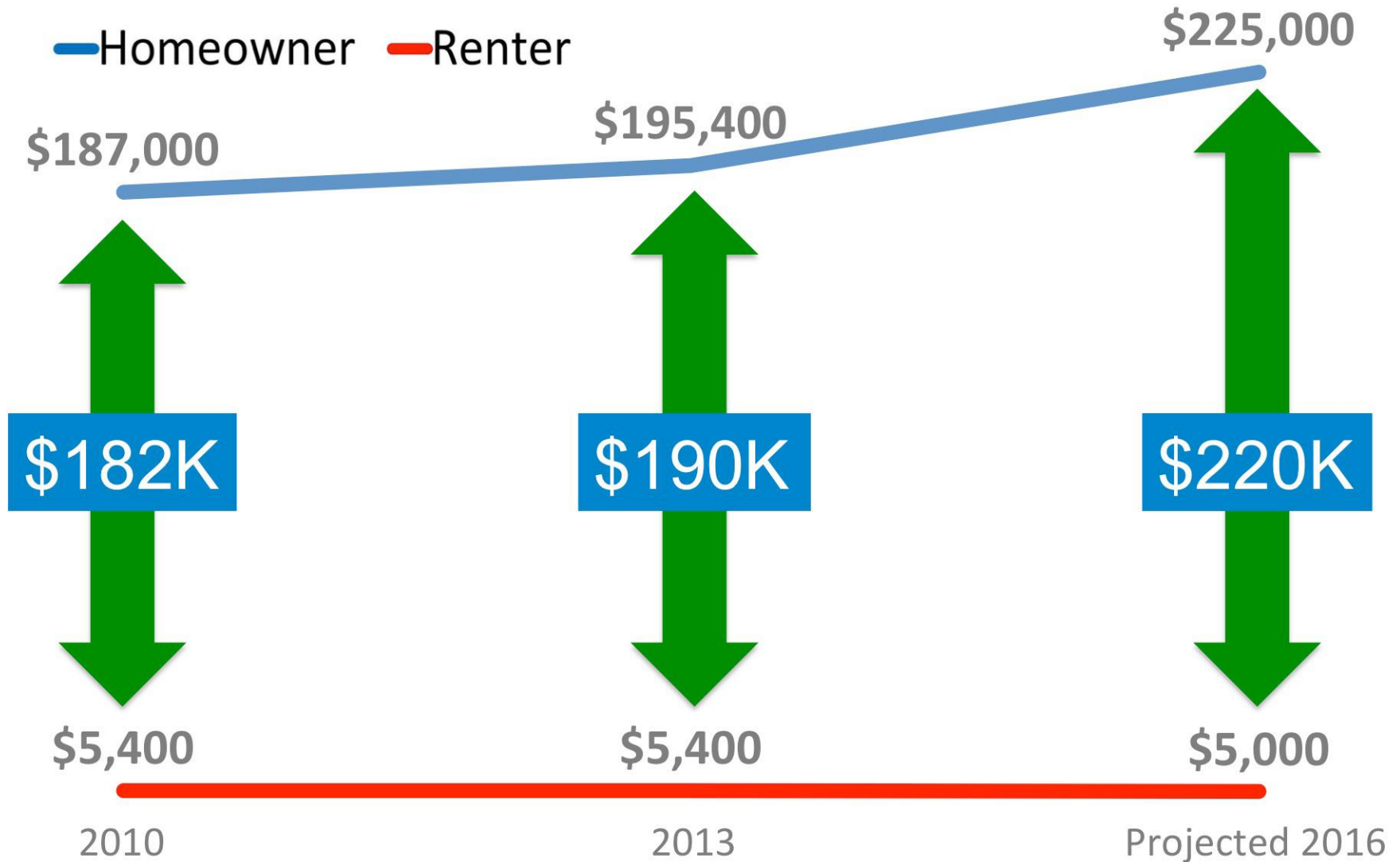
Displacement & Gentrification



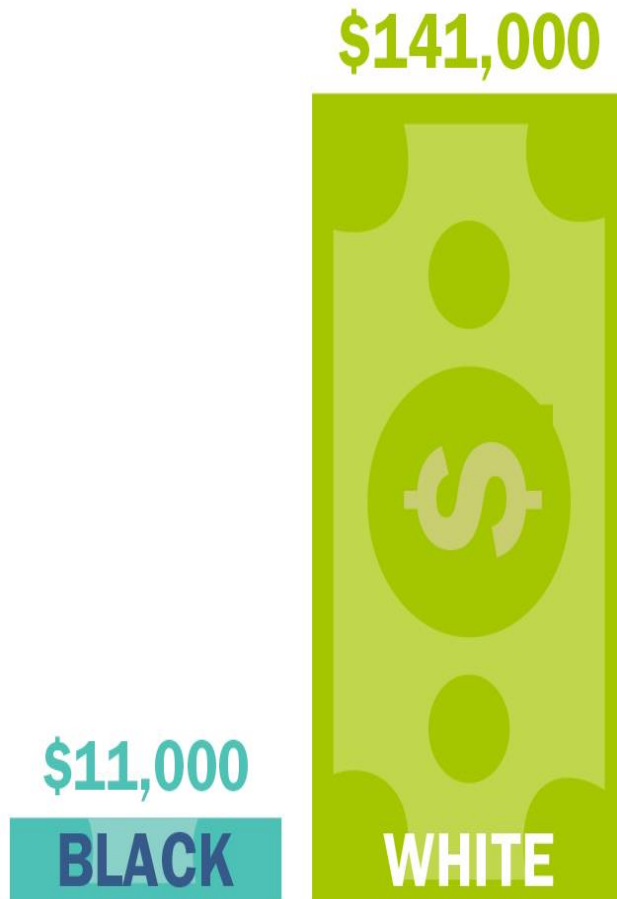
Owner net worth is
80x that of renter



Increasing Gap in Family Wealth



White net worth **13x**
greater than black
net worth



White net worth **10x**
greater than hispanic
net worth



Source: Pew
Research 2013



Olympia power couple's second home is taxpayer funded

Two high-level Washington state government employees who own a waterfront home in Olympia purchased a Bellevue condominium that was originally set aside for a lower income household.

Author: Chris Ingalls

