

Community Land Trust Program City of Flagstaff



Summary of Program

Background

Home prices in Flagstaff continue to grow and have increased 124% in the last six years, currently exceeding a median price of \$345,000. However, Area Median Income has only increased about 1% per year in the same time period. Due to the rapidly increasing real estate market coupled with fairly stagnate income increases, housing affordable to essential community workers is further and further out of reach.

The Community Land Trust Program (Program) of the City of Flagstaff is a tool to assist in meeting the needs of the community through the provision of housing for its workforce. This is accomplished by removing the cost of purchasing land from the total cost of obtaining housing by the Program retaining control of the land. The Program will provide an alternative to renting for households that have been priced out of the traditional market.

Community land trust programs typically acquire and hold land and sell the residential or commercial improvements that are on the land. Exclusive use and control of the land is conveyed to individual homeowners by means of a long-term (99-year) ground lease that is assignable to the heirs of the leaseholder and renewable at the end of the 99-year term. In this way, the cost of land in the purchase price of the home is minimized or eliminated, making the housing more affordable – while assuring long-term stability and security for the homeowner.

Additionally, community land trust programs place equity limitations into the ground lease agreement that restrict the resale price of the housing in order to maintain its long-term affordability. This restriction seeks to balance the seemingly competing goals of providing a fair return on the initial owner's housing investment with assuring that the housing unit is kept affordable for the next buyer, on the other. People who buy homes through a community land trust are, in essence, exchanging their right for unlimited market-driven appreciation for significant upfront subsidy that allows them to own a home they otherwise would have been unable to afford. Careful crafting of ground lease resale formulas assures that homeowners are able to realize a fair (albeit limited) equity return on their housing investment, while preserving the affordability of the home for subsequent limited-income homebuyer households without requiring the infusion of additional subsidy at the time the property changes hands. In so doing, the benefit of the investment of public and private dollars needed to create affordability is preserved for generations to come. (Burlington Associates, 2005)

Eligibility Criteria Summary – City of Flagstaff

- Majority Age - must be 18 years of age
- Citizen of USA or registered alien
- Income Eligibility -
 - Maximum Income - Household must have an annual income which does not exceed 150% of the Area Median Income (AMI) for Flagstaff, Arizona adjusted for household size and as defined by the U.S. Department of Housing and Urban Development or its successor agency. For 2006, 150% of AMI is an income of \$81,300 for a family of four.
 - Minimum Income - Household's monthly income, when multiplied by the appropriate debt-to-income ratio, must be sufficient to support the housing costs for the housing opportunity in question. In general, households that require a cosigner in order to obtain a mortgage will not be considered.
- Assets - A review of a household's financial resources and circumstances should clearly indicate a limited ability to compete successfully in the conventional housing market in Flagstaff. In addition, the combined assets for the household may not exceed 150% of the Flagstaff AMI for the household size.
- Affordability - (i.e. matching household income to housing cost). In general, affordability means that the monthly cost of occupying a particular housing unit does not exceed 33% of monthly household income, depending on the applicable lender's guidelines.
- Residency – Applicants must reside or hold employment within the Flagstaff Metropolitan Planning Organization (FMPO) boundary.
- Flagstaff First-time Homebuyer – Applicants must not have owned a home within the Flagstaff Metropolitan Planning Organization (FMPO) boundary within the last three years.
- Creditworthiness - In all cases, a household must be able to demonstrate a sense of ownership of its financial obligations, and a history of responsible effort to meet them. Mortgage pre-qualification must be obtained and presented with application.
- Homebuyer Education - Applicants must complete City of Flagstaff Land Trust Program Orientation Workshop. First-time homebuyers must also complete a City of Flagstaff approved homebuyer education program.

Ground Lease Provisions - City of Flagstaff

Each ground lease will contain the non-negotiable features of the Program.
The ground lease shall:

- provide a renewable 99-year lease term
- limit the use of the land to residential purposes
- dictate responsible use and compliance with all laws
- require owner occupancy of the home constructed on leased land

- stipulate that the lessee shall pay a ground lease fee
- specify that all improvements are the property of the lessee and provides parameters for construction and alteration
- prohibit liens from being filed against the land
- stipulate that the lessee is responsible for all maintenance and services
- prohibit the lessee from mortgaging the land
- specify the lessee's liability and the lessor's indemnification
- require the lessee to obtain and maintain casualty and liability insurance
- preserve right of first refusal of the City regarding purchase of the improvements
- provide a mediation and arbitration process
- limit the resale of the home to eligible buyers
- dictate the resale price of the improvements. The resale price shall be determined through the following formula: initial purchase price + [(appraisal 2 – appraisal 1) x 25%] = resale price, entitling the seller to 25% of the increase in equity of the improvements upon resale.

Critical to creating permanent affordability in the Program are the resale provisions to be contained in the ground lease. The formula to be contained in all Program ground leases is an appraisal-based formula, entitling the homeowner to 25% of the change of market value of the improvements.

Following is an example of the formula:

Initial Purchase price + [(appraisal 2 – appraisal 1) x %] = resale price

Initial Purchase Price - \$180,000 (improvements only)

10 years later

Appraisal 2 (assuming 5% increase per year)	—	\$293,201 (improvements only)
Initial purchase price (Appraisal 1)		<u>\$180,000</u>
		\$113,201
25% of increase		\$ 28,300

The household receives not only \$28,300, but also has paid down the mortgage:

3% down payment	\$ 5,400
10 years of mortgage principle	\$35,033
minus 2% selling expense	(\$ 4,166)
Net Sales Proceeds	\$64,567

Questions?
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