



## Summary of the Houston Community Land Trust Ground Lease

Houston Community Land Trust has created its Community Land Trust (“CLT”) housing program to expand access to affordable homeownership for low-income households, to preserve the quality and character of the neighborhoods the organization serves, and to maintain the affordability of homes in Houston for generations to come.

The provisions set forth in the Ground Lease – and summarized here – exist to ensure that generations of homebuyers will have the same opportunity that the original homebuyers had to purchase a home.

The purpose of this summary is to explain what the CLT homeowner is getting when they purchase a CLT home. We have prepared the following summary of the Ground Lease explaining in plain English the responsibilities and restrictions that a CLT homeowner will be signing up for. While this summary is intended to inform the CLT homeowner’s understanding of the Ground Lease, it is not intended to be a substitute for a careful review of the Ground Lease. The Ground Lease contains the definitive provisions of this transaction regardless of any information in the summary below.

### **1. Who is eligible to purchase CLT homes? What does “affordable” mean?**

Generally, purchasers of CLT homes cannot earn more than 80% of the Area Median Income for their household size in the Houston-The Woodlands-Sugar Land, TX Metropolitan Statistical Area. This number is calculated annually by the U.S. Department of Housing and Urban Development (HUD). In 2018, 80% of the Houston Area Median Income for a household of four was \$59,900.

CLT homeownership is more affordable than market homeownership because the homeowner is purchasing the home only, and not the land. In addition, the property taxes on the home and the land are lower than they otherwise would be under a traditional market appraisal because the taxing authority, Harris County Appraisal District, takes both the resale restrictions on the home and the low lease fee into account in appraising CLT properties.

HCLT strives to ensure that CLT homeowners spend no more than 33% of their gross income on total housing costs, including mortgage payments, taxes, insurance and CLT fees, unless demonstrated compensating factors make it reasonable to extend that limit based on individual circumstances.

### **2. How do I finance the purchase of my CLT home? (Article VIII)**

CLT homeowners typically obtain a mortgage from a bank to finance the purchase of their CLT home. The terms of the mortgage must be approved by HCLT, and HCLT will assist the homeowner in applying for the mortgage. The specific requirements for the mortgage are set forth in Article

VIII of the Ground Lease and in the CLT's Permitted Mortgage & Refinancing Policy. Any future refinancing or home equity financing is also subject to prior approval by the CLT.

### **3. Are there any fees associated with the CLT program? (Articles V and VI)**

Yes. The homeowner pays a fee of \$100 each month to HCLT. This amount is made up of both the Ground Lease Fee and the Exterior Repair and Replacement Reserve Fee (also called the "Maintenance Fee"):

#### Ground Lease Fee

In exchange for her occupancy and use of the land beneath her home, the CLT homeowner pays HCLT a monthly Ground Lease Fee, due on the first day of each month. This fee is \$50 each month, as set forth in the Ground Lease in Section 5.1. The Ground Lease Fee may be adjusted for inflation by HCLT no more than once per year.

#### Exterior Repair and Replacement Reserve Fee or the "Maintenance Fee"

To preserve the physical condition of the major exterior systems of the home, the CLT homeowner pays HCLT a Maintenance Fee of \$50 each month. Maintenance Fee payments are deposited by HCLT into a reserve fund dedicated specifically to that home. Maintenance Fee reserve funds may be used by the current homeowner, or subsequent owners of the home, to maintain and repair the roof, exterior siding, exterior paint and finishes or similar features of the home. The Maintenance Fee reserve funds remain with the home until they are withdrawn for needed repairs or maintenance by a current or future homeowner. A homeowner cannot withdraw unused Maintenance Fee reserves when the home is sold. Maintenance Fee payments are due on the first day of each month, and may be adjusted for inflation by HCLT no more than once per year.

