

# 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





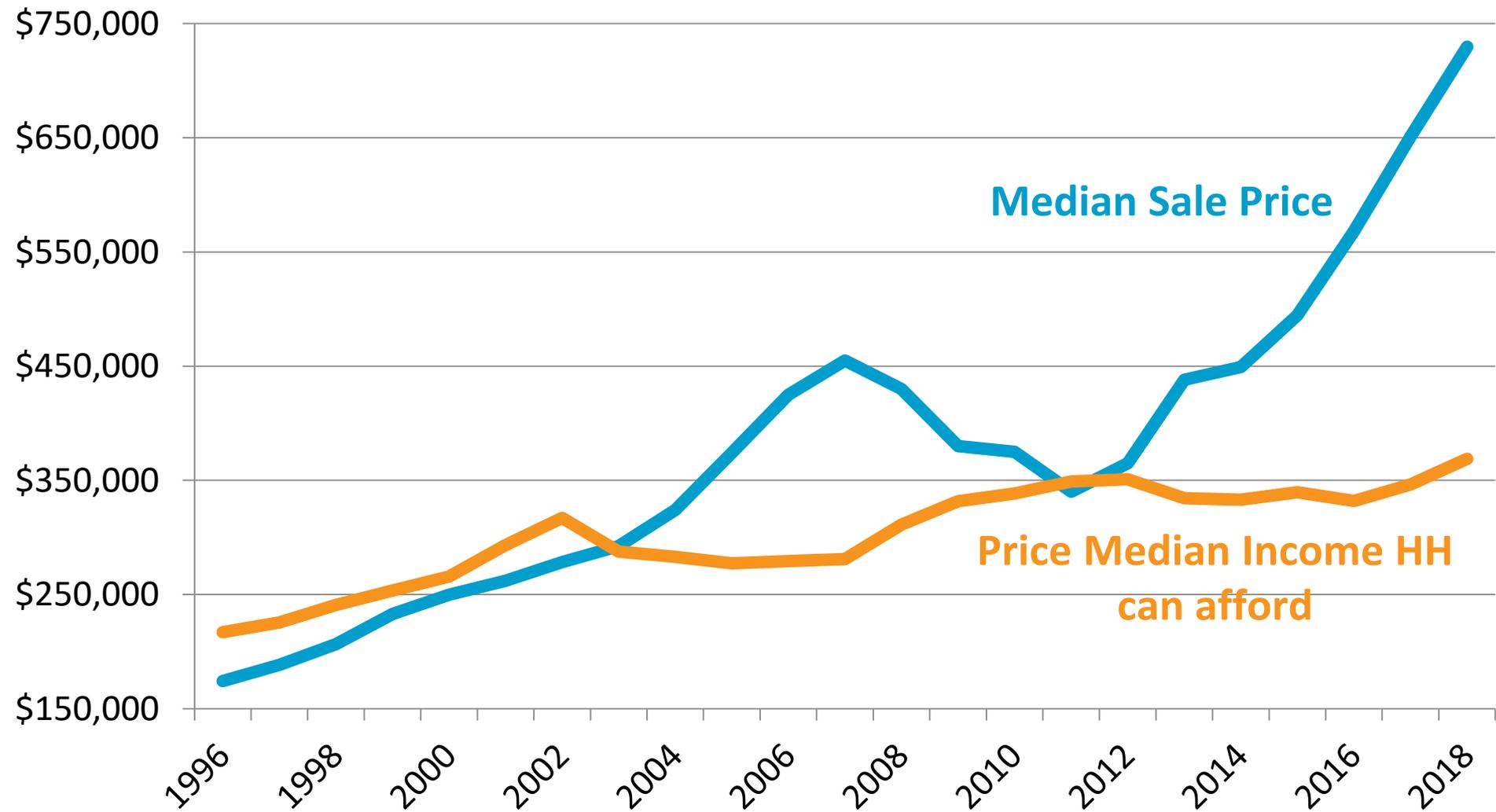
# Introduction & Background