Published: 11:53 AM PDT October 25, 2018

Updated: 7:43 PM PDT October 26, 2018

Housing Challenges



- ✓ How to make - **and keep** - housing affordable?
- ✓ How to revitalize **without** displacement?
- ✓ And how to **protect** limited resources?





The Answer = CLT

COMMUNITY LAND TRUSTS



- Preserve affordability
- Protect subsidies
- Create wealth for low-income families
- Help homeowners and tenants become and *remain* successful
- Stabilize neighborhoods & prevent displacement

COMMUNITY LAND TRUSTS



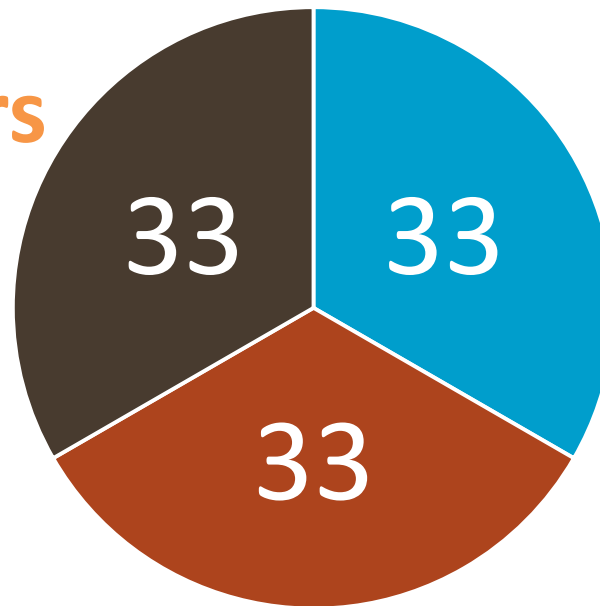
To achieve this – CLTs
Alter...