### **4. Who pays the property taxes on the land and the home? (Article VI)**

Because CLT homeowners enjoy the benefit of the land and the surrounding community services (schools, roads, etc.), they are responsible for the payment of any and all property taxes on both the home and the land as assessed by Harris County Appraisal District (HCAD) or other local taxing districts. CLT properties are appraised using a different method than market-rate properties, making the property tax bills on CLT homes significantly lower than conventional market-rate homes.

### **5. Do I have to maintain insurance on my home? (Article IX)**

CLT homeowners must maintain adequate homeowner's insurance at all times, as outlined in Section 9.4 of the Ground Lease. Specifically, CLT homeowners are required to carry an "all-risk" property insurance policy for the full replacement value of the CLT home. Additionally, CLT homeowners are required to carry public liability insurance covering the CLT home and the land underneath it. If the home is situated in a flood hazard zone, the homeowner must buy flood insurance. HCLT must be named as an additional insured on all insurance policies.

## **6. What are the CLT homeowner's responsibilities under the Ground Lease? (Article IV)**

- The home must be used for residential and related purposes only.
- The home must be the homeowner's primary residence and homestead.
- The home must be occupied for at least 9 months out of the year by the homeowner or the homeowner's qualifying family members. Qualifying family members include the homeowner's spouse, parents, children, and grandchildren.
- The homeowner may not sublease the land or lease the home without the written permission of HCLT.
- The homeowner must not create any nuisance or actual harm to others.
- The homeowner must dispose of waste in safe and sanitary manner.
- The homeowner must maintain the home and property in good, safe, and habitable condition and in compliance with all laws, regulations and insurance requirements.
- The homeowner is responsible for the actions of any family, friends, or visitors in the home or on the land.
- The homeowner must allow HCLT to inspect the land no more than once per year except in emergency. HCLT must give the homeowner at least 24 hours' prior notice of the inspection. HCLT may not inspect the interior of the CLT home or any fully enclosed buildings, such as a garage, except in the case of an emergency or prior to the home's sale.

## **7. What are the CLT homeowner's obligations to maintain the CLT home? (Article VII)**

The homeowner must maintain the CLT home and the land underneath it in good, safe, and habitable condition. As part of this requirement, homeowners are required to ensure that all necessary maintenance, repairs, and replacements are performed when needed. It is solely the homeowner's responsibility to maintain the home and pay for the cost of repairs.

Homeowners are responsible for the costs of all utilities related to the home, including water, gas, and electricity.

## **8. What if I want to make changes to my home? (Article VII)**

The homeowner may make changes to the home as long as any construction activities are performed in a professional manner in compliance with all laws and regulations, and any changes are consistent with residential use. The homeowner is expected to cover all costs of the proposed modifications. The homeowner may not make modifications that affect the footprint, square footage, or height of the home or that add new structures to the land (such as a garage or fence) without written approval from HCLT. Homeowners may apply for approval by submitting a written request to HCLT that includes:

- A written statement of the reasons for undertaking the construction,
- A set of drawings showing the dimensions of the proposed construction,
- A list of necessary materials and quantities needed, and
- A statement of who will do the work.

HCLT then has two weeks to give the homeowner its written consent to the new construction, or to give the homeowner its reasons for not consenting in writing.

#### **9. What if I want to finance or refinance my CLT home? (Article VIII)**

Most CLT homeowners secure mortgage financing to purchase their home. HCLT permits homeowners to take out standard, fixed-rate mortgages that meet certain requirements, such as being from an approved lender and having a maximum term of 30 years. These requirements can be found in HCLT's Permitted Mortgage & Refinancing Policy.

Once the homeowner has purchased the home, the homeowner may refinance their mortgage or obtain a home equity line of credit only with HCLT's written permission.

