Summary and Results of Homeowner Forum on Capital Improvements and Maintenance Issues on January 20, 2009

1. How are <u>capital improvements</u> different from <u>regular maintenance</u>?

   a. <u>Maintenance</u> includes tasks necessary to keep your home in good repair:
      i. Interior painting, plumbing repairs, furnace and A/C check-ups, carpet cleaning, etc.
      ii. Also includes more significant items like replacing the roof, painting the exterior, or repaving driveway (note condo/SFH distinction).

   b. <u>Capital Improvements</u> include upgrades and major investments such as:
      i. replacing carpet with hardwood flooring,
      ii. putting in a ramp to improve accessibility,
      iii. adding a bathroom or bedroom,
      iv. insulating your home to improve energy efficiency,
      v. redoing your kitchen or finishing the basement.

- Key concepts from law students' presentation regarding capital improvement policies:
  - Need to balance: *Stewardship, Fairness, Simplicity*.
  - Policy should specify:
    A. Which improvements homeowner should get credit for when s/he sells or refinances, <u>and</u> the method of calculating that credit.
  - Should all CLT developments be treated the same? Or can legitimate policy differences be justified by circumstances of some developments?

- John Davis provided the context for our discussion in terms of the CLT movement:
  - Many CLTs get to this point – where old policies don't work for the people in their homes or people who want to buy CLT homes.
  - The 230 CLTs in the US have done a good job of maintaining long-term affordability but not as good a job looking at capital improvement and maintenance issues. This whole question of stewardship has bubbled to the top for the CLT movement nationally.
  - There's no one "right" recipe for dealing with cap improv/maint issues --- which is why we are looking at a variety of options tonight.
  - Strength of the CLT model is that <u>homeowners are part of the organization</u> and have a block of seats on the board – so you have a chance to shape policy – and that makes CLTs very different (people in the CLT movement think of this as the "C" in CLT).
  - The process of changing policy is rather long and laborious – by intent – to make it difficult to change an important policy at a whim.

Discussion on Policy Options and Voting Results – Capital Improvements

Option #1: Based on Policy at Thistle CLT in Boulder, CO

A. Credit is given to homeowner for capital improvements in three areas:
   1. Addition of bedrooms and/or bathrooms
   2. Improvement of accessibility or usability for disabled persons
   3. Improvement of home's energy efficiency

   Note: Expenses under $2,000 do not qualify

B. Credit is determined by:
   1. Based on appraisal (before & after) for addition of bedrooms and/or bathrooms.
      - 100% of appraised increase in market value is included in formula (base) price at refinance or sale.
   2. Based on contractor's bid for accessibility and energy efficiency improvements.
      - 50% of contractor's bid amount is included in formula (base) price at refinance or sale.

C. Questions/Comments on Option #1:
   1. What about basements?
      - If you add a bedroom in basement, you can include all the finished square footage in basement
   2. Who is responsible for getting and paying for appraisals?
      - The homeowner
   3. Does appraisal need to be done at time of work?
      - Yes – within 6 months of completion of work (can't be done later at time of refinance or resale)
      - Exceptions must go to a committee for review
   4. What about do-it-yourself projects?
      - Requires a contractor bid to obtain an objective measure of value of work (Thistle uses one of their own contractors so bidders don't get frustrated with bidding on jobs they don't end up doing)
      - DYI must meet same quality standards
   5. How does this fit into resale formula?
      - Do calculation without figuring it in, then add cap improv figure on top of that, so you get an additional "kicker"
   6. How did you come to decide on appraisals (value versus cost approach)?
      - In the market, you don't get dollar for dollar return for improvements

Voting Results: 11 green dots, 2 red dots

Option #2: Based on Policies at Northern Communities CLT in Duluth and City of Lakes CLT in Minneapolis, MN

A. Qualified Capital Improvements (QCI) are defined as those that "add significant value and are capital in nature." These include but are not limited to:
    1. Construction of additions, rooms, garages, bathrooms, and kitchen remodeling.
    2. Major additions that negatively impact affordability or reduce number of bedrooms **do not qualify.**
    3. Expenditures for maintenance such as roof replacement, replacing appliances (e.g. furnace, water heater, refrigerator) **do not qualify**.

B. Credit is based on appraisal (before & after) for all QCI's.
    - 100% of appraised increase in market value is included in formula (base) price at refinance or sale.

B. Questions/Comments on Option #2:
    1. Who is responsible for getting and paying for appraisals?
        - The homeowner does, but Northern Communities CLT in Duluth has gotten around the problem of paying for two appraisals by having the appraiser write a letter saying "by adding a finished basement, it will add $6,000 in value to your home." This isolates the improvements only, rather than reappraise the entire property.
    2. Is there is a maximum dollar amount? No
    3. What about affordability to future generations?
        - To date, biggest ticket item was $3,000 – so it hasn't had much of an impact on affordability
    4. John Davis: what does the CLT want to incentivize – preserving stock of starter homes – or making it possible for people to do what they want to make their homes comfortable for them?
    5. How do you apply this retroactively?
        - We didn't have many homeowners yet – so not a backlog to deal with

Voting Results: 14 green dots, no red dots

Option #3: Based on Policy at Champlain Housing Trust in VT

A. Only those capital improvements add market value to the home, as determined by an appraiser, qualify for credit.
    - Homeowner must have before & after appraisals done to determine market value of improvement.

