



# The Balancing Act

Resale Formula Options for Long-Term Affordable Homeownership Programs



Cornerstone Partnership promotes strong, integrated communities where all people can afford a decent place to live and thrive. We provide expertise on policy and practice. We support a peer network for homeownership and inclusionary housing programs that preserve long-term affordability and community stability. Our members are practitioners, policy makers, advocates, consultants, and other housing professionals dedicated to helping families build assets while keeping communities affordable. Since our launch in October 2010, we have grown to over 1,000 members, including 18 national outreach partners. Cornerstone Partnership is a program of Capital Impact Partners. Learn more at [affordableownership.org](http://affordableownership.org).

Capital Impact Partners transforms underserved communities into strong, vibrant places of opportunity. A leading nonprofit Community Development Financial Institution, Capital Impact Partners delivers strategic financing, incubates social innovation programs, and supports capacity building and policy reforms that create social change and deliver financial impact nationwide. Over its 30-year history, Capital Impact Partners has disbursed more than \$2 billion to help ensure access to quality health care and education, healthy foods, affordable housing, cooperative development, and the ability to age independently. Learn more at [capitalimpact.org](http://capitalimpact.org).

Since April 2012, the Cornerstone Homeownership Innovation Program (CHIP) has awarded grants to organizations to build capacity and scale in the long-term affordable homeownership sector. Grantees received technical assistance, developed stewardship work plans, and participated in training to strengthen their individual programs, with the ultimate goal of building evidence and creating replicable models for the field. CHIP grantees contribute to an evaluation study that will, in the long, run increase the level of evidence associated with this approach to affordable homeownership. CHIP is funded by the Corporation for National and Community Service's Social Innovation Fund and the Ford Foundation. Learn more at [affordableownership.org/chip](http://affordableownership.org/chip).

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# The Balancing Act

## Introduction

In many communities, as the price of housing has increased, the amount of subsidy needed to help families buy their own homes have increased as well. Where programs once had to provide only a small amount of assistance to help families find the cash necessary to purchase a home, they now must invest significant subsidies to fill the gap between what families can afford and the price of market rate housing.

As public subsidies have increased and inclusionary housing has become a more common tool in developing affordable units, policy makers and practitioners want to make sure the money invested in affordable housing benefits more than one family. Many are turning to resale restrictions as a means to that end.

Resale restricted homeownership has existed for a long time, so many experienced programs across the country have used different formulas over the years. Today, the following three types of formulas are most common, and pass the test in terms of being both easy to understand and administer:

- Fixed rate resale formulas
- Index based resale formulas
- Appraisal based resale formulas

This document provides a basic overview of these three formulas, the technical language, and a numeric example for each formula, as well as some of the advantages and disadvantages of each. It features examples from organizations implementing long-term affordable homeownership programs across the country, many of which are Cornerstone Homeownership Innovation Program (CHIP) grantees.

**It is important to note** that the formulas represented in this report calculate the “formula price” for a resale restricted home. However, most resale restrictions also state that the purchase option price is the “lesser of” the formula price, and some other measure of market value, such as the current market value of the home. In falling markets, it is this other measure that ends up determining the maximum price for which a homeowner may sell their resale restricted home.



Additional resources related to resale formulas, program implementation, and much more are available in Cornerstone Partnership’s online Document Library: [www.affordableownership.org/document-library](http://www.affordableownership.org/document-library)

# Fixed Rate Resale Formula

## Fixed Rate Formula Summary

In a fixed rate formula, the homeowner's initial affordable price (what they paid to buy their home – or the “base price” in the formula language) is increased over time by a fixed annual percentage of either simple or compound interest. While programs can choose any interest rate, the most common are between 1% – 2% per year.

## Fixed Rate Formula Language

The formula price shall be equal to:

- A The amount of homeowner's base price (which the program and homeowner agree is \$\_\_\_\_\_) plus
- B The base price times \_\_\_\_% simple (or compound) interest X the number of years in the home.

## Example

- A Base price = **\$150,000**
- B Simple interest of 2%/year X 8 years = **16%**
- C Base price X 1.16 = \$150,000 X 1.16 = **\$174,000**

## Advantages

- 1 Extremely easy to administer.
- 2 May be calculated at any time and can easily be projected.
- 3 Allows for slow and steady increase in value.
- 4 May be compounded or stepped to encourage long-term tenure, etc.

## Disadvantages

- 1 There is no relationship between the condition of the home and the price.
- 2 Simple interest fixed rate formulas do not reward long-term tenure.
- 3 Depending on market conditions, in weak markets, fixed rate formulas may provide a greater than market rate increase in price.



# Fixed Rate Resale Formula

**In the Field:** Fixed Rate Resale Formula at Work



The Woods at Parley's Lane, an MCHT ground lease development, helps homebuyers attain homes for nearly \$100,000 below market-rate prices.

