# Chapter 18
# Project Planning and Pricing

Chapter 12, "Resale Formula Design," addresses the ways in which resale formulas affect the *future* pricing of CLT homes. Generally these formulas treat the price originally paid by the homeowner as a *base price* beyond which the *resale* price is allowed to increase only to a limited extent. What this means is that the price set by the CLT when it sells a home for the first time will affect not only that first sale but each resale of the home over a very long period of time. For this reason, the initial pricing of a CLT home has special importance. The factors that a CLT must consider in setting that initial price include some long-term concerns that are not usually present in the pricing of non-CLT homes.

In this chapter we will first review the immediate considerations involved in pricing affordable housing (whether by a CLT or other affordable housing provider). Next we will look at some additional factors that that must be considered when the goal is long-term affordability. We will then discuss the basic types of choices that a CLT must make in setting the initial price of a home.

## Immediate Pricing Considerations

The pricing of a CLT home involves two opposed sets of interests, with a third factor mediating between the two. On the one hand, a CLT has an interest in setting prices as high as possible in order to recover as much of its *cost* as possible. On the other hand, the CLT has an interest in setting the price as low as possible in order to make it as *affordable* as possible and as *marketable* as possible (and perhaps to comply with a *funder's requirements*). Mediating between these upward and downward pressures – and relieving the tension between them to a greater or lesser extent – is the *subsidy* factor.

**Upward Pressures on Price.** Prices are pushed upward by the direct cost of producing the homes, by the CLT's ongoing administrative costs, and by the costs of the various services that the CLT will provide to the owner-occupants of the homes.

*Direct project cost*. It is usually assumed that the price of the home must be high enough to allow the CLT to recover its direct investment in the property – that is, the total direct cost of acquiring and/or developing the property. Some portion of this cost is typically covered by a subsidy, but whatever amount is not subsidized must be paid by the purchaser. As emphasized in Chapter 19, "Subsidy Structure," the subsidy may be channeled directly to the CLT, in which case it reduces the "settlement price" of the home (as distinguished from the "base price" in Chapter 12, "Resale Formula Design"); or it may be channeled to the homebuyer – one homebuyer at a time – in which case it does not reduce the settlement price but increases affordability by covering a portion of the settlement price *for* the homebuyer. In either case the CLT's basic pricing concern is that the amount of the subsidy plus the amount actually paid by the purchaser – including what the purchaser borrows – must equal at least the total amount that the CLT has invested in the property.

For scattered-site CLT programs that involve the acquisition and/or development of one home at a time, it is a relatively straightforward matter to calculate the total direct cost of each home as a basis for pricing the home. For large projects that include multiple units, the relationship of cost to price may be somewhat more complicated. In such cases there are likely to be substantial project costs (e.g. predevelopment and infrastructure costs) that are essential to the development of *all* of the units but that may not be allocated equally to each unit in establishing prices.

*Administrative costs*. Direct acquisition and development costs are not the only costs entailed by the overall process of identifying and acquiring property, planning for and carrying out its development, and marketing the resulting home(s). Clearly the process entails substantial "administrative costs," or "overhead," including the cost of all the staff time involved in the entire process. CLTs may budget and account for these costs in different ways, and funders may compensate the CLT for these costs in different ways and to different degrees, but in every case a CLT has an interest in recovering as large a portion of such costs as possible from the proceeds of the sale of the home, or from subsidies paid directly to the CLT. (The money received by the CLT for this purpose may be termed a "development fee" or an "administrative fee," or simply "proceeds of sale.") For multi-unit projects, administrative costs are among the "shared costs" that, as noted above, may be allocated differently among the prices of different units, adding more to some than to others.

