

# **Town of Carrboro - Affordable Townhome issue**

## **Legends at Lake Hogan Farms**

**May 7, 2014**

In this letter we propose a solution to the Legends at Lake Hogan Farms affordable townhome issue that has been discussed recently with the town. This solution is being recommended by the Legends at Lake Hogan HOA Board, a majority of the Legends at Lake Hogan Affordable Townhome owners and by Robert Dowling of the Community Home Trust. We believe that the proposed solution will provide relief to the affordable townhome owners while providing resources in the Town's affordable housing fund and minimizing impact on other stakeholders.

### **Issue History**

#### **Legends at Lake Hogan Farms**

##### **(49) Single family homes**

##### **(16) Townhomes- 6 "market rate" townhomes & 10 "affordable" townhomes**

- David Weekley Homes introduced an affordable home concept at the Legends at Lake Hogan Farms Townhomes that fell within the guidelines of the town's Affordable housing initiative, but unfortunately the concept has proven to be unsustainable in its current form. The sales prices for these units were in keeping with the Affordable house initiative, but the program lacked sufficient resources to assist homeowners in affordable units with increasing cost items such as HOA dues, HOA assessments for common area issues as well as utilities, taxes, etc.

-In contrast to the Legends Affordable Townhomes there is the Community Home Trust affordable home concept. In this program potential increases in variable cost items such as HOA dues, etc., are anticipated by the Community Home Trust and they advise homeowners of these probable cost increases prior to the home purchase. I would add that Community Home Trust homes tend to have lower purchase prices than the Legends homes which make homes more affordable for qualifying homeowners. In summary, the Community Home Trust is a successful program that provides their home owners an affordable home with guidance and resources to assist in retaining home ownership.

- The Legends affordable home situation is regrettable as the townhome owners have no institutions or advocates to help manage the variable costs and maintain their home as an affordable home. The Legends at Lake Hogan HOA inquired about the possibility of having Legends Affordable units integrated into the Community Home Trust but Robert Dowling, Executive Director of Community Home Trust advises this is not possible after the fact.

- Currently some of the Affordable Townhome residents at Legends have serious financial challenges due to job losses, stagnant wages, and the increasing costs of homeownership. A number of these residents do not think they can continue to afford living at Legends under the Town of Carrboro's ordinance that applies restrictions to the resale price of affordable units. A letter from one of the Affordable Townhome owners is enclosed for your consideration

The Town of Carrboro ordinance includes a "resale formula" that forces residents who wish to sell to market their homes at thousands of dollars less than their original purchase price. Some of these residents report that they do not possess the capital necessary to sell their home at a loss, while also paying real estate commissions on a sale.

In short, some of our residents are in an untenable situation. They cannot afford to stay in their homes and they cannot afford to sell their homes given the restrictions currently in place.

The David Weekley affordable home concept at the Legends development is not accomplishing its intended purpose and will continue to be a problem for all future residents of these affordable townhomes. The affordable townhomes were sold at a lower price than the "market rate" townhomes in the Legends development but everything else including HOA fees, etc., is at market rate. We seek a practical solution to ease the burden of homeowners and convert the townhomes to market rate as they can no longer be considered "affordable".

**Hal Dickson, Brad Davis & Erin Zuiker**  
**Legends at Lake Hogan HOA**

**The following solution for the Legends Affordable Townhomes is being recommended by the Legends at Lake Hogan HOA Board, a majority of the Legends at Lake Hogan Affordable Townhome owners and is supported by Robert Dowling of the Community Home Trust.**

## **Affordable Home Resale Solution**

**Goals: Ease burden on homeowners, potentially provide resources to the Town for affordable housing and minimize financial burden on other stakeholders**

- Townhomes can be sold at market rate if owners choose to do so
- Townhome owner to recover initial investment in home
- Townhome owner to deduct real estate commissions out of proceeds
- Townhome owner to retain the first \$5000 of equity appreciation
- Townhome owner to retain eligible capital improvement costs as agreed
- Surplus funds shared 50/50 with the Town and Homeowner
- The Town's portion is directed to the Town of Carrboro Affordable Housing Special Revenue Fund
- The townhome converts to market rate with no restrictions
- A sunset clause of 20 years whereupon the home converts to market rate automatically
- Town receives increase in annual tax revenue on units converted to market rate

**Current resale formula restriction for a Townhome with a purchase cost of \$134,000**

1. 80% of the 2014 annual median income for a 2 person family = \$42,050 or \$3504/month
  2. 30% of monthly income spent on affordable housing = \$3504 X 30% = \$1051
  3. Less Property tax/month = (\$184)
  4. HOA fees/month = (\$173)
  5. Insurance/month = (40)
  6. Amount/month available for Principal & Interest = \$654
  7. Principal/Interest payment of \$654/month and using an interest rate of 5%,  
as per [www.mortgagecalculator.org](http://www.mortgagecalculator.org) yields a home purchase price of \$122,000
  8. **Allowable resale price according to the Town ordinance is \$122,000**
- Net loss for homeowner whose home cost \$134,000 (\$12,000)**  
**Real estate fees of 6% (\$8,040)**  
**Projected loss for Townhome owner \$20,040**

**Example of Proposed resale plan**

Townhome sells at market rate of	\$165,000
<b><u>Less resale factors</u></b>	
a. Original home price	(\$134,000)
b. Real estate commissions @ 6%	(\$13,200)
c. Equity Appreciation allowance	(\$5,000)
d. Capital improvements	( <u>\$000?</u> )
<b>Surplus proceeds</b>	<b>\$12,800</b>
Surplus proceeds are shared on 50%/50% basis	
Homeowner ---	\$6,400
Town of Carrboro---	\$6,400

**Payment in Lieu of to the Town of Carrboro is \$6,400**

The payment in lieu of \$6,400 would be donated to the Town of Carrboro for the Town Special Revenue Fund .

Please note that since home sale prices will vary this formulation does not guarantee surplus proceeds to the homeowner or the town. In the event there are no surplus proceeds, the home would convert to market rate as is.

**A possible partial use of these proceeds may be to subsidize the HOA dues, fees and assessments of the remaining Affordable Townhome owners that are trying to retain home ownership.**