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

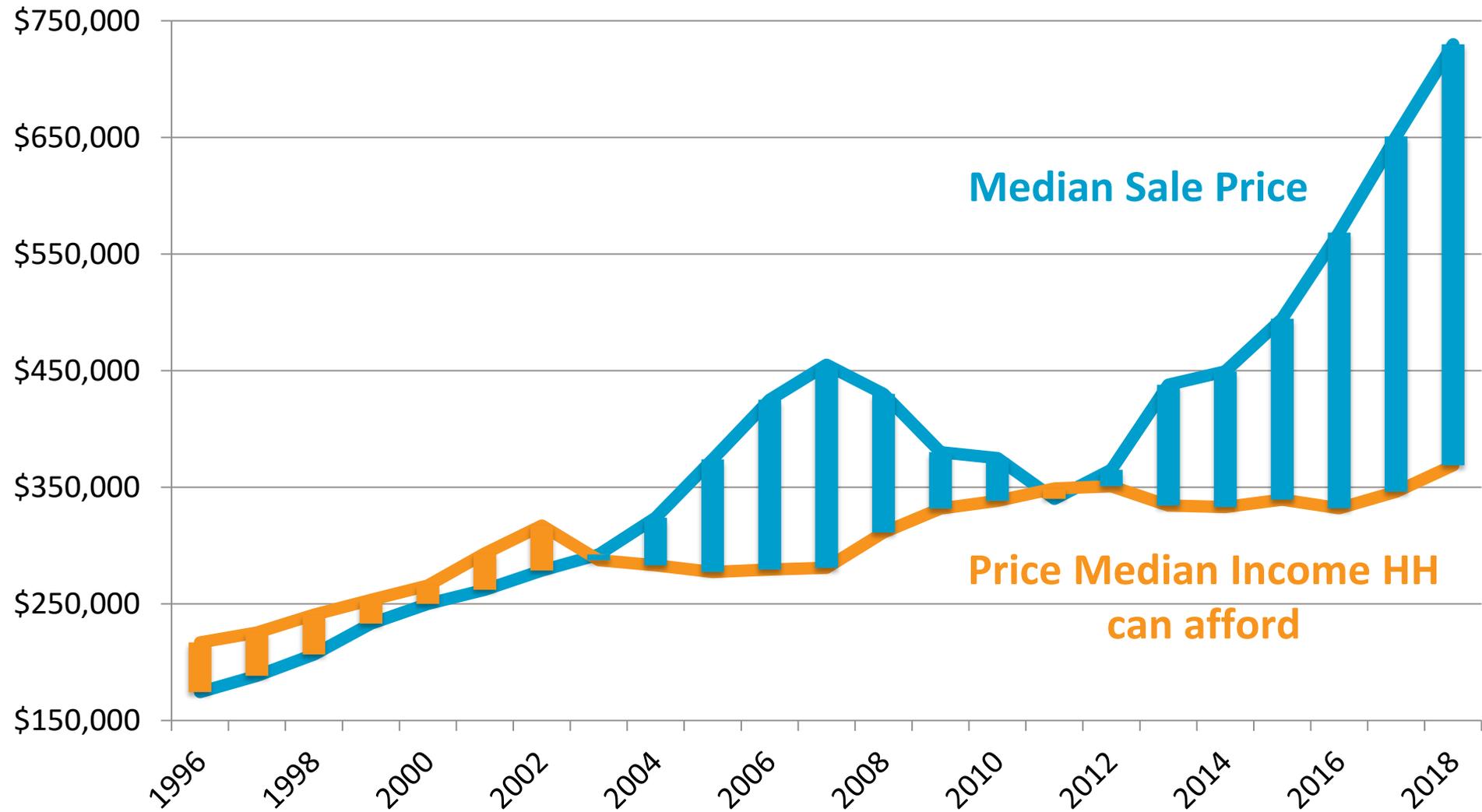
Originally published April 6, 2017 at 2:33 pm | Updated April 7, 2017 at 7:52 am