*Cost of related services***.** The services provided in conjunction with CLT homeownership programs vary greatly from one CLT to another. In the case of CLTs serving low-to-moderate income homebuyers in high-priced housing markets where demand for less-than-market-rate homes is high, a CLT may concentrate on producing and selling such homes while providing minimal ancillary services to the homebuyers. On the other hand, CLTs serving low-to-very-low income people in disinvested or otherwise distressed communities may provide a number of important services – from intensive pre-purchase counseling and training to post-purchase assistance on matters ranging from home maintenance and repair to efforts to address neighborhood problems. Such services are more likely to be funded through direct public or private grants to support these aspects of the CLT's operations, rather than through revenue generated by selling homes. Nonetheless, it can be useful to recognize that these services are a significant part of the package of benefits that is being purchased by someone buying a home through such a CLT program. To the extent that some portion of the cost *can* be added to the selling price of a CLT home, without jeopardizing affordability, it is reasonable to do so.

**Downward Pressures on Price.** CLTs are concerned with reducing prices in order to make homes both affordable and marketable, and in order to comply with the regulations of subsidy programs.

*Affordability*. For all "affordable housing," the issue of affordability is obviously a fundamental pricing consideration. If a particular income range has been targeted – e.g., households with incomes between 60% and 80% of area median income (AMI) – how low must the price of a home be if it is to be affordable? Or, if a particular price is projected, how high must a household's income be if the price is to be affordable for that household?

We should note that for the homebuyer there are actually two separate affordability questions. First, how affordable is the total amount that must be paid "up front" (down-payment plus closing costs)? Secondly, how affordable are the monthly payments (mortgage payments plus taxes, insurance, and ground lease fees)? The answer to the first of these questions often has more to do with funders' and mortgage lender's requirements and the spending/saving habits of the particular household than with the price of the home and the household's income. Nonetheless, it remains true that higher prices normally entail higher down-payments (established as a percentage of the price) and that households with higher incomes are better able to accumulate the cash needed to cover up-front costs. However, it is the affordability of the monthly payments that is usually the central consideration in establishing prices.

The affordability of monthly payments is usually calculated in terms of the relationship between the amount of the payment and the amount of the household's gross monthly income. As a rule of thumb, a CLT may aim at keeping the amount of the monthly payment at no more than 30% of gross monthly household income (the maximum percentage permitted by typical mortgage programs ranges from 28% to 33%). Thus, for example, if the goal is to determine the maximum price that will be affordable for a household income of 80% of AMI, and if this amount (as adjusted for a given household size) is $30,000 per year – or $2500 per month – then up to 30% of this monthly amount, or $750, is available to cover the monthly payment on a home.[1] If this payment includes, say, $200 for property taxes, $25 for homeowner's insurance, and a ground lease fee of $25 (a total of $250), then $500 remains to service mortgage debt. The CLT can then calculate how much debt can be amortized by this monthly amount on a given set of terms. For instance, with a 30-year fixed-rate mortgage at 7% interest, $500 monthly payments will amortize a loan of about $90,225. If we assume that a 5% down-payment is required, then the maximum total price that will be considered affordable for this household is about $94,974.

It must be emphasized that this amount represents the *maximum* affordable price for a household earning *exactly* 80% of AMI, adjusted for a given household size. This would be an appropriate price if the goal of the CLT is to serve households between 80% and 100% of AMI, but this price is too high if the goal is to serve households between 60% and 80% of AMI. If a price is to be affordable for the full range between 60% and 80%, it should be calculated as the maximum affordable price for a household at 60% of AMI.

*Marketability*. In many housing markets it is safe to assume that the effective price of subsidized housing is substantially below its market value, so that the demand for housing at such a price will be strong and marketing such housing will be relatively easy. However, there are other markets in which the situation is not so simple. In many inner-city neighborhoods, for instance, the market value of a new or fully rehabilitated home is likely to be substantially less than the cost of producing the home. Thus a large subsidy may be required to bring the price down to the appraised market value of the home (so that most of the price can be financed with a first mortgage with an acceptable loan-to-value ratio). In fact, more subsidy may be required to bring the price down to market value (as determined by market appraisals and actual demand) than is required to bring the price down to what is affordable for the targeted income level. In such situations, the question of marketability effectively replaces the question of affordability as a critical pricing consideration. For a CLT that is trying to "turn around" a deeply disinvested neighborhood by developing homes for sale to owner-occupants, it will usually be necessary to "create demand" for those homes by offering them for sale at prices that are lower – perhaps much lower – than what would be required strictly on the basis of affordability.

