Long Term Affordability with a Ground Lease: An Overview for Title Companies

The Land Lease Model of Homeownership

Since the land lease model for long-term affordability was developed in the 1960s and is increasingly being used in communities across the country as a mechanism to preserve housing affordability over the long term.

In brief, the land leased model for long term affordability makes it possible for low and moderate income households to own homes on land that is leased from a non-profit through a long-term (typically 99-year), renewable ground lease. The home buyer leases the land but owns and holds the deed to their home.

Proud Ground is a 501c3 non-profit with a mission of creating permanently affordable homeownership opportunities for income qualified first time home buyers. Proud Ground has partnered with Habitat Oregon to ensure that Habitat for Humanity Affiliates across the state of Oregon have access to LIFT funding provided by the State of Oregon. The LIFT funding requires long-term affordability. This long-term affordability is ensured through a ground lease that secures the rights of the homeowner, while keeping the home affordable, resale after resale, to other low and moderate income homebuyers.

Habitat Cooperation:
HABITAT AFFLIATE has been serving low-income first time homebuyers in the ________________area for over ____ years. Although the land lease model of homeownership is new to HABITAT AFFILIATE, developing affordable housing is not. Through this partnership, HABITAT AFFILIATE will welcome home __ new homeowners in _________ 20____.

About HABITAT AFFILIATE:

- Number of home buyers served:
- Year incorporated:
- Service Area:
- HABITAT AFFILIATE secures substantial public, private and foundational support to help bring the cost of buying a home down to a level that low and moderate income households can afford.
- To ensure the permanent affordability of the home, the Habitat homeowners enter into a legal agreement with HABITAT AFFILIATE at closing to ensure that if they sell their home in the future it will be sold to another income qualified home buyer at an affordable price.

PERMANENT AFFORDABILITY MECHANISM

To ensure permanent affordability of the property HABITAT AFFILAITE utilizes one of two tools.

- *Land Lease*: HABITAT AFFILIATE owns the land under the home and leases the land to the homeowner in a 99 year renewable lease. This ensures the homeowner's e legal rights to the use of the land, while protecting the affordability of the home upon resale.
- *Affordable Housing Covenant*: This is used when HABITAT AFFILIATE owns the land under the home but has established a condominium and is selling units itself or through a wholly owned subsidiary (in a leasehold condominium. The covenant ensures the affordability restrictions are met if the home re-sells.

PROPERTY TAXES & FEES

The following are fees that should be estimated into a homebuyers settlement statement for HABITAT AFFILIATE's Land Leased homes:

PROPERTY TAXES

- HABITAT AFFILIATE homebuyers pay property taxes on both the land AND the improvements.
- Property taxes for both the land AND the improvments must be escrowed by the lender.
- Lenders will need to request TWO tax bills for these accounts (land & house).

MONTHLY FEES

- HABITAT AFFILIATE homebuyers pay a monthly land lease/service fee. This fee should be included in the calculation of the buyer's debt to income ratio. The current fee is $XX/month.

CLOSING FEES

- HABITAT AFFILIATE collects pro-rated land lease/service fees from the closing date to the first mortgage payment at a current rate of $XX/month
- HABITAT AFFILIATE's legal documents result in additional recording fees. Estimated at $600-$1,200.

TITLE COMPANIES ROLE WITH HABITAT AFFILIATE HOME BUYERS

HABITAT AFFILIATE requires all home sales to be closed in escrow with a licensed title and escrow company that is familiar with how to close on these unique transactions.

DOCUMENTS PROVIDED BY TITLE COMPANY TO HABITAT AFFILIATE

From the time a home buyer gets under contract and escrow is opened, HABITAT is to be included on all communications of the title company with the home buyer. Here are a list of documents that HABITAT needs to receive to be able to approve a land leased purchase:

- During Purchase Process:
    - Confirmation that escrow has been opened
    - Copy of earnest money deposit, if applicable

  - Preliminary Title Report with copies of all recorded exceptions to title and any subsequent updates
  - Full copy of fully executed sales contract
  - Draft a deed prepared per HABITAT escrow instructions
  - Draft settlement statement prepared per HABITAT escrow instructions
  - Wire instructions
- Post Closing:
  - Fully signed copy of first mortgage loan documents
  - Fully signed/recorded deed
  - Fully signed/recorded Short Form Land Lease Agreement
  - Fully signed/recorded Notification of default
  - Final Settlement Statement

DOCUMENTS PROVIDED BY HABITAT AFFILIATE TO THE TITLE COMPANY

To facilitate a smooth transaction HABITAT AFFILIATE will provide the following documents to the title company within a timely manner:

- Draft escrow instructions
- Final escrow instructions
- Grant funds for purchase, if applicable
- Final Land Lease Documents

THINGS TO CONSIDER

HABITAT AFFILIATE serves a diverse group of home buyers, many of them first generation home buyers of color. We strive to work with referral partners that are skilled in working with first time home buyers from diverse backgrounds. Approximately ____% of HABITAT AFFILIATE home buyers speak English as a 2nd language and/or do not speak English. HABITAT AFFILIATE will arrange for and pay for interpreters to attend the closing appointments for home buyers needing such services. We understand that title companies/escrow agents work with a wide range of clients and our anticipation is that HABITAT AFFILIATES home buyers would be treated with the same standard of care and due diligence that any paying client would get.