- How **ownership** is structured
- How affordability **subsidy** is applied
- How **relationships** are maintained

CLT Basics - Governance



Homeowners



Community
Members

General
Representatives

CLT Basics - Subsidy



Lower initial price
+ Resale Restriction =



Lower price at resale



Again and again!



Dual Ownership:

Homeowner owns **the house**



CLT owns **the Land**



CLT Basics - Structure



Ground Lease ties **house**
& **land** together

- Lease is 99 years
- Lease is balanced
- Lease is inheritable



Pricing & Land Value



Cost



Land
Value?





WHAT LOW to
MODERATE
INCOME
BUYERS CAN
AFFORD

**THE
AFFORDABILITY
GAP**



WHAT TODAY'S
HOMES COST



WHAT LOW- TO
MODERATE
INCOME
BUYERS CAN
AFFORD

\$226,500 -
\$368,000

**THE
AFFORDABILITY
GAP**



WHAT TODAY'S
HOMES COST

To build
\$400,000 -
\$500,000?

CLT Basics - Stewardship



The Homeowners

- Pre-purchase
- Post-purchase

The Homes

- Quality homes
- Energy efficient

The Organization

- Long term vision





How does it work?

How does it work?



In exchange for buying a house
at a **below-market price**, the
owner agrees to **limit the price** at
which they can sell in the future.



PAY IT
FORWARD

How does it work?



Affordable Pricing

- Get it right in the beginning!
- Priced below market for target buyer
- Assumptions re: ratios and interest rates
- Benefits include
 - Marketing
 - Taxes
 - Insurance
 - Expectations



Pricing



	Assumption	
①	Household Size	# of Bedrooms + 1 = HH Size
②	Monthly Household Income	Max (80%) – 20% = 60% AMI
③	Front-End Ratio	Max = 35%
④	Interest Rate	Min 6% - or 1-2% above current rates
⑤	Down Payment	Cash = closing costs
⑥	Affordable Price	Sets Affordable pricing

Pricing – 3BR Homes



	Assumption	Seattle
①	Household Size	4 person HH (3BR house)
②	Monthly Household Income	\$65,160 (or 60% AMI)
③	Front-End Ratio	\$1,900 (35% of Monthly Income)
④	Interest Rate	6% (1 – 2% above current rates)
⑤	Down Payment	Cash = closing costs
⑥	Affordable Price	\$260,000 for a 3BR home

How does it work?



Resale Restriction Goals

- Ongoing affordability
- Appreciation for the seller
- Balance interests = fair
- Easy to administer
- Funder compliant



How does it work?



Resale Restrictions

- Lesser of:
 - Formula price
 - Market value
- Security
 - Deed Restrictions
 - Ground Lease



Resale Formulas - Types



Common Resale Formulas

- Fixed Rate Formulas
- Appraisal Based Formulas
- AMI Based Formulas



Resale Formulas – Fixed Rate



Fixed Rate Intro

- Base Price + Multiplier
- Multiplier = Fixed %
- Can increase w time



Resale Formulas – Fixed Rate



Fixed Rate Formula:

$$\begin{aligned} &\text{Base Price} \\ &+ \text{Fixed \% Simple Interest} \\ &\hline &= \text{Formula Price} \end{aligned}$$

Resale Formulas – Example



Sample Scenario

\$425,000 = Cost to develop

\$165,000 = Subsidy necessary

**\$260,000 = Original Affordable Price (or Base Price)
Affordable to a HH of 4 @ 60% AMI**

\$425,000 = Initial appraised value

Resale Formulas – Fixed Rate



Fixed Rate Formula:

$$\begin{array}{r} \$260,000 \text{ (Base price)} \\ + 1.5\% \text{ Simple Interest Annually} \\ \hline = \$299,000 \text{ (Formula Price)} \\ \\ - \$17,940 \text{ (6\% Closing costs to sell)} \\ - \$217,110 \text{ (Payoff)} \\ \hline \$63,950 \text{ (Cash to seller)} \end{array}$$

