

Appraising Community Land Trust Leasehold Properties

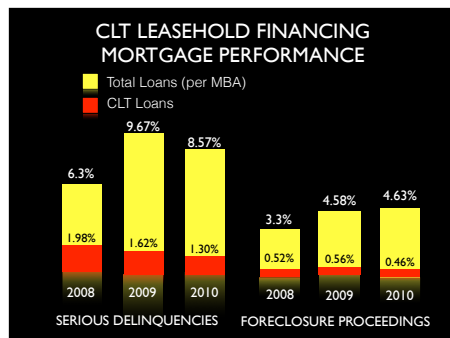
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Community Land Trust Leasehold Mortgage Financing

- CLT retains ownership of land and leases its use to buyer/owner of home
- CLT's fee interest in land is not part of collateral for homebuyer's mortgage loan - i.e., mortgage is not fee simple
- Homebuyer's mortgage is secured by value of improvements and value of leasehold interest in the land - i.e., leasehold mortgage

What do CLT Leasehold Mortgages Offer to Lenders?

- Favorable LTV ratios
- Active, engaged presence & involvement of CLT
- Removal of 'encumbrances' in event of foreclosure or deed-in-lieu
- Community benefit (CRA compliance)



Appraising CLT Leasehold Properties

- CLTs are deliberately creating 'non-market' alternatives - i.e., CLT home purchases are *not* 'arms length'.
- Therefore, CLT properties cannot be used as "comparables"
 - for other CLT properties
 - for other non-CLT, fee simple properties

Fannie Mae & CLTs

- Community Land Trust Announcement 06-03
 - www.efanniemae.com
 - Fannie Mae will purchase CLT leasehold mortgages
 - Fannie Mae rider (Form 2100) must be attached to CLT ground lease, amending lease to Fannie Mae's satisfaction
 - Fannie Mae-approved appraisal methodology for CLT properties

Fannie Mae CLT Leasehold Mortgages

The appraisal of a CLT leasehold property requires the appraiser to analyze the CLT property, subject to the ground lease (i.e., leasehold estate) as security for the mortgage.

Fannie Mae CLT Leasehold Mortgages

Universal ground lease rider provides for removal of resale restrictions (and other restrictions) that would hinder mortgagee's ability to dispose of property in event of foreclosure.

Fannie Mae Hypothetical Conditions

"This appraisal is made of a Hypothetical Condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Uniform Community Land Trust ground lease rider."

- This must be stated in appraisal

Three-Step Appraisal Process

1. Develop an opinion of the fee simple value of the Property by using the Sales Comparison approach.
2. Develop an applicable capitalization rate and convert the income from the ground lease into a leased fee value by reducing the fee simple value by using a market-derived capitalization rate.
3. Calculate the leasehold value by reducing the fee simple value by the leased fee value.

Determining the Capitalization Rate

- Appraiser should compare low-risk investment rates such as long-term bond rates
- Rate should be selected that best reflects "a 'risk-less' rate (safe rate), loss of liquidity, management compensation, and compensation for investment risks assumed"

APPRAISAL: Example

Fee Simple Value developed in Report	\$100,000
Market-derived Land Capitalization Rate	5.25%
Yearly Land Rent	\$300
Yearly Land Rent ÷ Cap Rate	$\$300 \div 5.25\%$
Leased Fee Value	\$5,700
Leasehold Value (Fee Simple Value minus Leased Fee Value)	\$94,300

Assessing and Taxing Community Land Trust Properties

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Homeowner's Responsibility

- Homeowner pays taxes on home she owns
- Homeowner pays taxes on land she leases
- How should home and leased land be assessed?
- What is 'fair & equitable' taxation?
 - Full market value?
 - Resale-restricted value?
 - Some other arrangement?
- Can be a difficult and contentious issue

TAXING CLT HOMES

- Value of CLT home when entered on tax rolls
- Value of CLT land when entered on tax rolls
- Reevaluating these values over time

VALUATION OF CLT HOMES

- Best practice:
- Taxes are pegged to home's resale-restricted price
 - Texas
 - North Carolina
 - Burlington VT

VALUATION OF CLT LAND

- CLT lease severely limits CLT's ability to:
 - change use of land
 - collect significant income from land
- Best practice: assessing land: "income approach"
 - i.e., NPV of CLT's income stream
 - Madison WI: \$18,000 (lease fee NPV: 99 years)
 - Florida: CLTs are tax-exempt; tax valuation based solely on resale-restricted home

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REEVALUATING CLT HOMES OVER TIME

- Best practice:
 - Base maximum price of CLT home on resale formula and adjust assessed value accordingly
 - Boulder CO
 - Madison WI
 - Texas: CLT homes are exempt from all property taxes except school district taxes (which account for 2/3 of property taxes)

State Laws & Regulations

CLT-ENABLING LEGISLATION

- Separation of land from improvements
- Stipulating long-term restrictions on resale
 - Connecticut
 - Illinois
 - South Carolina
 - Texas

CLT-SUPPORTIVE LEGISLATION

- Remove tax barriers for CLT homeownership
- Ensure that state bond-funded mortgages work for CLT homebuyers
- Allow, encourage or require long-term affordability in state subsidy programs
 - MI, MA, CT, MN
 - Housing Trust Funds

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