



Selling Guide

Published May 26, 2015

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B4-1.4-06: Community Land Trust Appraisal Requirements (04/15/2014)

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Appraiser Qualifications for Appraising Properties Located in a Community Land Trust

The lender must ensure that the appraiser is knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements including the *Appraiser Independence Requirements*.

Appraisal Requirements for Community Land Trust Appraisals

The appraisal requirements for community land trust properties are as follows:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property. Fannie Mae has developed the *Community Land Trust Ground Lease Rider (Form 2100)* that the lender and the borrower must execute to remove such restrictions from the community land trust's ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when Fannie Mae has to dispose of a property acquired through foreclosure. (For additional information, see B5-5.1-04, *Community Land Trusts*, for legal considerations.)
- The appraiser must use a three-step process to develop an opinion of value.

Step	The appraiser must determine
1	the fee simple value of the property by using the sales comparison analysis approach to value,
2	the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
3	the leasehold value by reducing the fee simple value by the lease fee value. (For detailed information related to this process, see below.)

Note: When this appraisal technique is used, there is no need to document the actual land value of the security property.

- On the actual appraisal report form, the appraiser must
 - indicate "leasehold" as the property rights appraised,
 - provide the applicable ground rent paid to the community land trust,
 - show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,
 - report the "leasehold value" as the indicated value conclusion, and
 - check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

Comparable Selection Requirements for Determining Fee Simple Value

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as he or she makes appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which Fannie Mae requires the appraisal of the subject property to be based. See B4-1.3-08, *Comparable Sales*, for general requirements regarding comparable selection.

Determining the Capitalization Rate

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a "riskless" (safe) rate.

Determining the Leasehold Value

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust's ground lease into a leased fee value by dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at his or her opinion of the leasehold value of the subject property.

For example, assume that the annual ground rent from the community land trust's ground lease is \$300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is \$100,000:

- \$300 annual rent/5.75% capitalization rate = \$5,217.39 (rounded to \$5,200)
- \$100,000 fee simple value – \$5,200 leased fee value = \$94,800 (leasehold value)

Addendum to the Appraisal Report

Because Fannie Mae's appraisal report forms do not include space to provide all of the details required for appraising a property subject to a leasehold held by a community land trust, the appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered. The addendum must also include the following statement:

"This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider."

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014-03	April 15, 2014
Announcement SEL-2012-06	June 26, 2012

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