

DESIGNING & EVALUATING RESALE FORMULAS

**INTERSECTIONS**  
2015 NATIONAL CONFERENCE  
LEXINGTON, KY | OCTOBER 19-22

NATIONAL COMMUNITY LAND TRUST NETWORK

Tuesday  
10/20/15  
11:15 - 12:45  
Julie Brunner  
OPAL CLT

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INTRODUCTION TO RESALE FORMULAS



**Agenda**

1. Basis for allocating appreciation
2. Resale formula goals
3. Definitions
4. Types of formulas

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EQUITY & APPRECIATION



- **Equity = Value Less Debt**
  - Initially = down payment
  - Increases as debt is retired
  - Increases as value increases
- **Appreciation = Escalating Value**
  - Homeowner investment in property
  - Community investment/factors

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### RESALE RESTRICTED HOMEOWNERSHIP



- Limits appreciation for subsidized HO
- Strive to allocate appreciation "fairly"
  - Homeowner investment = homeowner
  - Public investment = public
- Protect public investment
- Creates stock of affordable HO

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### BALANCE OF INTERESTS

- Community
- Individual



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### RESALE FORMULA GOALS

- Permanent affordability
- Fair return



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**RESALE FORMULA CONSIDERATIONS**



- What is a “fair” return?
- What is the condition of the housing stock?
- Nothing’s perfectly fair!

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**OPERATIONAL GOALS IN A FORMULA**



- Ease of administration
- Minimize disputes
- Property taxes
- On-going updates

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**FUNDER GOALS**

- Wealth creation
- Recapture & reinvest
- Guaranteed affordability
- Compliance



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### MORE CONSIDERATIONS...



- How affordable was the initial pricing?
- Less affordable → conservative formula
- More affordable → more generous
- Ease of administration!

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### RESALE FORMULA OPTIONS



- Fixed Rate Formulas
- Index Formulas
  - CPI
  - AMI
- Appraisal Based Formulas
- Hybrids + Capital Improvement Credits

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### FIXED RATE FORMULA



- Base price + multiplier
- Multiplier = fixed %
- Can be designed to increase with time

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**FIXED RATE FORMULA: ASSUMPTIONS**

\$250,000 = Cost to develop  
 \$100,000 = Subsidy available  
 \$150,000 = Original Affordable Price (Base Price)  
 Affordable to a HH of 4 @ 61% AMI

- Down payment = Closing costs
- \$250,000 = Initial appraised value




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**FIXED RATE FORMULA: EXAMPLE**

Base Price  
 X Fixed % Compounded Annually  
 = Formula Price




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**FIXED RATE FORMULA: EXAMPLE**

\$150,000 (Base price)  
 X 1.5% Compounded Annually  
 = \$174,081 (Formula Price)  
 Affordable to 59% AMI

- \$9,000 (Closing costs to sell)  
 - \$122,013 (Payoff)  
 \$43,068 (Cash to seller)

**=150000\*(1+0.015)^10**




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**FIXED RATE FORMULA: ADVANTAGES**



- Easy to understand/ administer
- Calculate at any time
- Steady increase in value
- Controls affordability

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**FIXED RATE FORMULA: DISADVANTAGES**



- No distinction of HO/community investment
- Same rate of return/time
- Unrelated to market or inflation

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**INDEXED FORMULAS**



- Base Price + multiplier
- Multiplier = % increase of index
- Commonly used indices
  - AMI
  - CPI
  - Cap?