There are also situations where a CLT finds that there *is* sufficient demand in such a neighborhood for good homes at a particular proposed price but then finds that buyers will be unable to obtain financing for homes at that price because the appraised value of the homes is less than the proposed price (in some cases perhaps because appraisers have over-reacted to what they see as the negative features of an urban neighborhood). In such situations – if the CLT cannot persuade the appraisers (or the mortgage lender) that there is in fact a market for the homes at the proposed price – it may be necessary to find a way to reduce the price to the appraised value of the homes.

In less extreme situations, the market value of CLT homes may be higher than the CLT's subsidized price, but not a great deal higher. This may mean that a potential homebuyer can buy a conventional home in the open market for a price that is not greatly different from the price the CLT would like to receive for its resale-restricted home on leased land. In this case the CLT may need to look for ways to reduce its price further in order to compete with the conventional housing product in that local market.

*Program regulations***.** The prices of subsidized homes are normally limited by the regulations of the public programs providing the subsidy. These regulations are usually stated not in terms of absolute price limits but in terms of the household incomes for which the homes must be made affordable. For instance, the regulations of the federal HOME program permit the use of HOME funds to subsidize homeownership only for households with incomes below 80% of Area Median Income, adjusted for household size. This means that the prices of any homes subsidized through this program must be affordable for a range of incomes below 80% of AMI.

Housing programs that subsidize homeownership may also limit prices by regulating the types and amounts of costs that the organization can pass on to the buyer. For example, public funders commonly limit the amount of administrative cost for which the organization may be compensated – with the limit usually expressed as a certain percentage of total project cost.

Internal regulations can also be a factor. For certain programs or projects, CLTs themselves often establish affordability guidelines that are tighter than the regulations imposed by the source of subsidy. For instance, a CLT may design a project to provide homeownership opportunities for very low income households – with incomes below 60% of AMI – even though the particular subsidy that is utilized can be used for projects serving households up to 80% of AMI.

It should also be noted that the mix of income levels that a CLT can serve – and therefore the prices that will be affordable for those served – can be limited by the requirements for tax-exempt status under Section 501(c)(3) of the Code. See Chapter 6, "Tax Exemption," for information on this subject.

**Subsidy.** One of the inescapable program-planning and project-planning considerations for affordable housing organizations is the question of how much subsidy will be needed to create affordability for a given income level if it costs a given amount to produce a unit of housing.

As already suggested, the CLT's cost in producing homes and providing services to homebuyers must generally be covered by some combination of what is paid by the buyers and what is provided as subsidy from one or another source, or some combination of sources (including not only government programs but businesses, foundations, and other institutions and individuals that contribute money, goods or services). Subsidies may either be *project subsidies* (allocated to increase the affordability of housing produced through specified projects) or *operating subsidies* (covering some portion of the organization's overall operating costs). Here we will focus primarily on project subsidies, which have a more direct and obvious relationship to the prices of particular homes, but we should note that, in many respects, the two kinds of subsidy are interchangeable from the CLT's point of view. Increased operating subsidies can reduce the organization's need to cover administrative costs and the costs of homebuyer services by charging higher prices for homes. Conversely, increased project subsidies can reduce the organization's need for operating support.

Project subsidies have the effect of either reducing the amount of the CLT's cost that must be passed on in the price (if the subsidy goes directly to the CLT) or reducing the portion of the price that the buyer must pay herself (if the subsidy is channeled to the homebuyer). When the subsidy goes directly to the CLT, the basic pricing equation (before other factors come into play) is *total cost minus subsidy equals price*. When the subsidy is channeled through the homebuyer, the basic equation is *total cost equals price, which in turn is comprised of subsidy plus what the homebuyer herself must pay.*

We should also note that a CLT homeowner's monthly housing costs can be subsidized not only by reducing the price of the house (thus reducing monthly debt service) but by reducing the amount that the homeowner must pay for the land (through ground lease fees). In fact, in many markets, land costs are high enough so that a CLT may use all of the available subsidy to cover or reduce this cost. In such cases, the price (as the amount paid by the homeowner to purchase the improvements only) will not be subsidized, but the monthly lease fee can be substantially less than what market rate ground rent would be (and substantially less than the monthly payments would be if the land were purchased outright with mortgage financing).