## Mountainlands Community Housing Trust

[www.housinghelp.org](http://www.housinghelp.org)

Park City, UT



Mountainlands Community Housing Trust (MCHT) has been developing and selling resale restricted homes since 1993 using the fixed rate formula. Park City is a resort town with housing prices rising by nearly 60% over the past 15 years and incomes increasing by 43% (average 2.9% per year) during the same time period.

MCHT's resale formula allows sellers to sell their homes for the price that they paid, plus 3% simple interest each year, plus any applicable capital improvement credits.

Because MCHT offers simple interest that is approximately the same as the annual increase in wages, their homes should remain affordable to approximately the same target income over time. However, since they also offer credits for capital improvements, this may not always be the case. In the down market a few years ago, sellers were not always able to find buyers willing to pay the formula price, so they dropped their prices to sell their homes more quickly, which also improved affordability.

# Index Based Resale Formula

## Index Based Formula Summary

In an index based formula, the homeowner's initial affordable price (what they paid to buy their home – or the "base price" in the formula language) is increased over time by the percent change in a published index.

The most common index used is the Area Median Income (AMI). Since programs often strive to make their homes affordable to buyers earning the same percentage of median income over time, tying the resale price to the AMI may help achieve that goal.

Another index used by some Programs is the Consumer Price Index (CPI). In some markets, CPI is tied more closely to wages (as opposed to investment income, for instance, that ends up in the AMI figures) and generally changes more steadily than does AMI.

## Index Based Formula Language

The formula price shall be equal to:

- A The amount of homeowner's base price (which the program and homeowner agree is \$\_\_\_\_\_) plus
- B An amount equal to the homeowner's base price multiplied by the total percentage of increase, since the date this agreement was signed, in the \_\_\_\_\_ Index, as determined and published by the \_\_\_\_\_ or such successor agency as may publish such index.
- C In no event may the average annual increase exceed \_\_\_\_%.
- D The parties agree that when the agreement was signed, the \_\_\_\_\_ Index number (the original number) was \_\_\_\_\_. To determine the percentage of increase in the Index, the original number shall be subtracted from the most recently published Index number, and the remainder shall then be divided by the original number.

## Example

- A Base Price = **\$150,000**
- B AMI for a HH of 4 at the time of Initial Purchase = **\$48,000**
- C AMI for a HH of 4 at the time of resale = **\$56,000**
- D % change in AMI =  $(56,000 - 48,000) / 48,000 = 16.67\%$
- E Capped at an average of 3% per year =  $16.67 / 8 \text{ years} = 2.1\%/\text{year}$  (therefore use change in index)
- F Base Price X 1+change in index =  $\$150,000 \times 1.167 =$   
**Formula Price of \$175,050**

## Advantages

- 1 Assuming interest rates are stable and the program uses the AMI index, this formula ties price to changes in median income, which keeps the home theoretically affordable.
- 2 May be calculated at any time.
- 3 Easy to administer.

## Disadvantages

- 1 Figures are released periodically and the timeframe for release may vary.
- 2 There is no relationship between the condition of the home and the price.
- 3 In weak markets, increases in index may outstrip increases in housing market values.
- 4 Changes in the way the index is calculated can mean spikes/dips in the index.
- 5 The AMI index tends to be erratic, remaining flat for several years and then increasing substantially in other years.



# Index Based Resale Formula

## In the Field: Index Based Resale Formula at Work



OPAL Community Land Trust celebrating 25 years of good neighbors and permanently affordable homeownership.

## OPAL Community Land Trust\*

[www.opalclt.org](http://www.opalclt.org)

Orcas Island, WA

OPAL Community Land Trust has been developing and selling resale restricted homes since 1993. OPAL's resale formula has evolved over the years, but has always been an index based resale formula. Orcas Island is an attractive vacation and retirement destination located in the Pacific Northwest.



OPAL's resale formula allows sellers to increase the price that they paid for their OPAL home by the percentage change in the Consumer Price Index for the Seattle metropolitan area, capped at an average of 4% per year, plus any applicable capital improvement credits.

HomeKeeper's Social Impact Report analyzed 100 initial sales and 46 resales of OPAL's program to evaluate the effectiveness of its resale formula, among other indicators. The data revealed that 53% of OPAL resold homes were sold at prices that were affordable to people earning approximately the same percentage of area median income as the initial sale. Twenty-nine percent were slightly more affordable at resale, and 18% were slightly less affordable.

\*OPAL Community Land Trust is not a CHIP grantee; however, it provides an important example of an index-based resale formula.

# Appraisal Based Resale Formula

## Appraisal Based Formula Summary

In an appraisal based formula, the homeowner's initial affordable price (what they paid to buy their home – or the “base price” in the formula language) is increased over time by adding to it a specified percentage of the increase in the home's market value. The increase in market value is measured by market appraisals at the time of initial purchase and the time of resale. While programs can choose any percentage to allocate to the homeowner's price at resale, the most common percentage is 25%.