B. Credit is determined by:
    1. Staff of Housing Trust reviews both appraisals and determines capital improvement credit amount.
    2. Increase in value is credited to homeowner upon refinance or sale of home.

C. Questions/Comments on Option #3:
    1. This policy ignores cost and only focuses on value (market value of the home). There may be a big difference between the two.
    2. But there is a cap –if appraised value exceeds affordability cap, credit will be capped at an amount that keeps the home affordable (Champlain has never had to implement the cap so far).
    - What about variation among appraisers?
        - This is a difficult problem – Champlain has developed a group of appraisers in whom they have confidence and who are familiar with CLT model (but homeowner can choose someone else).
    - What's not included?
        - Things don't add market value or are just regular maintenance (e.g., roof replacement)
    - What is "value"?
        - We rely on appraiser to judge "market value"
        - Lots of things may not add value, like choice of counter top

Voting Results: 11 green dots, no red dots

Option #4: MACLT's Current Policy

Homeowners get 25% of increased market value upon sale of home, based on market appraisal.
- Homeowner must give MACLT notice for improvement that alters the footprint of home.
- Lots of CLTs have similar policies
- Tends to discourage cap improvements

Voting Results: 6 green dots, 8 red dots

Option #5: Based on Policy at State College CLT in PA

1. Homeowner receives dollar for dollar credit for cost of capital improvements IF the improvement appears on CLT's list of pre-approved items.

2. List of pre-approved capital improvements includes: Bedroom, Bathroom, Finishing basement, Accessibility and Energy efficiency improvements

3. CLT staff works closely with homeowners to pre-approve plans and verify costs
   - If it is do-it-yourself, you only get credit for out-of-pocket costs

Voting Results: 9 green dots, 4 red dots

Other Ideas Mentioned by Homeowners in Attendance:

Option #6: Add Credit for Do-It-Yourself Work

Similar to #5 (homeowner receives dollar for dollar credit for capital improvements IF the improvement appears on CLT's list of pre-approved items) but add some way to reimburse people for DIY projects.

Voting Results: 2 green dots, no red dots

Other DIY issues mentioned:
- Consider lowering credit to 50% to reflect closer to appraisal vs. cost differences.
- What if it takes 3 years to finish your basement?
- Concern that policy should, if not encourage DIY, then at least not discourage or "disincentivize" DIY.
- NO APPRAISAL FEES – this takes away from the affordable projects that we can do.

Option #7: Keep it Simple!

Cost of improvement adds to base. If it was available to TG buyers then it should be made available to all MACLT buyers.

Voting Results: 2 green dots, no red dots

Also: Could depreciate improvements over time – eg, 100% if you sell within the first year after making a capital improvement, 25% if you sell after 15 years, etc.

Discussion on Policy Options and Voting Results – Maintenance

1. MACLT's current policy provides a <u>disincentive</u> for maintenance of homes
    a. We repurchase CLT homes that need a lot of work/money to bring back to good condition.
    b. Why do we reward people for not maintaining their homes?

2. Greg gave overview of life-time cap on funding from city: limit on total funds that can be put into any one home by non-profit organization.
    a. We're hoping that we can renegotiate this with the City

3. John Davis: like capital improvements, CLT's all over the country are wrestling with this issue. Think about whether we want our policy to do either of these two things (or both):
    - Reward homeowners who do a good job maintaining their homes
    - Penalize those who don't maintain their home

4. John reviewed grid of maintenance incentive options *(link here)*
    a. No CLT does all of them – though some do 2 or 3

5. Comments/Questions:
    a. May not be a disincentive – it may just not be an added incentive
    b. In a hot market, market value doesn't always reflect deterioration of a home
    c. OPAL – add-on to ground lease fee for stewardship fund
    d. Champlain – add 3% fee at resale
    e. TG – condo dues aren't enough to cover anticipated maintenance
    f. Some CLTs build a unit-by-unit maintenance fund, others pool funds available to all
    g. Duluth: have IDA program with match up to a certain amount to encourage saving, also training on home improvements
    h. Some CLTs capitalize a maintenance reserve fund for individual homes right up front (Michigan model)

<u>Maintenance Option # 1: Training & Education for Homeowners</u>

a. Available to all MACLT owners
b. Variety of home maintenance and repairs subjects.
c. Both pre- and post-purchase
d. Vetted list of trustworthy home repair contractors

Voting Results: 20 green dots, no red dots

Maintenance Fund Reserve

a. Portion of ground lease fees put toward maintenance reserve.

b. Could be either individual accounts for each homeowner,

c. Pooled reserve for all to share.

Voting Results: 12 green dots, 3 red dots

Periodic Inspections

a. To ensure good maintenance, MACLT conducts professional inspection every five years.

b. Both parties receive copy of inspector's report.

c. MACLT has right to enforce recommendations of inspector.

Voting Results: 1 green dot, 7 red dots

Repurchase or Resale

a. If house is in good shape, seller could get more than 25%.

b. New buyer pays additional fee at purchase; if home is in good shape, they get it all back at resale.

c. If MACLT has to do more than repair normal wear & tear, could charge fee to seller.

Voting Results: 19 green dots, no red dots