## Long Term Consequences & Considerations

CLTs are concerned that homes be affordable (and marketable) to income-qualified owner-occupants not only when they are first sold but each succeeding time they are sold. For this reason, CLTs are concerned not only with a home's initial price but also with its future price. This future price will depend on both the resale formula that the CLT adopts and the "base price" to which the formula will be applied. The consequences of various types of resale formulas are discussed in Chapter 12. At this point we will concentrate on pricing questions related to the long-term consequences of variations in the base price.

**Is the Eligible-Income Range Wide Enough for Future Conditions?** The income range that can be served with a price of a given amount is defined by a "floor income," which is the minimum household income for which the price is affordable, and a "ceiling income," which is the maximum household income permitted by the program(s) providing the subsidy (or in some cases the maximum income set by the CLT's own guidelines). The wider the eligible-income range, the easier it will be for the CLT to find an "income-qualified" household that is willing and able to buy the house. A narrow range can make it very difficult to market a home – unless the organization already has on its waiting list at least one eager, pre-qualified family whose income does in fact fit within that narrow range. If the organization does have such a buyer lined up, it may not be greatly concerned with how narrow the eligible-income range is. A CLT, however, must look beyond this first sale and ask whether the eligible-income range can reasonably be expected to be wide enough in the future to facilitate resale.

First, the CLT must remember that if demand for homes has slackened by the time the home is resold – thereby reducing the flow of applications from prospective buyers – it may be difficult, or even impossible, to find a buyer whose income fits within the narrow range.

Secondly, the CLT should remember that the eligible-income range itself, though it may grow over time, may also shrink or even close up entirely – depending not only on the nature of the resale formula, but on changes in other factors, especially changes in mortgage interest rates. If interest rates increase significantly, thus increasing the monthly payment required to amortize a loan of a given amount, then the minimum income required to qualify for that loan will increase, with the result that the eligible income range may shrink. Interest rates are among the factors that a CLT does not control. Therefore CLT's should generally try to set prices that will create eligible-income ranges wide enough so that a certain amount of shrinkage in the range will not cause problems.

**Is the Market Advantage Great Enough for Future Conditions?** As we have suggested, the *demand* for a home at a given price can sometimes be at least as important a consideration as the *affordability* of the price. If there is a relatively small difference between the price of a CLT home and the prices of comparable homes being sold conventionally in the open market, then demand for the CLT home will be limited and the home may be difficult to market. If the difference between the CLT price and the "market-rate" price is *just enough* to allow initial marketability, there will be no assurance that the resale price will be low enough under future market conditions to allow the CLT home to be successfully marketed at that price. If market prices have declined at the time of resale, it may be necessary, in order to sell the CLT home, to reduce its price substantially below the "formula price" – with the result that a portion of the subsidy will be lost and/or a portion of the owner's equity will be lost. Just as there is long-term advantage in a wide eligible-income range, there is also long-term advantage in a wide market advantage that will weather the ups and downs of the market.

**Will the Subsidies that Create Initial Affordability Be Available in the Future?** As emphasized in Chapter 19, "Subsidy Structure," subsidies that are channeled directly to the CLT, are "locked in" and become permanent, whereas subsidies that are channeled through the homebuyer may or may not be available to the next homebuyer. As noted in that chapter, a CLT should try first to have all subsidies channeled to itself. If a subsidy must be structured as a deferred loan to the homebuyer, the CLT should try to arrange to have the loan *permanently deferred* (not forgivable or repayable over time) and *assumable* by the next homebuyer. If it is not assumable by the next homebuyer, the formula-based resale price will probably not be affordable for the intended income range unless the deal can be re-subsidized from another source.

CLTs should also look carefully at the long-term consequences of situations where the original price is rendered affordable by a mortgage interest subsidy (reducing the interest rate so that the buyer can amortize a larger mortgage loan with affordable monthly payments). There is usually no assurance that a future buyer will have access to equally advantageous mortgage financing. In the absence of such financing, the future formula-based price may not be affordable for the intended income range.