Resale Formulas – Fixed Rate

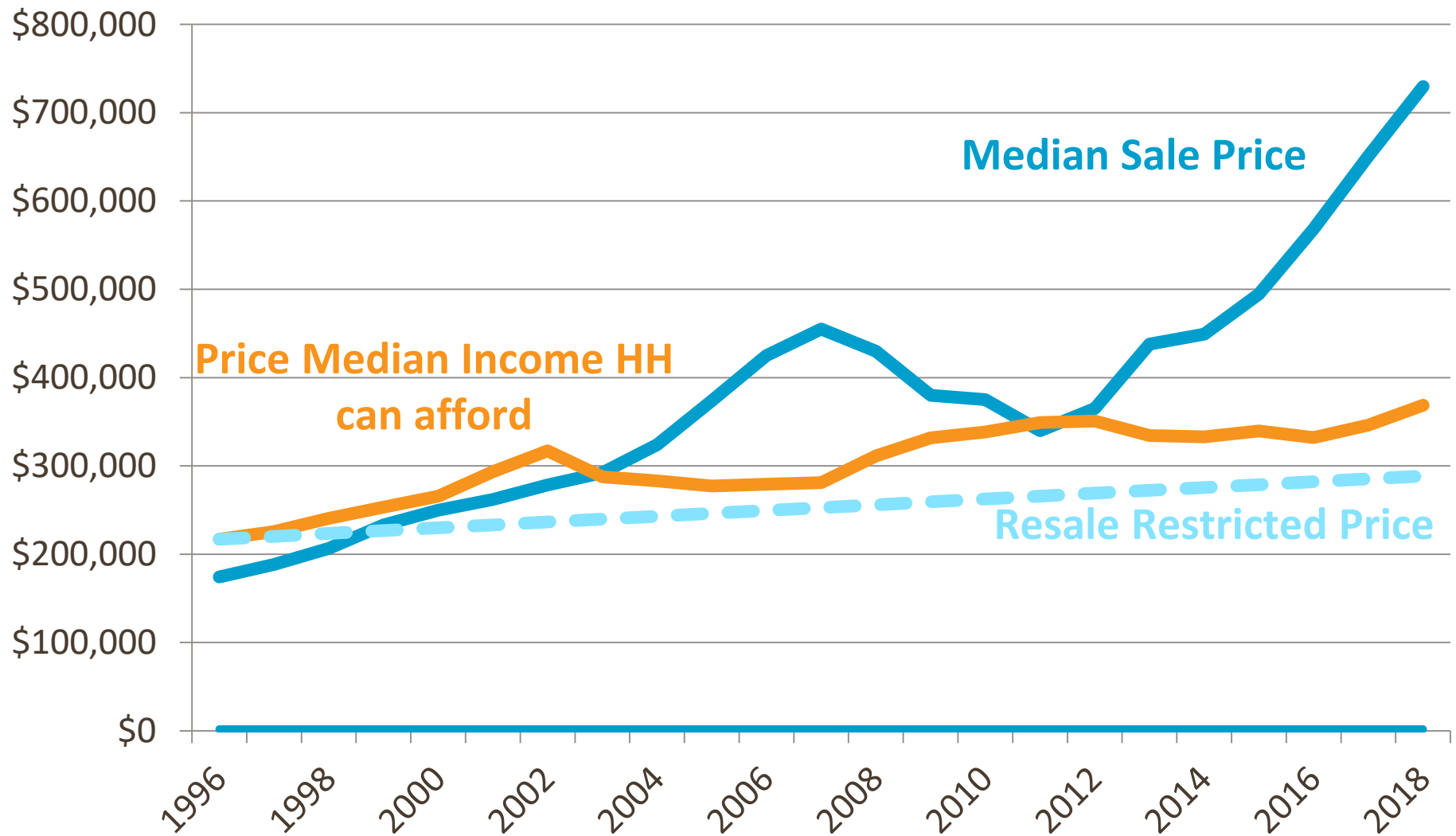


Why Fixed Rate?