# Housing Affordability



# Housing Affordability



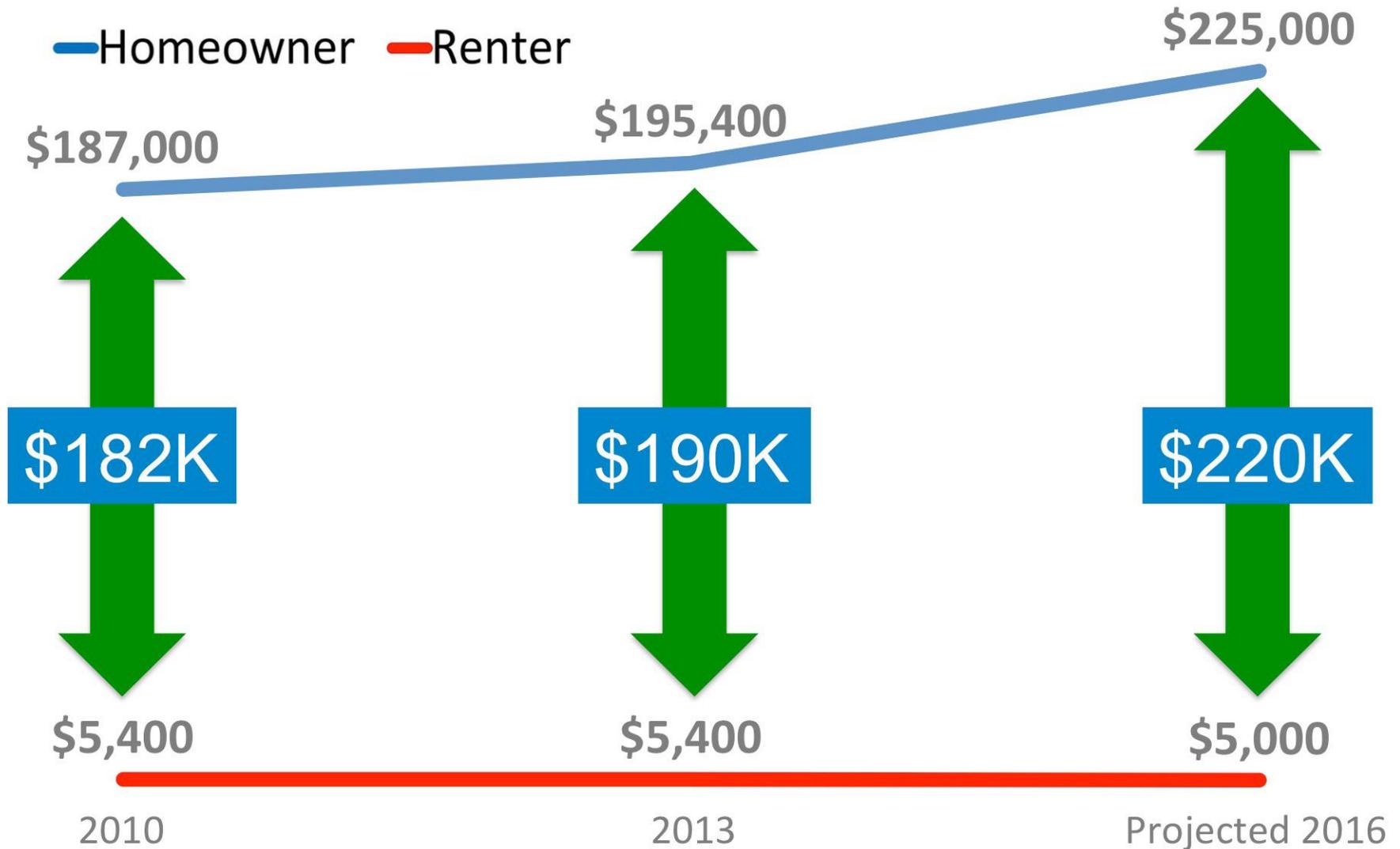
# Displacement & Gentrification



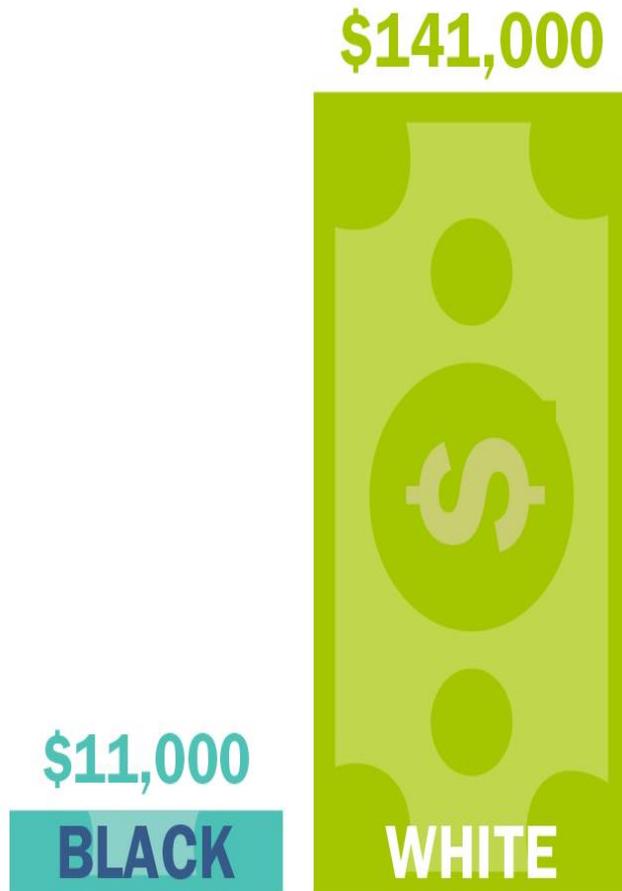
Owner net worth is  
**80x** that of renter