**Can the CLT Adjust Future Prices by Reallocating Subsidies?** In some cases a CLT may have opportunities to adjust future prices by repurchasing a home at the formula-based price, then reselling it at a price that is either higher or lower than the price it has paid the departing homeowner. In order to sell some homes for lower prices, the CLT must accumulate a "subsidy pool" or pool of "community equity," some part of which may be reallocated to lower the price of certain homes to create greater affordability (and/or marketability) where it is most needed in the future. Such a pool may be accumulated from several different sources.

*Unrestricted "subsidies" from private sources.* If, for instance, a home in reasonably good condition is donated to a CLT, which then resells it, the donated value may be passed along to a buyer who can only afford an unusually low price, or the home may be sold to a somewhat higher income buyer for a price high enough so that the CLT can use some of the proceeds to increase the affordability of one or more *other* homes.

*Public subsidies with expired regulations.* Most subsidies that flow directly to a CLT are tied to particular homes for a limited regulatory period. After the expiration of the regulatory period, the CLT may, if it chooses, reallocate some portion of the subsidy to one or more other houses where additional affordability or marketability is needed.

*Increasing affordability generated by resale restrictions.* Depending on the specific resale formula it uses, among other factors, a CLT may find that the formula-based prices of its resale-restricted homes are becoming increasingly affordable – in effect increasing the amount of "subsidy" in each home. The CLT may choose to leave this additional "subsidy" in the homes that have "generated" it, or the CLT may choose to re-allocate some portion of it to increase the affordability of other homes.

It is of course true that this "subsidy pool" is not very liquid – unless, through a series of "profitable" resales a pool of cash is built up. If there is not a pool of accumulated cash waiting for the CLT to dip into it whenever a little extra subsidy is needed, subsidies can be re-allocated only when a home that has unrestricted subsidy invested in it is sold (and then only if the CLT *either* exercises its purchase option directly so that it can resell the home for a price high enough so that some of the proceeds can be used to subsidize a different home *or* charges a high enough fee for the assignment of the purchase option so that some of the proceeds can be used to subsidize a different home). Nonetheless there may be times when several homes are being resold in a limited period of time and when it makes sense to reapportion affordability among them by reallocating subsidy. CLTs certainly should not make their initial pricing decisions with the assumption that they can always make adjustments in future prices. Especially for younger, smaller CLTs the opportunities to adjust prices will be rare. For the very long term, however, the CLT's ability to accumulate a significant "subsidy pool" is a potential strength that should not be ignored.

## Choices

Our review of both immediate and long-term considerations has already suggested some of the tradeoffs – and therefore some of the choices – involved in pricing CLT homes. Some of the more common types of choices are discussed below.

**Affordability vs. Cost Recovery.** As we have indicated, there is a fundamental tension between the CLT's interest in setting initial prices as *low as possible* in order to serve households at the lowest possible income level and/or to create the widest possible eligible-income range, and the CLT's interest in setting the price as *high as possible* in order to recover the largest possible portion of its costs – including administrative costs. This tension pervades CLT planning activities from the time of basic program planning onward.

As soon as it begins planning a program, the CLT must ask what income level (or levels) it intends to serve, what price is affordable for this income level, and what direct costs will be entailed in acquiring and/or producing decent housing for this clientele in the local market.

At the same time it must determine what kind of operation (how much and what kind of staff, what facilities, equipment and services) will be necessary to support the intended program, and it must then address the question of how the cost of this operation is to be met (to what extent through development fees or proceeds from the sale of homes; to what extent through direct operating support from other sources).

As program plans are translated into specific project plans, the basic tension between affordability and cost continues to shape the choices that the CLT makes. And even when a project is complete and the home or homes are ready to be sold, the tension sometimes remains. If the project is somewhat over-budget, will the CLT keep the price as planned while taking less money from the proceeds of sale to cover its own costs, or will it (if possible) increase the price enough to take from the proceeds of sale the amount previously planned? Conversely, if the project is under-budget, will the CLT pass the saving on in the form of an extra-affordable price, or will it keep the price as planned and recover a larger share of its cost from the proceeds of sale?