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**INDEXED FORMULAS: ASSUMPTIONS**

\$250,000 = Cost to develop  
 \$100,000 = Subsidy available  
 \$150,000 = Original Affordable Price (Base Price)  
 Affordable to a HH of 4 @ 61% AMI

- Down payment = Closing costs
- \$250,000 = Initial appraised value




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**INDEXED FORMULAS: EXAMPLE**

Base Price  
 $\times 1 + \% \text{ Change Index over time}$   
 = Formula Price




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**INDEXED FORMULAS: EXAMPLE**

\$150,000 (Base price)  
 $\times 1.22$  (22% increase in AMI)  
 = **\$183,000 Formula Price**  
     Affordable to 61% AMI

- \$9,000 (Closing costs to sell)  
 - \$122,013 (Payoff)  
 \$51,987 (Cash to seller)




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### INDEXED FORMULAS: ADVANTAGES

- Allows continuous monitoring of price
- Can be tied to AMI
- Easy to understand
- Easy to use



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### INDEXED FORMULAS: DISADVANTAGES

- Ignores earned equity (improvements)
- Possible greater than market-rate increases
- Index may not reflect target incomes



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### APPRAISAL BASED FORMULA



- Simple
- Compound
- Shared Equity Formulas

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**SIMPLE APPRAISAL BASED FORMULA**

- Appraisals at purchase and resale
- Increase = % of increase in appraised value
- % increase smaller than compound



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**SIMPLE APPRAISAL BASED FORMULA**

- Appraisals at purchase and resale
- Increase = % of increase in appraised value
- % increase smaller than compound



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**APPRAISAL BASED FORMULA:  
ASSUMPTIONS**

\$250,000 = Cost to develop  
\$100,000 = Subsidy available \_\_\_\_\_  
\$150,000 = Original Affordable Price (or Base Price)  
Affordable to a HH of 4 @ 61% AMI

- Down payment = Closing costs
- \$250,000 = Initial appraised value



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**SIMPLE APPRAISAL BASED FORMULA:  
EXAMPLE**

Base Price  
 + 25% (Change in value)  
 = Formula Price




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**SIMPLE APPRAISAL BASED FORMULA:  
EXAMPLE**

\$400,000 (Current appraisal)  
\$250,000 (Original appraisal)  
 \$150,000 (Difference in appraisal)  
 X 25%  
 \$37,500 (Appreciation)  
 + \$150,000 (Base price)  
\$187,500 Formula Price  
 Affordable to 62% AMI  
 - \$9,000 (Closing costs to sell)  
-\$122,013 (Payoff)  
 \$56,487 (Cash to Seller)




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**SIMPLE APPRAISAL BASED FORMULA:  
ADVANTAGES**



- Easily explained
- Easily administered
- Disputes unlikely
- Sharing of gains
  - Individual
  - Community

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### SIMPLE APPRAISAL BASED FORMULA: DISADVANTAGES



- Based on market value
- What do you do with your 75%
- APPRAISALS!
- Must have appraisal to calculate

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### VARIATIONS



- Multiple index formulas
- Hybrid index formulas
- The Lesser of...

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### CAPITAL IMPROVEMENTS



- When does it make sense?
  - Age/condition of housing stock
- Relationship to resale formula?
  - Appraisal based formulas
  - Conservative formula + capital credits
- Don't forget Ease of Administration!

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### AMENDING YOUR FORMULA



- NO right answer!
- Simplicity WINS!
- Sometimes needed.
- Thoughtful process
- New buyers only

