What is a Community Land Trust?

Community Land Trusts (CLTs), typically run by a government entity or nonprofit organization, provide homeownership opportunities for qualified borrowers with low to moderate income.

CLTs:

- Own land that they hold in perpetuity on behalf of their residents
- Grant rights to borrowers to purchase and own a home on the land using an affordably priced long-term ground lease
- Make homeownership affordable by enabling a buyer to purchase only the improvement on a property without including the land value in the cost to purchase
- May work with borrowers to secure down payment and closing cost assistance
- Generally limit future sales of the home based on income levels

Four-step CLT appraisal process:

1. **Determine the fee simple market value of the home.**

   This uses the same sales comparison approach for valuing properties that are not part of a CLT. Appraisers should use sales of homes outside of CLTs in their evaluations.

2. **Determine the capitalization rate.**

   Appraisers can do this in one of two ways:

   - Use alternative low-risk investment rates (such as long-term bonds) to determine a risk-less or safe rate. This is the most common method for determining the capitalization rate.
   - If there are enough sales of fee simple homes and non-community land trust homes on ground leases, determine the capitalization rate by dividing the non-CLT annual ground rent by the difference in sales price (all things being equal).

3. **Determine the leased fee value.**

   This is done by dividing the annual rent due to the CLT for the ground lease by the capitalization rate.

4. **Determine the leasehold value.**

   Simply subtract the leased fee value from the property's simple value to arrive at the leasehold value of the property. The leasehold value is reported in the "opinion of the market value" field.

Example: Appraising a CLT mortgage

A family is looking for a mortgage to purchase a home from a CLT program, which requires an annual ground lease rent of $552.

An appraiser analyzes current low-risk investments and determines that the current capitalization rate is 2%.

The appraiser has also determined that the fee simple property value is $150,000 using the same appraisal techniques as for any other property appraisal.

To determine the lease value in the appraisal, the appraiser will first divide the annual ground lease rent ($552) by the capitalization rate (2%) to determine the leased fee value ($27,600, which will be rounded to $28,000).

$$\textbf{leased fee value} = \frac{\text{annual ground lease rent}}{\text{capitalization rate}}$$

Finally, subtract the leased fee value ($28,000) from the fee simple property value ($150,000). The final leasehold value of the property is $122,000.

$$\textbf{final leasehold value} = \text{fee simple property value} - \text{leased fee value}$$

Ground lease riders

Because CLTs use resale restrictions to further subsidize the purchase price, Fannie Mae requires lenders to use a ground lease rider to qualify for a Fannie Mae mortgage. The rider removes resale restrictions in foreclosure, which means that properties should be appraised as though resale restrictions are not in place.

A CLT appraisal must include the following statement:

"This appraisal is made on the basis 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."