

OPAL Community Land Trust Examples of Permanent Affordability

The biggest question most people ask is: how do you keep the housing “permanently” affordable. Community land trusts do this by determining the sales price of a home based on a resale formula rather than the speculative real estate market. The legal tool that implements this formula is the ground lease. The community land trust owns the land and leases the land to individuals who own their homes.

There are a variety of different formulas. Each has pros and cons. We will share two formulas as examples. *We caution that these are examples designed to illustrate the community land trust model and we make no claims that the examples precisely match any existing or future sale.*

Index-based formula: consumer price index

An index-based formula relies on a common index such as the consumer price index to determine the resale value. If the index goes up by 20% during the period of ownership, then the value of the home goes up by 20%. Most index formulas include some mechanism for adding value to the home for additions and some improvements. OPAL has adopted an index formula that also adds value for a well maintained home and subtracts value for a home that is not well maintained.

Example: An average home in OPAL’s Bonnie Brae neighborhood cost \$130,000 to develop, including the cost of land and infrastructure. OPAL secured \$25,000 per unit in grant funding from the Community Development Block Grant Program and the State of Washington Housing Trust Fund. The \$25,000 covers the cost of the land and infrastructure for the lot. The selling price for the home equaled \$105,000 (\$130,000 - \$25,000).

From 1990 to 1999 the consumer price index in San Juan County increased by 36%. If trends continue through the next decade as they did through the 1990s, and if these owners decide to sell their home ten years after they purchased it, and if they do not build an addition onto their home, the sales price for their home would be \$142,800.

This transaction is summarized on the following chart:

Original Purchase Price

Cost to Construct	\$130,000
Minus grant funding for land & infrastructure	<u>- 25,000</u>
Equals the Original Purchase Price	\$105,000

Change in value for resale:

% increase in consumer price index during period	36%
Appreciation over ten years (Purchase Price x .36)	\$37,800
Sales Price (Original Purchase Price + Appreciation)	\$142,800

The following statistics show increases in values for San Juan County from 1990 to 1999:

Assessed Value of Real Property on Orcas Island:	127 %
Median Income for San Juan County:	46 %
Average Wage for San Juan County:	38 %
Consumer Price Index for Seattle/Tacoma:	36 %

If the same trends continued and the home in the above example was sold on the open market, the \$105,000 house might sell for \$238,350 (\$105,000 x 127%).

Appraisal-based formula

An appraisal-based formula is more closely tied to the marketplace, and therefore provides a more traditional economic incentive to complete repairs and improvements. This is a good formula to use when purchasing existing buildings and converting them to land trust leaseholds. An appraisal-based formula could determine the sales price by adding 25% or 30% or 50% of the appreciated value to the original value.

If the choice was to add 30% of appreciated value, and we look at the same example as above, the \$105,000 house would sell for \$145,000.

This transaction is summarized on the following chart:

Original Purchase Price

Cost to Construct:	\$130,000
Minus grant funding for land & Infrastructure	- 25,000
Equals the Original Purchase Price	\$105,000

Change in value for resale:

Appraisal Value at Resale (127% above original)	\$238,350
Amount of Appreciation (\$238,350-\$105,000)	\$133,350
30% of Appreciation	\$40,000
Sales Price (Original Price + 30% of Appreciation)	\$145,000

Summary of Resale Values

The examples above compare the resale price of a \$105,000 home based on an index-based formula and an appraisal based formula. The following chart summarizes the information in those examples:

Statistics for 1990-1999:

Assessed Values on Orcas Island	127%
Median Income for San Juan County	46%
Average Wage for San Juan County	38%
Consumer Price Index: Seattle-Tacoma	36%

	<u>Market Rate</u>	<u>Index-based Median Income</u>	<u>Appraisal-based 30%</u>	<u>Index-based C.P.I</u>
Original	\$105,000	\$105,000	\$105,000	\$105,000

Purchase Price				
Appreciation	\$133,350	\$48,300	\$40,005	\$37,800
Sales Price:	\$238,350	\$153,300	\$145,005	\$142,800
Income required to purchase:	\$79,450	\$51,100	\$48,335	\$47,600

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