Houston CLT Webinar Questions

Unanswered in the webinar:

1. **How can Empower CDC (CDCs in general) partner with Community Land Trusts to provide supportive services for both single-family and multi-family properties, enhancing the homebuyer driven model and ensuring a better homeownership experience and stronger community wellbeing?**

We partner with CDC's for homebuyer education courses, program referrals and event partnerships. Our Director of Programs and Partnerships can reach out to a member of your team to discuss where there may be alignment.

2. **Will you please provide a quick overview of the tax agreement?**

Once a home has been identified as a CLT property the property is split into 2 parcels/taxing accounts by the local taxing authority. For Houston it is the Harris Central Appraisal District (HCAD).

There is an account for the land that is under the HCLT. There is no tax on the land but there is a tax on the land lease paid by the homeowner in the amount of $600. The property tax value of that lease is $5,450. This amount is a formula from HCAD so each taxing districts formula for the land lease tax will be different which results in a tax bill of less than $100 for land parcel. The homeowner is responsible for paying that tax as it is their land lease even though the account is in the CLTs name. This amount does not increase in value.

The account for the improvement (house) is in the name of the homeowner and the property tax value is listed as whatever the CLT price base price is. The CLT base price is the total investment by the homeowner so mortgage, down payment, additional grants etc. That amount is recorded as the initial property tax value and increases by 1.25% every year.

The tricky part and why it's important to have good lenders is the CLT taxing agreement does not go into effect until the 2nd year of ownership because Harris County tax bills are based on the previous year. Therefore, a CLT homeowner will get the market rate tax bill the first year because it will be based on the value before it was a CLT property.

We hold back $4,000 of the subsidy funds as part of the closing costs to cover this 1st year market rate tax bill. The lender has to agree to estimate the taxes at the CLT base price instead of the market rate knowing there will be a shortage in year 1.

When the shortage occurs, the lender and/or the homeowner reaches out to HCLT and asks for the $4,000 we hold in escrow or however much the shortage is. We send a check to the lender for the tax shortage amount, and it is applied to the escrow. A reanalysis of the account is done by the lender, and the buyers' payment continues to be at the amount stated at closing. If the lender does not have a servicer that will address the shortage as outlined above the homeowner will be responsible for that shortage and their mortgage will go up to cover it.

This only has to be corrected the first year and then the taxes are escrowed by the lender at the correct amount based on the CLT base price amount recorded at the taxing authority for the next 99-years. Without the taxing agreement, property taxes could increase up to 10% a year and in gentrifying neighborhoods that 10% is very likely. CLT buyers are also eligible for the same exemptions as traditional buyers, so they are able to reduce their property taxes even further to support the long-term affordability. CLT properties are listed in another subdivision in the tax records so they do not impact the values of the other homes in the neighborhood and cannot be used for comps.

Below is an example of the tax differential without any additional exemptions such as homestead, senior or disability

CLT Purchase

Market Rate Sales Price: $250,000

CLT price after 100K subsidy is applied: $150,000

Average Tax Rate: 2.5%

CLT Homeowner Taxes: $3750.00 a year/ $312 a month

Home Value / CLT Resale Price Year 5 w/ 1.25% yearly appreciation: $159,375.00

Tax Amount Year 5 with 1.25% appreciation: $3984.37 a year/ $332 a month

Traditional Purchase

Market Rate Sales Price $250,000

Average Tax Rate: 2.5%

Homeowner Taxes: $6250.00 a year /$520 a month

Home Value year 5 with conservative 5% yearly appreciation: approximately $303,876 (County can assess up to a 10% increase)

Tax Amount Year 5: $7596 a year/ $663 a month

3. **Can you structure the resale formula to include both a restricted appreciation and a recapture component? Having the subsidy or part of the subsidy be in the form of a deferred mortgage repayable/recaptured at sale by the homeowner?**

In all honesty I am not as well versed in recapture but here is my assessment. I believe you can do that but then the next buyer would not benefit from similar affordability, and you would have to include whatever is forgivable in the CLT price base/ resale price. We had an organization try to do a forgivable loan and the issue was whatever the lien/loan is on the property had to be added into the CLT base price for title which compromises the affordability.

I think this is how it would work:

The home is worth $250,000. The home is subsidized at $100,000. You restrict appreciation at 1.25%.

The CLT base price is $150,000 after subsidy. In 10 years, the restricted resale value would be $168,750.

However, if you wanted to recapture let's, say 50% of subsidy ($50,000) the new "affordable" resale price would have to be at minimum before any additional sales cost $218,750.00 to cover the partial recapture, the owner's equity and pay off the mortgage balance. If you wanted to recapture the entire $100,000 amount, the resale price would be minimum $268,750.00 to cover the same previously mentioned payout and payoff amounts.

If you decided to do a forgivable loan after a certain affordability period, the challenge is:

1. The taxable amount will still have to include the forgivable amount in case the buyer sales before the loan is forgiven. This means the buyer will be paying increased taxes that will increase by 1.25% or whatever your chosen restricted appreciation amount is. The taxes alone could result in a payment too high to support LMI buyers.

2. If you recapture the loan amount and put it towards another property you probably will not get the same deep affordability because in most cases housing prices would have gone up meaning the subsidy has less impact. For example, you subsidize a $250,000 home at $100,000. You recapture $100,000 but now similar homes are now $265,000 that $100,000 is not going to have the same impact compared to if you had just kept the subsidy in the original home and resold it at the restricted resale price.