**Subsidy Allocation.** If the supply of subsidy were unlimited, there would be no limits on a CLT's ability to reduce the prices of the homes and housing-related services, wherever and for whomever it chose and to whatever extent it chose. Since this is not the case, CLTs (and all other affordable housing organizations) must make difficult decisions regarding how to utilize – or plan to utilize – the limited supply of subsidy that is available.

Let us look, for example, at a hypothetical CLT whose service area extends, let us say, from inner-city low-income neighborhoods where housing prices are depressed to inner-ring suburbs where prices are moderate to outer suburbs where prices are high. Let us assume, for the sake of discussion, that this CLT has received an annual funding commitment of $200,000 to be used to subsidize as many homes as possible, given the particular programmatic goals of the CLT in the metropolitan area that it serves. In deciding how to allocate this subsidy, the CLT must make the three fundamentally important kinds of choices discussed below under the headings "breadth vs. depth," "which homes for whom," and "present vs. future." The same kinds of choices must be made in one way or another by virtually all CLTs, whether they have already received a subsidy commitment that can be allocated in different ways, as in our example, or are at the point of deciding how to frame a project proposal in which the specific questions of subsidy allocation must be answered up front.

*Breadth vs. depth***.** The CLT in our example might choose to spread the $200,000 evenly over ten homes, reducing the price of each home by $20,000. Or it might choose to concentrate the $200,000 as deep subsidy in just five homes, reducing the price of each by $40,000. Or it might choose to subsidize some homes more deeply than others – say, putting $40,000 subsidies into each of three homes and $20,000 subsidies into each of four homes. How broadly the subsidy is distributed – among how many homes – depends of course on how much is needed to achieve prices that are affordable and marketable to a given clientele while allowing the CLT to cover its costs.

The answer to the question of how much subsidy is required to achieve this effect for each subsidized home depends on how the questions discussed below are answered. There is often a temptation – particularly in framing proposals for funders – to shape the answers to these questions in such a way as to allow the highest possible number of "affordable units." More often than not this approach will impress the funders, who generally want to be able to claim as many affordable units as possible for the funds at their disposal. No doubt there are situations in which this is the best approach. However, CLTs often need to make the case that the measures of a program's success must relate to the particular goals of the program. (In any case, a CLT should make the case that any subsidy invested in a CLT home buys affordability not just for one homebuyer but for a succession of homebuyers, so one should count not just the number of initial affordable purchases but the number of affordable purchases that can be projected over time.)

*Where and for whom?* The CLT in our example may choose to utilize its subsidy in any of the three market situations that we have identified. Let us assume that the CLT's average cost of acquiring and rehabilitating a home is $75,000 in the inner-city neighborhoods, $110,000 in the inner-ring suburbs, and $150,000 in the outer suburbs. Let us then assume that current income levels, interest rates, and other factors are such that households of a given size between 80% and 100% of AMI ("moderate income") can afford homes priced at $94,000; those between 60% and 80% of AMI ("low income") can afford a price of $65,000; and those between 40% and 60% of AMI ("very low income") can afford $36,000.

Under these circumstances, the per-unit subsidy required to create affordability for the three different income groups in the three different markets would be as follows.

| | Very Low<br>40% - 60% AMI | Low<br>60% – 80% AMI | Moderate<br>80% – 100% AMI |
|---|---|---|---|
| Inner-city | $39,000 | $10,000 | $0 |
| Inner-ring suburb | $74,000 | $45,000 | $16,000 |
| Outer suburb | $114,000 | $85,000 | $56,000 |

In such a situation, consider the different ways that the available subsidy might be allocated to achieve each of the following goals.

1. To produce the maximum total number of "affordable units."
2. To improve neighborhoods and create ownership opportunities for very low income households who are otherwise unable to own homes.
3. To promote mobility for lower income people and diversity of income levels in the target neighborhoods.