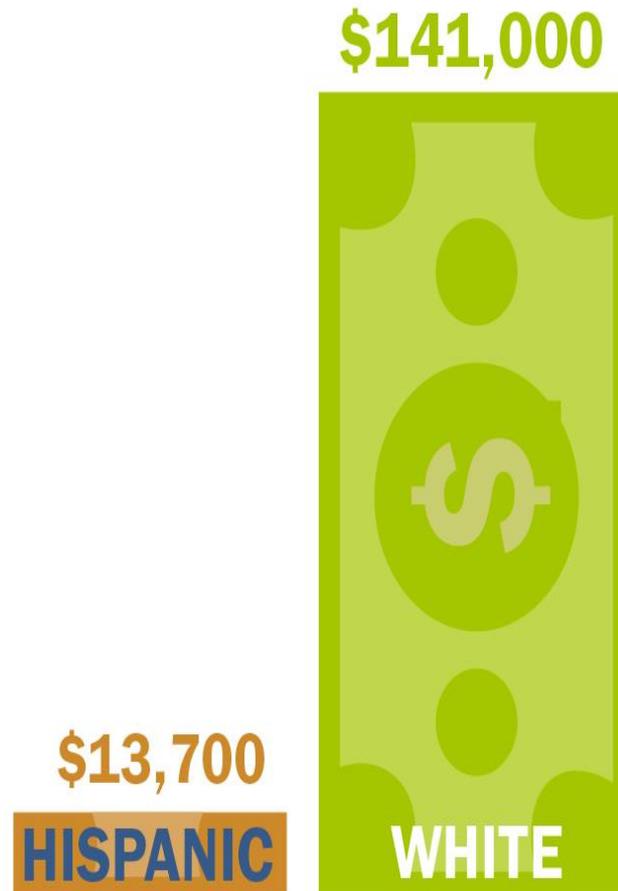
# Increasing Gap in Family Wealth



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



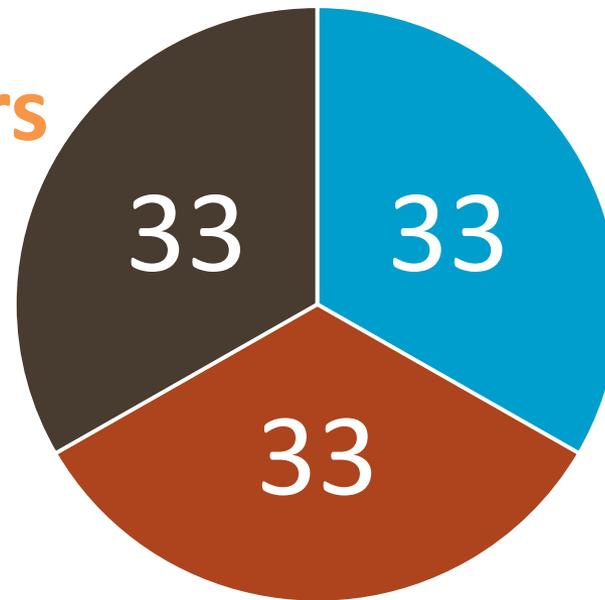
To achieve this – CLTs  
Alter...

- 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**



Woodward Park Homes

# 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



A large graphic consisting of two blue arrows pointing right, one above and one below a central white arrow pointing right. The text 'How does it work?' is centered within the white arrow.