- + Easy to administer
- + Easy to understand
- + Calculate at any time
- + Slow steady increase



Resale Formula



The Ground Lease



Balancing Interests



Stewardship



Community Land Trusts



Stewardship + Sustainability

- Homes = affordable, durable & sustainable
- Homebuyers & Tenants = prepared and successful
- Nonprofit Partners = sustainable organizations
- Homeownership AND Rental
- Long term = 99 years +



Community Land Trusts

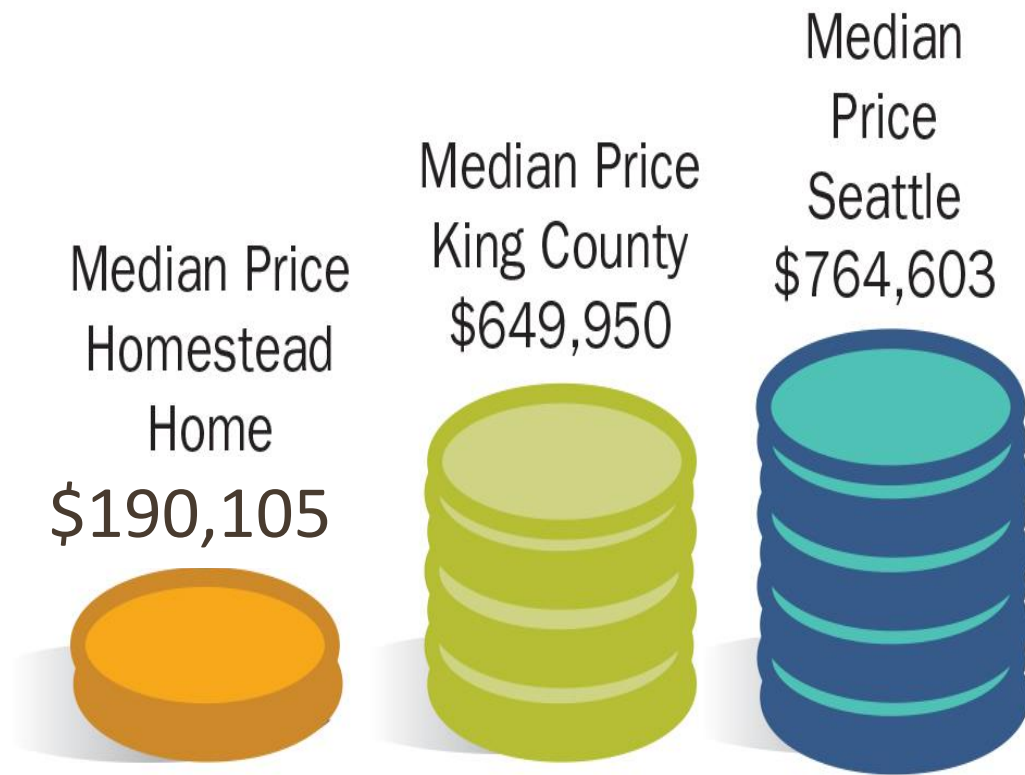


40 years to get it right!

- National best practices
- Model Ground Lease
 - Fannie Mae Approved
 - Freddie Mac this year!
- Homekeeper
 - Work flow + best practices
 - Intake + eligibility
 - Support, monitoring + enforcement
 - HUD Housing Counseling
 - Resales
- It Works!