Given the first goal, the CLT could hope to sell at least 20 homes in the inner-city neighborhood to low-income households (60%-80% of AMI), with a subsidy of no more than $10,000 per home (unless a deeper subsidy is necessary to persuade these households to purchase homes in this neighborhood).

Given the second goal, the CLT might seek to sell fewer homes – perhaps as few as five – to very low income households (between 40% and 60% of AMI) in the inner-city neighborhood, with subsidies as high as $39,000 per home. More homes might be sold in the neighborhood to households with somewhat higher incomes, but, if neighborhood improvement is an over-riding concern for the CLT and if the neighborhood is currently very deeply distressed, the CLT might decide to produce only five homes and to subsidize the price of each by $40,000 in order to stimulate demand for what would otherwise be hard-to-market homes.

Given the third goal, the CLT might concentrate on creating affordable homeownership opportunities in suburban neighborhoods where homes are otherwise priced far beyond the means of lower income households. In carrying out such an effort the CLT would probably not launch an extreme effort to place very low income households in the expensive outer-ring suburban market, since the $200,000 that is available would not be sufficient to subsidize even two homes. Instead, the CLT might concentrate on creating opportunities in the less expensive inner-ring suburban market for a mix of low and moderate income households (ranging from 60% to 100% of AMI), so a larger number of homes could be subsidized.[2] (In reality, of course, CLTs are likely to have multiple goals – particularly regional CLTs that serve different neighborhoods and market situations.)

*Present vs. future.* Whatever its immediate programmatic goals, an affordable housing organization may try to maximize the immediate impact of the funding at its disposal by allocating just enough subsidy to each home to make it affordable for, and marketable to, households of the intended income level. As we have suggested, however, the long-term purposes of a CLT may be better served by subsidizing each home more deeply (therefore perhaps subsidizing fewer homes) to increase the likelihood that affordability and marketability can be sustained in the future.

Of course, to project future circumstances is not a simple matter. Interest rates are hard to anticipate (but one can still note the *potential* for increase or decrease by viewing current rates in relation to historic highs and lows). Local housing markets, too, are hard to anticipate. There is no one rule of thumb that will tell a CLT how much "cushion" should be built into its pricing in order to accommodate future conditions. A CLT may need to project very different futures for different neighborhoods and different market situations. In the example suggested above, real estate values might be expected to appreciate rapidly in the outer-ring suburbs (assuring the future marketability of CLT homes offered for sale at restricted prices), whereas property values in the inner-ring suburbs might have begun to decline (potentially eroding the future marketability of CLT homes). The inner-city neighborhoods might be showing signs of gentrification that could be expected to transform the local housing market in a way that would make affordable CLT homes highly marketable in the future; or there might be reasons to think that property values in those neighborhoods will continue to decline to a point where even deeply subsidized homes will be difficult to sell for as much as the initial owners paid for them.

Difficult as these matters are to project, they represent necessary considerations for organizations with the long-term purposes and responsibilities inherent in the CLT model. They should be taken into consideration in establishing the initial prices of CLT homes. These base prices – and the considerations that go into setting them – also have an obvious bearing on the subject of Chapter 12, "Resale Formula Design."

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[2] Each year the U.S. Department of Housing and Urban Development calculates and publishes adjusted area median income figures for every "Standard Metropolitan Statistical Area" (SMSA) in the U.S. and every U.S. county that is not included in an SMSA. The adjustments for household size do not reflect actual differences in the incomes of households of different sizes; they are calculated to reflect differences in housing needs and costs of different size households. Thus an income of $30,000 for a one-person household might fall above the adjusted figure for 80% of AMI for a household of that size in a given SMSA and therefore would not qualify for a housing subsidy that is limited to incomes below 80% of AMI, whereas an income of $30,000 for a six-person household in the same SMSA might fall below the adjusted figure for 80% of AMI and would qualify for such a subsidy.

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[2] For organizations concerned with achieving or maintaining 501(c)(3) status, the particular mix of income levels served has a critical bearing on such status. A mix of incomes that is too heavily weighted toward moderate-income may be a problem. See Chapter 6 for a discussion of this subject.