**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.



# 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	<b>Affordable Price</b>	<b>Sets Affordable pricing</b>

# 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	<b>Affordable Price</b>	<b>\$260,000 for a 3BR home</b>

# 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

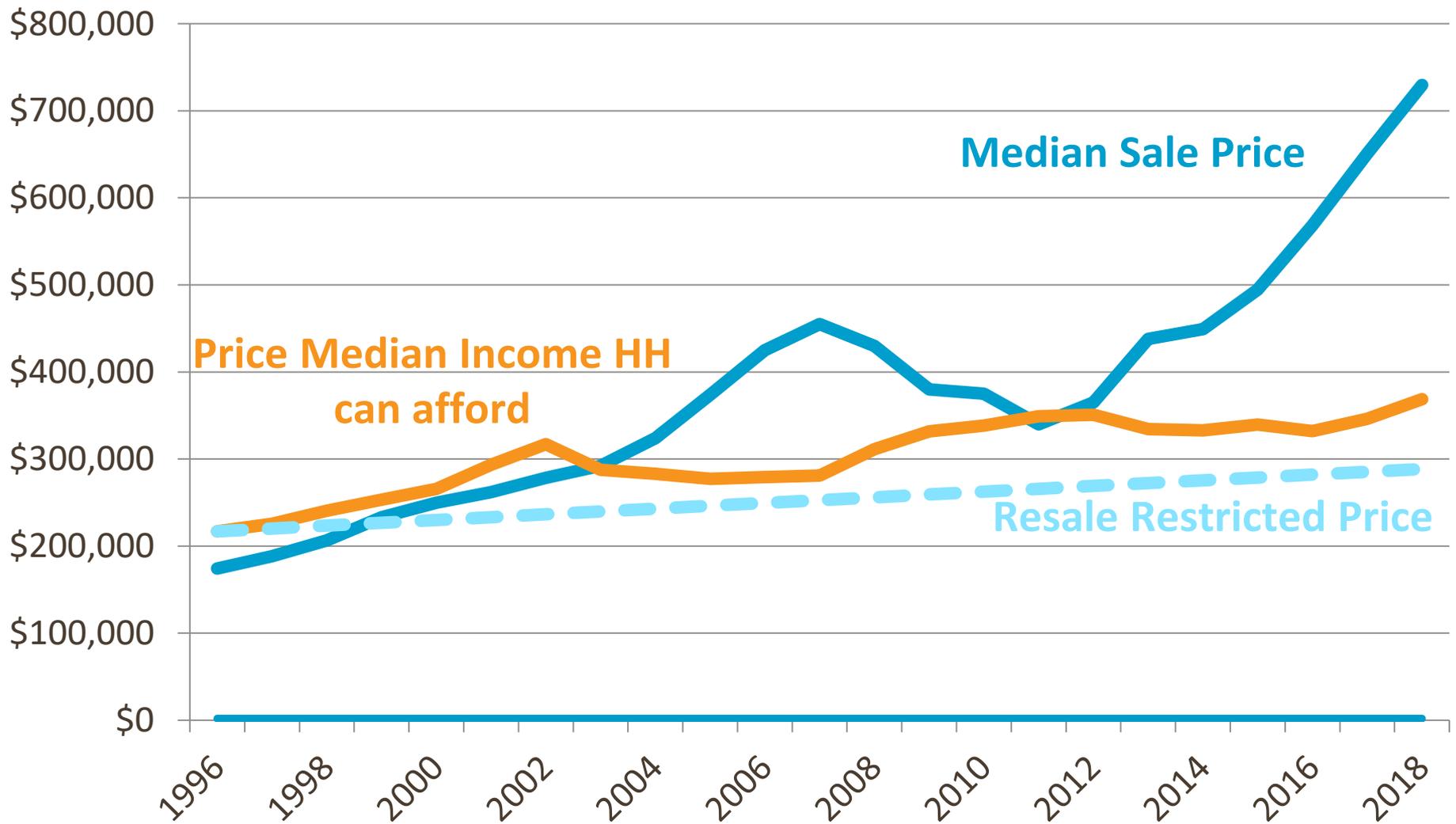


## Why Fixed Rate?

- + 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

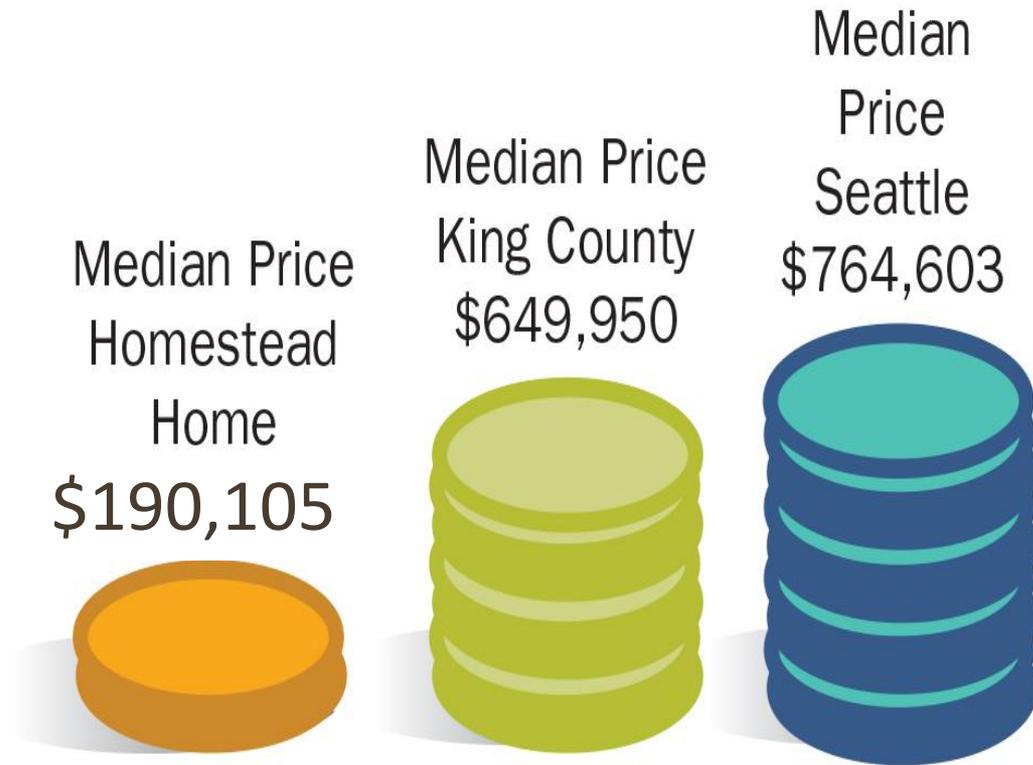