## Appraisal Based Formula Language

The formula price shall be equal to:

- A The amount of the homeowner's base price as stated below, plus \_\_\_\_% of the increase in appraised market value.
- B Program and homeowner agree that the base price is \$\_\_\_\_\_.
- C The increase in appraised market value is calculated as:
  - 1 The appraised market value at the time of resale, minus
  - 2 The appraised market value at the time of initial purchase, which the program and the homeowner agree was \_\_\_\_\_.

## Example

- A Base Price = **\$150,000**
- B Appraised Value at the time of Sale = **\$300,000**
- C Initial Appraised Value = **\$215,000**
- D Increase in appraised market value = **\$85,000**
- E Homeowners share of Increase =  **$\$85,000 \times 25\% = \$21,250$**
- F Base price of \$150,000 + homeowner's share of increase of \$21,250 = **Formula price of \$171,250**

*Note: The language above refers to “increases” in appraised market value. Some programs specify a different formula that is used if market values fall.*

## Advantages

- 1 Allows homeowners to realize a modest percentage of the increase in market value of their specific home.
- 2 Provides a modest reward for improvements.
- 3 Provides a modest penalty or reward for condition.
- 4 Depending on how the formula is written, an appraisal based resale formula can protect the program against losses in falling markets.

## Disadvantages

- 1 Inconsistent appraisals can make program hard to implement and create conflict.
- 2 Cannot calculate price without commissioning an appraisal.
- 3 In hot markets, may not adequately protect affordability.



# Appraisal Based Resale Formula

## In the Field: Appraisal Based Resale Formula at Work



CHT, joined by Vermont Governor Peter Shumlin and partners celebrate the ribbon cutting at a new affordable community in Shelburne, Vermont which includes multifamily rentals, senior housing, and Habitat for Humanity homes.

## Champlain Housing Trust

[www.getahome.org](http://www.getahome.org)

Burlington, VT

Champlain Housing Trust (CHT) has been developing and selling resale restricted homes since 1984. CHT's resale formula has evolved over the years, but has always been an appraisal based resale formula. Burlington is a university town, and both incomes and housing prices have roughly doubled in the last 25 years.



CHT's resale formula allows sellers to sell their homes for the price that they paid, plus 25% of the increase in the appraised value (or 100% of the depreciation in value), plus any applicable capital improvement credits.

A 2010 study of the effectiveness of CHT's program reviewed all the initial sales and the more than 200 resales to evaluate the effectiveness of CHT's resale formula, among other indicators. The data revealed that 74% of CHT's resold homes were sold at prices that were affordable to people earning approximately the same percentage of area median income as the initial sale. Eleven percent were slightly more affordable at resale, and 15% were slightly less affordable.



# When a Resale Formula Doesn't Deliver

**Changing Course to Optimize Resales and Affordability.** In some cases, a program will try one resale formula only to discover it doesn't work as expected in its particular market. Here are two examples of when a resale formula didn't live up to expectations, and how the program changed it to make it work.

## City First Homes

[www.cfhomes.org](http://www.cfhomes.org)  
Washington, D.C.



City First Homes (CFH) in Washington, D.C. started selling resale restricted homes in 2010 using an appraisal based formula modeled after that of the Champlain Housing Trust.

CFH's resale formula allowed sellers to sell their homes for the price that they paid, plus 25% of the increase in the appraised value, plus any applicable capital improvement credits.

Despite its attractive inventory and affordable prices, CFH found it difficult to market and sell their units, concluding that part of the problem was the challenge of selling the resale formula. So rather than focusing on what the seller is not getting (the other 75% of the increase in appraised value), they began researching alternative formulas.

After modeling several different options, CFH found that a fixed 1.5% formula that is compounded annually produces a very similar return to their appraisal based formula, but might improve marketability as the formula is easy to understand and emphasizes what the seller will get without highlighting the market at all. CFH is in the final stages of reviewing this new formula with its Board of Directors. Stay tuned!

## Homestead Community Land Trust

[www.homesteadclt.org](http://www.homesteadclt.org)  
Seattle, WA



Homestead Community Land Trust in Seattle started selling resale restricted homes in 2002 and, like City First Homes, it modeled its initial resale formula after Champlain Housing Trust's.

Homestead's original resale formula allowed sellers to sell their homes for the price that they paid, plus 25% of the increase in appraised value, plus any applicable capital improvement credits.

But Seattle's housing market was extremely hot in the mid-2000s, and when Homestead was faced with its first resale, staff quickly realized that if their goal was to maintain affordability, they would need to change their resale formula. Otherwise, their restricted prices would outpace increases in income and become unaffordable to their target market.

After considering different options, Homestead decided on a fixed 1.5% formula that is compounded annually. Although Homestead has been using the new formula for several years now, they have not had it in place long enough to evaluate its effectiveness.