

TCAD DISCUSSION  
COMMUNITY LAND TRUST VALUATION

LAND

Annual rent (\$25.00/month x 12 months)= \$300

Market determined capitalization rate= 2%

Annual rent divided by capitalization rate (\$300 divided by 2%)= \$15,000

**CAPITALIZATION RATE**

There were no comparable sales of Community Land Trust or other leasehold interest sales in the area market. The Fannie Mae guidelines accept an alternative method of determining the applicable capitalization rate which is to compare both national and regional market rates for similar investments. According to local commercial appraisers, the typical capitalization rate for the area ranges from 5-7% for leasehold properties. Current (as of the date of appraisal) Treasury bond long term rates for 5-year, 10-year, 20-year and 30-year bonds are 1.61%, 2.2%, 2.54% and 2.84%, respectfully. The average national 5-year Certificate of Deposit rate is 2.23% and the local average rate is 2.2%. Analysis of the above information indicates that, due to the long term of the subject lease and the absence of escalation, the "safe rate" of return is considered to be 2%.

HOUSE

Valuation of the house should be based on the sales price and the resale formula. For example, if the sales price is \$100,000 and the resale formula provides for 2% appreciation annually, and is capped at 30 years, then the initial value of the house should be \$100,000, and this should increase each subsequent year by 2% until the valuation is \$160,000 after 30 years. The subsequent valuation should remain frozen at \$160,000.