## 40 years to get it right!

- 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

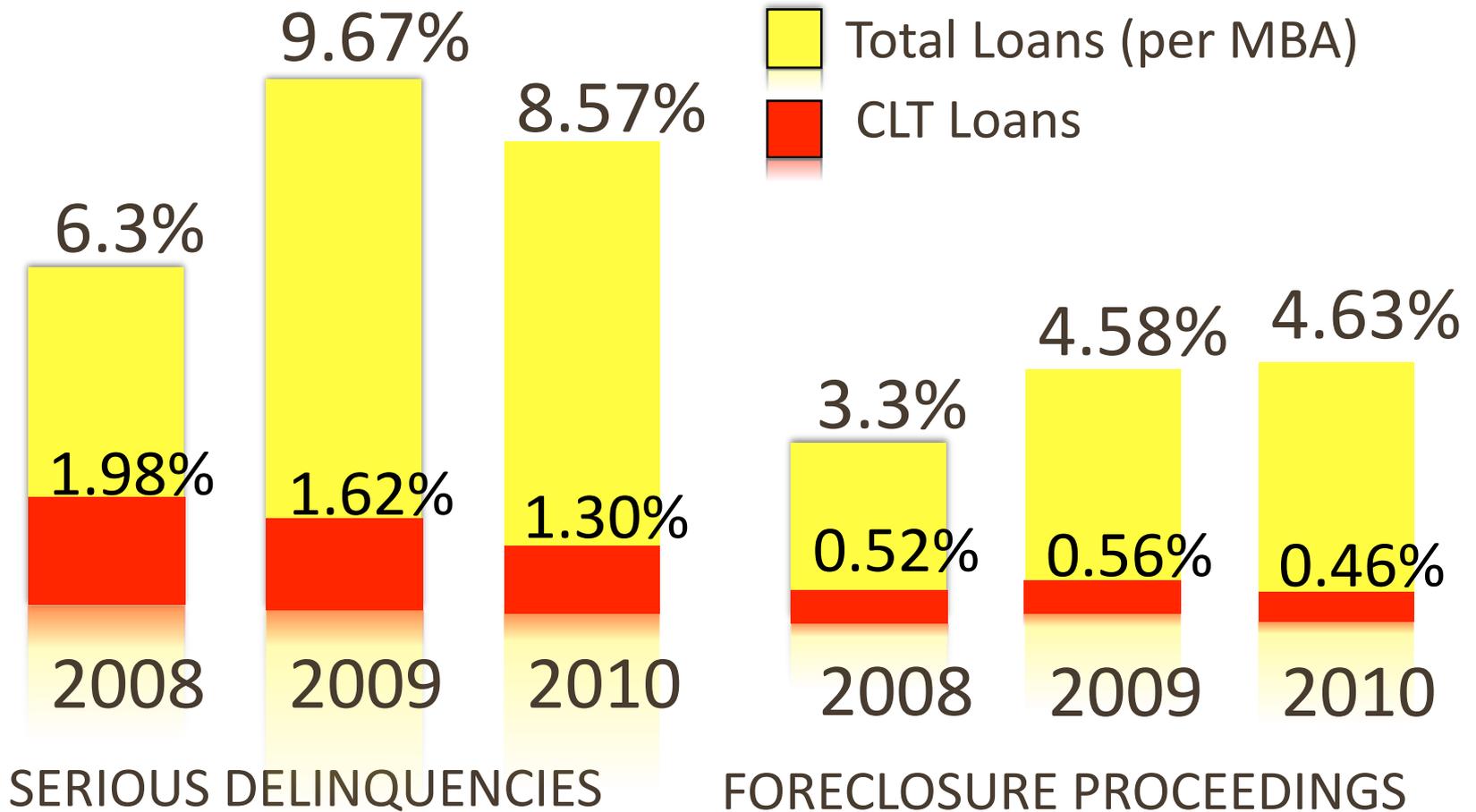


*Source: Homestead, Seattle Times, Multiple Listing Service (June 2017)*

# 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

