

## CITY COUNCIL REPORT

DATE: May 6, 2020  
TO: Honorable Mayor and City Council  
FROM: Jennifer Mikelson, Housing Analyst  
THROUGH: Dan Folke, Community Development Director  
CC: Greg Clifton, Shane Dille, Sarah Darr, Justyna Costa  
SUBJECT: City of Flagstaff Community Land Trust Program

### **Background:**

The purpose of this CCR is to provide background on the City of Flagstaff Community Land Trust Program (CLTP), the different ways units have been delivered since its creation and an update on the creation of additional units.

City Council established the CLTP with Resolution 2006-30 on April 18, 2006. The intent of the CLTP is to provide homeownership opportunities to qualifying households that would otherwise not be able to achieve ownership on the open market. The resolution identifies homebuyer eligibility criteria and establishes the ground lease provisions, securing permanent affordability for future buyers. Ownership of a land trust unit is a step in between traditional renting and owning that seeks to balance securing the investment of public dollars and providing owners who are not able to access homeownership any other way in the Flagstaff Housing Market. Benefits of land trust homeownership include tangible ones like wealth generation, tax benefits, and predictability of payments, but also includes security of tenure, increased educational and job attainment, and longevity of public investment.

Although other methods are possible in the future, the City has mostly used the four methods below to create permanently affordable ownership units:

1. Using City of Flagstaff land or donated undeveloped land and identifying a development partner through an RFP process.
2. Having a developer construct land trust homes in a market rate development and conveying the land to the City of Flagstaff at time of sale. This commitment is secured through a Development Agreement (DA).
3. Purchasing land as part of a partnership with a non-profit provider who will build the units for the CLTP.
4. Having a developer donate unimproved parcels they intend to build on in the future for the CLTP.

To date, **46** ownership units have been delivered using these methods. The first permanently affordable ownership units constructed, Rio Homes, were deed restricted to achieve permanent

affordability, as the CLTP didn't exist at the time. As the lending market has changed and it is much easier for homebuyers to obtain financing on land trust units, as the deed restricted units sell, they are converted to the land trust model. Recent lending trends have favored the land trust model in which the ownership of the land and the improvements are separated, with a 99-year ground lease between the homeowner and the City securing permanent affordability.

There are currently an additional **134** permanently affordable ownership units promised in DA's and contracts.

To be eligible for the Land Trust Program you must:

- Be at least 18 years of age
- Be a citizen of the USA or a registered alien
- Be a resident or have employment commitments within the Flagstaff Metropolitan Planning Organization (FPMO) area
- Meet income eligibility guidelines:
  - Must have an annual income which does not exceed 80- 125% (depending on the home purchased) of the Area Median Income (AMI) for Flagstaff, Arizona
  - Must have enough income to qualify for lending without being housing cost burdened.
  - Down payment assistance programs are permitted to defray costs and are generally limited to serving households below 80% AMI
  - Income must be sufficient to support the housing costs for the home in question
  - Households that require a co-signer to obtain a mortgage will not be considered.

### **Resale Price Formula**

In exchange for purchasing a home that is priced below market, a land trust buyer agrees to limit the market equity that they receive at resale, which in turn keeps the equity in the home and makes it affordable to future eligible buyers.

The CLTP uses an appraisal-based formula to determine the resale price when a homeowner decides to sell their land trust home. The resale formula balances two important goals; a fair return on the homeowner and an affordable sales price for the next eligible homebuyer. Through a public involvement process, the CLTP decided that a "fair return" to the homeowner is 25% of market appreciation. This leaves the remaining 75% of the market appreciation in the home, therefore reducing the home sales price for subsequent buyers.

It is important to note that at the time of sale the homeowner receives:

- 25% of the market equity
- 100% of what they have paid down on their mortgage (loan buy down)
- Tax benefits for the duration of home ownership
- 100% of their down payment (if no repayable down payment assistance is used)

Below is an example of how the resale formula works, assuming that the home was first purchased for \$150,000 and that the homeowner lived there for 10 years.

Initial Purchase Price + [(Appraisal 2 – Appraisal 1) x 25 %] = Maximum Home Resale Price

**Example:**

Initial Purchase Price = \$150,000  
 Appraisal 1 (at purchase) = \$200,000  
 Appraisal 2 (10 years later) = \$265,000

Appraisal at the time of sale minus the first appraisal equals the total market appreciation:

$$\$265,000 - \$200,000 = \mathbf{\$65,000}$$

Total market appreciation times 25% equals the market equity the homeowner receives:

$$\$65,000 \times 25\% = \mathbf{\$16,250}$$

The maximum resale price for the **next homebuyer** is now determined by taking the original home sales price plus the market appreciation.

$$\$150,000 + \$16,250 = \mathbf{\$166,250}$$

Therefore, the next homebuyer pays only \$166,250 instead of the actual market value of \$265,000, which is due to the remaining 75% of the market appreciation staying in the home.

See graphic below for the same example, with estimated net homeowner profit included.



It is important to acknowledge that in addition to the CLTP, there are additional tools to help households achieve affordable homeownership. The City currently offers two different down payment assistance programs:

- Community Homebuyer Assistance Program – available to all eligible Flagstaff residents
- Employer Assisted Housing Program – available to City of Flagstaff employees

In addition to down payment assistance programs, the Flagstaff Zoning Code offers regulatory incentives to developers who provide at least 10% affordable units within their developments. Incentives may be applied to either permanent or one-time commitments to affordable housing. All the affordable units delivered in recent years, whether rental or ownership, meet the Code's permanent affordability requirements. One-time affordability applies only to ownership products and reduces the initial sale price of a unit for an eligible buyer, who would then be free to sell the unit on the open market.

### **Discussion:**

The most recent example of a developer constructing land trust units for the City's CLTP is the Crestview subdivision, located on 32 acres north of Railroad Springs on West Route 66. A commitment of providing 12 affordable units was secured in a DA recorded on February 24, 2009. The Great Recession impacted the feasibility of the entire project and the site sat for nearly a decade before Capstone Homes purchased the property at auction in 2016. Capstone proceeded to record the final plat for the Crestview subdivision on August 15, 2017 and began working with staff to revise the old DA. Since the standing DA stipulated the subdivision consist of 119 manufactured units, 12 of them affordable, the primary goals of the revision were to allow stick-built construction and to place the 12 affordable homes in the City's CLTP. A revised DA was approved by Council and recorded August 8, 2018.

As of February 2020, 2 of 12 affordable homes have been constructed and sold. Housing staff receives numerous inquiries per week regarding the Crestview land trust homes. This is the first time since the inception of the land trust program that a private developer is building land trust units in an otherwise market rate subdivision based on the terms of a negotiated DA (method 2 above).

Timber Sky is another approved development located along West Route 66 west of Woody Mountain Road and is slated for +1,000 residential units. Timber Sky voluntarily offered 100 land trust units without taking any incentives, a commitment that was secured in a DA in December 2016. In October 2019 Housing staff was in contact with Mosaic Building Group, Inc., a firm working with Mandalay Homes on affordable building strategies for the Adora subdivision. Mosaic shared that Adora would consist of 35 single family lots, 7 of which are to be land trust homes. Mosaic was interested in understanding the City's approach to affordable home pricing, but more specific information will be required before there is an established sales price for those 7 units. Housing staff looks forward to discussing these details with Mosaic, however at this point there is no further information about the status of their construction or the proposed land trust units.

### **Recommendation / Conclusion:**

This CCR is for informational purposes only.