ATTACHMENT 1

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Date: **February 5, 2007**

To: **Mayor Foy and the Chapel Hill Town Council**
From: **Robert Dowling, Executive Director**
Re: **Quarterly status report for quarter ended December 31, 2006**

The year ended on a high note when we closed on two Northside homes in November/December. Part of the Northside Initiative, these two homes on Nunn Street were designed to match the traditional architecture of Northside. One home was built by Habitat for Humanity and was sold to an employee of the Town of Chapel Hill. The other home was sold to a couple who both work at Whole Foods. We are in the process of building one additional home in this Sykes Street neighborhood where a Chapel Hill police substation also opened in November.

For the calendar year 2006 we added 9 new homes to the Land Trust, including 4 in Carrboro; 12 Land Trust homes also resold during the year. As of December 31, 2006 there were 125 homes in the Land Trust, 115 of which are in Chapel Hill; 9 are in Carrboro and 1 is in Hillsborough. In 2007 we expect to add an additional 10 homes to the Land Trust inventory.

An analysis of our experience selling homes as Land Trust properties since June 2000, reveals the following statistics:

- We have served 153 households; 28 owners have resold their homes; most move into market-rate ownership outside of Orange County
- The average income of our homebuyers has been 65% of the area median income (AMI)
- 102 of the 153 households served earned between 60% and 80% of AMI.
- 46% of households served were single-person households
- 24% of households served were headed by single-mothers
- 27% of households were employed at UNC
- An additional 6% were employed at UNC Hospitals
- 13% of households were teachers
- The average age of buyers has been 36 years
- The average household income has been $36,190
- 69% of households served were White; 31% were minorities
- Of the 21 homes sold in 2006, 14 were sold to White households, 5 were sold to African-American households, and 2 were sold to Hispanic households.

The most significant work we undertook during 2006 was the rigorous analysis of how the Land Trust model was performing with regard to maintaining affordability and keeping our homes well maintained. I will devote the balance of this quarterly report to a summation of that work.

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Orange Community Housing and Land Trust
Quarterly Status Report
December 2006

In March 2006 the board of directors appointed an Asset Management committee to analyze how our model was working. The committee consisted of 4 board members, including 1 homeowner, and 3 staff members. The committee gathered data on every Land Trust home sold since inception. We placed particular focus on homes that had resold to determine affordability trends. After eight months of analysis, projections and discussions about underlying philosophies, the committee made the following conclusions:

1. The current model was causing homes to become *more affordable* relative to home prices, but because HUD income limits are not increasing, our homes are becoming *less affordable* to our buyer population,
2. The current model does not require or encourage homeowners to maintain their homes because homeowners only receive 20% - 25% of appreciation when they sell. Long-term affordability is achieved at the expense of long-term maintenance.

The Land Trust board recognizes that for this model to be successful, our homes must remain affordable and well-maintained over time. We believe it would be detrimental to inclusionary housing policies if Land Trust homes were to deteriorate and to be viewed as being responsible for declines in property values.

Maintenance of big-ticket items like HVAC systems and roofs pose a significant financial challenge for all low-income homeowners. These challenges are exacerbated for Land Trust homeowners who do not reap the same financial rewards when they sell their homes. Because they forego most of the appreciation, their homes remain affordable to future generations of low-income buyers. The larger community benefits from this equity sharing arrangement.

To address the affordability and maintenance challenges, we have drafted a revised model that includes the following components:

1. Our resale formula will be revised such that homeowners are guaranteed a 1.5% annual return on their property. This is slightly lower than the 1.67% that our home-sellers have averaged until now.
2. The Land Trust will begin collecting a monthly stewardship fee from every new homeowner. These funds will be dedicated to replacing five big-ticket items in each home: roofs, HVAC systems, hot water heaters, exterior painting and flooring. This fee will vary depending on the type of unit.
3. We will manage these stewardship fees and be responsible for the maintenance of these five capital items. We will also take on the property management responsibilities of homeowner associations. These additional responsibilities will require additional operating funds that will enable us to hire a property manager.
4. We will revise the lease such that typical maintenance, like cleaning carpets and painting dingy walls is the responsibility of the homeowner.

We believe these changes to the ground lease will enable our homes to remain affordable and well maintained far into the future. However these measures alone will not be sufficient to keep our existing inventory of homes affordable and well maintained without additional funding. Based on our analysis and our projections, we will need $3.1 million over the next 25 years to keep all 125 homes affordable and well maintained.

About one-half of the $3.1 million results from the accrual of deferred maintenance across the current inventory. Until those homes resell into the new model, that accrual will continue, without funds being set aside for maintenance. The other half results from some homes becoming unaffordable (such as the 2BR units at the Greenway Condominiums in Meadowmont) and the need for subsidy to allow for the monthly maintenance fee.

We recognize that $3.1 million is a lot of money and we don't expect a solution will reveal itself in the short term. If the local governments approve, we can obtain funding to meet our short-term needs through the CDBG and HOME programs as well as from County bond funds. We expect to need approximately $235,000 to address affordability issues in 2007. This amount is due mostly to the 2BR Greenway units. Our projection for 2008 is only $78,000.

As the executive director, who has served since prior to the organization's conversion to the community land trust model, I would like to offer my sincere regret that this model is not working as well as we had planned. The original steering committee and board of directors, and I, recognized that maintenance would be problematic, but we were unable to devise a workable solution. We simply didn't understand the model well enough. Today, thanks to the efforts of the Asset Management Committee, we understand the model far better. In fact, we believe we can now see the future, and if we do not alter the model, then Land Trust homes will deteriorate over time and some will become unaffordable.

Unfortunately, revising the model will not be enough. Funding will be necessary if we want the model to be successful at providing decent, well-maintained homes that will be affordable to future generations of low-income individuals and families. With adequate funding, I believe our Land Trust will be in a position to establish a new national standard for affordable housing sustainability.

Thank you for your support and your commitment to maximizing the number of affordable housing units that will be developed in our community in the years ahead. Thanks to that commitment, Chapel Hill is now considered a national leader in providing affordable housing to low-income households.

Robert Dowling