Recapture is done less often in CLTs now because the price of housing has just gone up so much its challenging to keep the affordability this way. I am sure there is a way for it to be done I just cannot confirm it will result in permanent or deep affordability.

4. **Did Houston CLT have a feasibility period where you all conducted research prior to getting on the ground, and if so, how long did it take and what were some of the challenges?**

Yes, the City of Houston Housing and Community Development Department worked with Grounded Solutions Network for about a year to do a feasibility study and business plan. Eventually part of that plan was to make the HCLT an independent non-profit and not a department or program within the City's Housing Department.

They also did various models for scale and funding. The final plan was extremely ambitious, if I remember it was 1000 homes in 5 years and was based on the political standing of the City Housing Director at that time who had access to a large pool of funding. After we were established as a non-profit we also did a sustainability study to figure out how many properties we needed in our portfolio to become a self-sustaining organization. The sustainability study only took 2.5 months to complete.

I do not think a feasibility study takes a year to complete now that there are more CLTs using various models to use as a starting point. When the City did their study, there was no taxing agreement legislation, limited examples of single-family scale, less data on how some of the models have held up long-term. We know more now about how CLTs function in Texas as there are several to reference to make the feasibility study process a bit more efficient.

The biggest challenge was when we formed as a non-profit organization, we were initially using the original feasibility study and business plan which as I mentioned was not realistic. With the right amount of funding, scaling can be done quickly, however, you must choose the correct growth strategy for the resources you have. If HCLT the non-profit had been in charge of the feasibility study, we would have been much more conservative until we had an understanding of how all the pieces work together. The City did the feasibility study with the funding guiding the consultants work and not factoring in other variables even after the consultants gave their feedback. The biggest lesson is to be bold but be realistic.

Do you provide financial education to your members?

Yes, financial education would fall under Stewardship and done through our workshop series.

Answered in the webinar:

5. **Did you have any trouble finding lenders willing to finance small mortgage amounts (under 100k)?**

At first, we did have difficulty finding lenders. Not only were they not interested in the small mortgages, some of them were not interested, or did not have the ability to manage the servicing of the loans on the back-end. The first lender we used Land Home Financial is still one of our approved-lenders now after 5 years. We have had to drop 2 of the 5 lenders we have worked with over the years because they were only interested in the CLT when the market was struggling and did not think the additional requirements was worth it when the market was booming. The other challenge besides low mortgages was we were funded by the City and the reputation of government down-payment assistance was that it was difficult and cumbersome. Some lenders did not want to deal with those types of programs.

As we closed more buyers there was more interest because lenders found out that we had a more streamlined process than other assistance programs. Instead of 6-9 months of working with a buyer we were getting people through in 60-90 days. They also realized that the risk was much lower because HCLT in most cases intervenes in the case of foreclosure or if the home for some reason did foreclose the property can be sold for 2 to 3 times more than the loan amount so it’s a financial gain for the lender.

It is a best practice to limit the number of lenders you work with in the beginning because it 1. Helps you establish working systems that can be the blueprint for working with other lenders in the future. The lenders will want to dictate how they close and service the loans but CLTs are different, and they have to be willing to accommodate the CLT model. 2. It makes it worth the lenders time to work with you as they know they are guaranteed business. Even if you’re only doing 20 homes having 1-2 lenders that know they are going to get those 20 loans is more beneficial to them opposed to having to compete with 5 or 6 lenders sharing 20 loans and maybe only getting 2-3 out of the 20.

6. **Is the 1.25% per year restricted appreciation amount based on the appraised value increase with the sales price as the baseline?**

The appraisal is done as a leasehold appraisal not a fee-simple appraisal. This is very important to make sure lenders are ordering the leasehold appraisal and not the fee- simple. The restricted appreciation is based on the CLT sales/resale price which includes the mortgage amount and any cash the buyer brings to the table such as grants, savings, gifts etc.

7. **Have any CLT homes been sold? If so, did it go smoothly? Did the CLT homeowner move into a fill equity home?**

We have had 1 resale. It did not go smoothly because it was a termination of ground lease and not a voluntary resale. The homeowner was in default on their mortgage but also had a lien on the property due to financing solar panels on their home. We are currently under contract for a traditional resale, and it is going very smoothly. The homeowner had some life changes and needed to sell.

Homeowners can use the CLT as a steppingstone to a full equity home but the feedback from many homeowners is they plan on making it their family home because they know they will always be able to afford it. We have recently gotten a lot of very young homeowners in our program (21-26 years old). For most of them this will probably be a steppingstone into a full equity home as their lives change and families grow.

8. **With your homeownership choice program, have you seen a good geographic spread across the city with where the homes are located? Or are they mostly concentrated in the same areas?**

We initially had more people in 1 community because our program before Homebuyer Choice was in that community, and so more people knew about HCLT in that area. Now we have homeowners throughout the entire city and suburbs. Getting more realtors involved also helped because a lot of them have neighborhoods they are more familiar with and will direct clients to those areas.

Question for TACDC:

9. **Will the recording and presentation be made available to attendees?**
   a. Yes, a PDF version of the presentation will be made available. A recording of the presentation will be available in a few weeks. We will email both to attendees.