Homestead CLT Keeping Homes Affordable

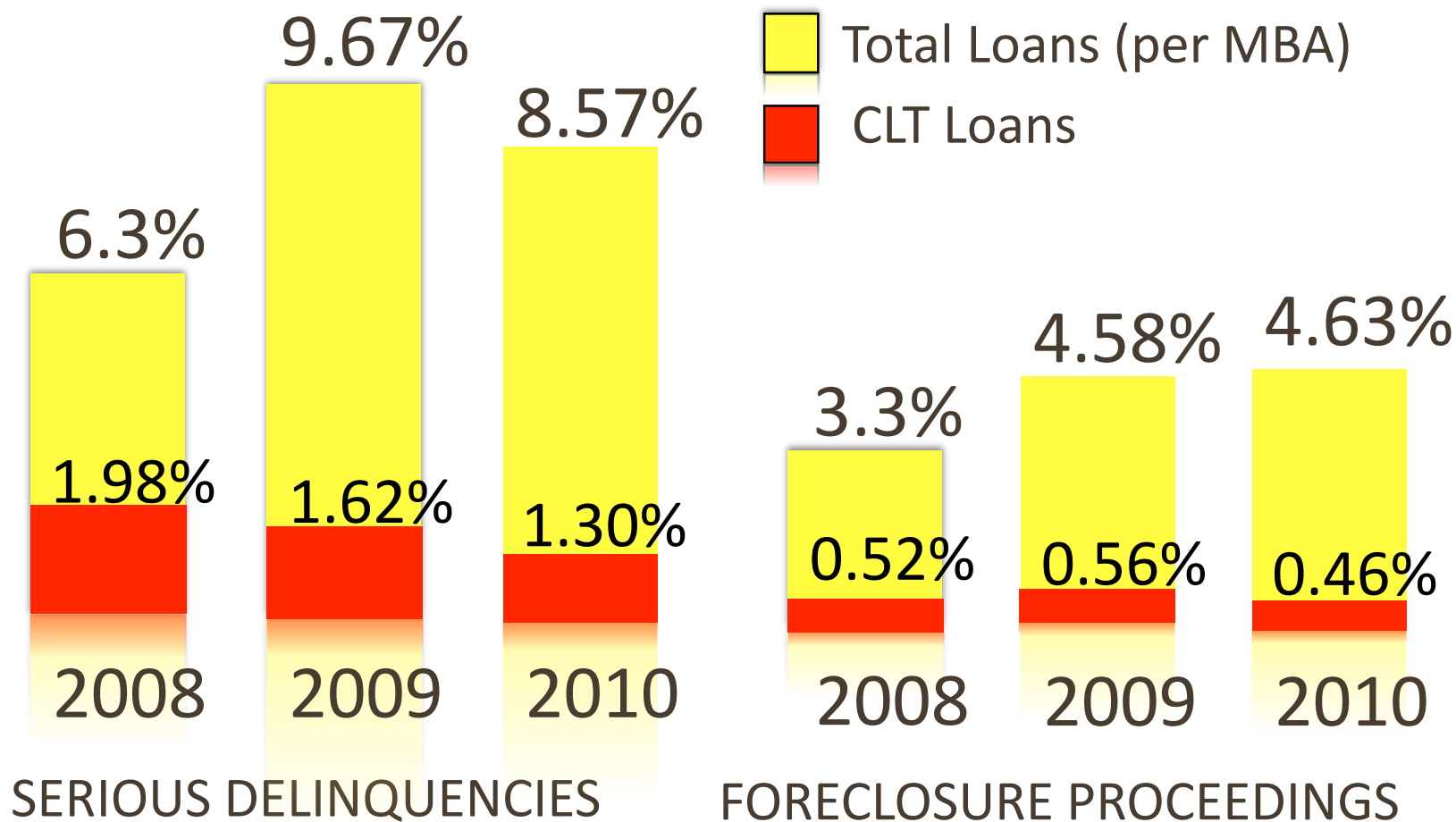


Source: Homestead, Seattle Times, Multiple Listing Service (June 2017)

Stewardship Outcomes



MORTGAGE PERFORMANCE



Community Land Trusts



- Housing affordability and quality is **preserved**
- Public (and private) investment is **leveraged**
- CLT homeowners are **successful** homeowners
- Communities benefit from **quality homes**
- Does **not** result in displacement
- Mortgage financing is **safe and secure**
- **Flexible, long-term** approach

Discussion