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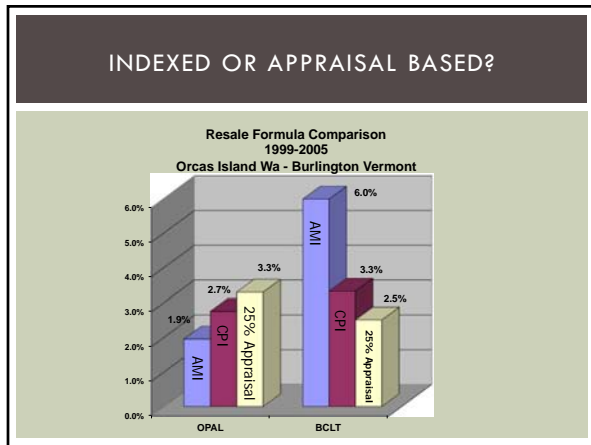
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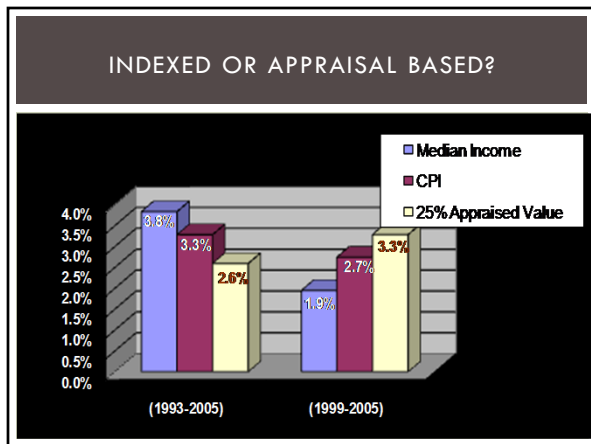
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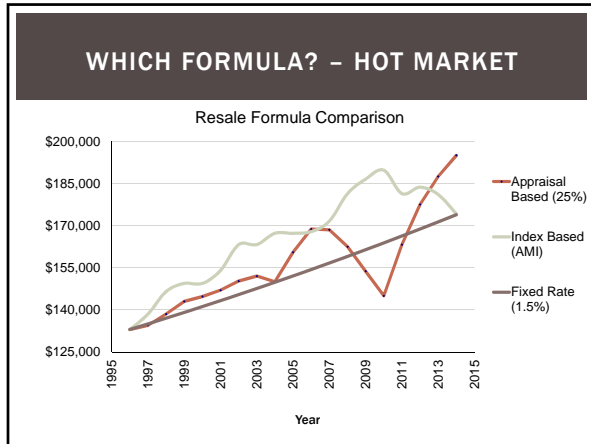
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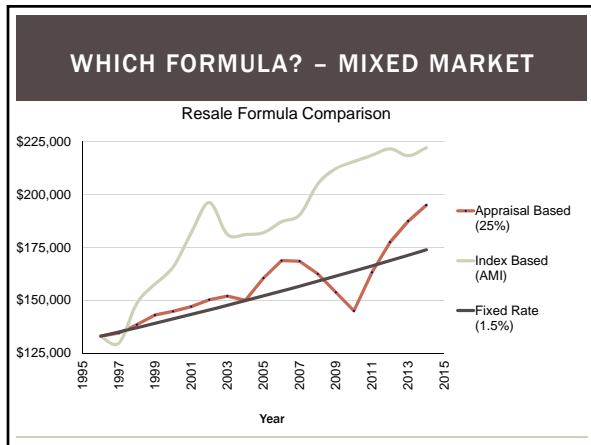
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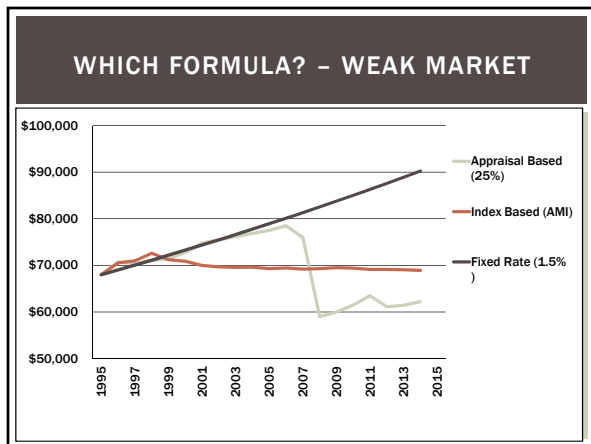
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**RESOURCES**

- **Cornerstone Partnership Resale Formula Video Series**  
(Google: Resale Formula Video Series)
- **Burlington Associates Resale Formula Calculator**  
<http://www.burlingtonassociates.com/home-slides/resale-formula-comparison-tool>
- **National CLT Network Technical Manual – Resale Formulas**  
<http://cltnetwork.org/wp-content/uploads/2014/07/12-Resale-Formula-Design.pdf>

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**THANKS!**



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