#### **10. What happens if the homeowners fail to comply with the Ground Lease? (Article XII)**

If the CLT homeowner fails to pay the Lease Fee to HCLT, and the fee is left unpaid for 30 days following notice from HCLT, then the homeowner is in default under the Ground Lease. If the homeowner pays two-thirds of the amount owed to the CLT within 30 days of receiving notice, then she will receive an additional 30 days to make good on the entire debt to avoid default. If the homeowner violates a non-monetary obligation in the ground lease (for example, an unapproved sublease), then she has 60 days to come back into compliance with the Ground Lease, or begin a good faith attempt to comply, to avoid default.

A homeowner's default under the Ground Lease gives HCLT the right to terminate the Ground Lease and sue the Homeowner for repossession of the home.

#### **11. What if I have a dispute with HCLT? (Article XIII)**

HCLT and the homeowners can take their dispute to mediation. The costs of the mediation will be split equally among the parties. If the dispute is not resolved in mediation, the issue will be submitted to binding arbitration.

## 12. How much can I sell my home for? (Article X)

The maximum price that the CLT homeowner can sell the home for is restricted to a fixed rate of increase per year (1.25% simple interest) above the initial sale price. The cap on the home's sales price allows the home to maintain its long-term affordability.

## 13. What happens if I want to sell my home? (Article X)

HCLT's goal is to maintain the availability of affordable housing for low- to moderate-income households, and that goal is reflected in the sales process.

- Who can I sell to?
  - In general, the homeowner may only sell her home to HCLT or an income-qualified person. An income-qualified person is a person whose gross annual household income is less-than or equal to 80% of the median household income in the area. Upon being made aware of the homeowner's intent to sell, HCLT will have the option to purchase the home before the homeowner can sell directly to a buyer. If HCLT's purchase option expires and the homeowner finds a buyer for the home, HCLT must confirm in writing that the buyer is an income-qualified person and provide written approval of the terms of the sale.
- Who approves the sale?
  - All sales or transfers of the home must be approved by HCLT.
- Can I transfer my home to my heirs?
  - The homeowner may transfer their home to her heirs after her death under the conditions of **Article X**. Article X provides that a homeowner's spouse, children, or members of the homeowner's household who have resided in the home for at least one year immediately prior to the homeowner's death may inherit the CLT home and use it as their primary residence, regardless of whether they are income-qualified. Any heir who wishes to reside in the home must go through the process of entering into a new ground lease with HCLT. All other heirs must be income-qualified in order to use the home as their primary residence, but all heirs are entitled to receive their designated share of the proceeds from the sale of the home back to HCLT.
- How do I sell my home?
  - The homeowner provides HCLT with a Notice of Intent to Sell.
  - HCLT will exercise its Purchase Option on the home, which is the right to buy the home at the resale formula price, or assign its right to buy the home to an income-qualified buyer identified by HCLT.

- If HCLT does not exercise its Purchase Option, the homeowner can sell their home at the resale formula price to any income-qualified buyer that is approved by HCLT.

#### **14. What costs will the homeowner pay when selling the CLT home? (Article X)**

The homeowner will pay all closing costs related to the purchase, any costs of curing title objections made by the purchaser, all outstanding Ground Lease and Stewardship Fees owed to HCLT, and any amounts necessary to discharge any liens against the home.

#### **15. What happens if HCLT sells or transfers the land my home is on? (Article III)**

HCLT does not intend to sell or transfer the land underneath the CLT homes. In the unlikely event that the HCLT dissolves or must transfer the land to another entity, then the homeowner's Ground Lease on the land would continue for the remainder of its term. However, if the land were to be transferred to an entity other than a non-profit corporation, a charitable trust, a government agency, or an organization with goals similar to those of HCLT, then before the transfer occurred, the homeowner would have a right of first refusal to purchase the land underneath the home.

#### **16. How long will the CLT home be affordable? (Article III)**

The intent is that CLT homes will be affordable forever. The term of the lease is 99 years and the lease may be renewed by anyone who rightfully inherits it for an additional 99 years. Any subsequent purchasers of the home will receive a new 99-year lease. Each future CLT home buyer will enjoy the home at an affordable purchase price, and will pass that affordability on to the next CLT home buyer.