

Shared Equity (Appreciation)

At the time of purchase an appraisal establishes the market value of the house (in the case of a home purchased in the free market, this will functionally be the same as the selling price). A percentage of the market value appreciation is established prior to the closing of the purchase. Upon Sale of the Home, an appraisal of the market value of the home is done (if disagreement between the 2 parties take place, commonly a second appraisal is done and the difference is split). The differences between the 2 appraisals (regardless of the length of the holding period) is split as originally agreed. For example if the home appreciates \$100,000 and the agreed split is 50% of the appreciation then each party takes \$50,000. As a practical matter, the “enabler”, in this case the City, gets their appreciation PRIOR to closing costs being taken out.

The idea:

The first 36 months- if the owner pays the city back, through their own refinancing. The city would only receive the principal, no appreciation. After 36 months, the city’s percentage of the total appreciation on the house increases. For example, if you lent 30% to the owner, you would be entitled to 10% of the appreciation., the next year 20% the following 30% until after 13 years, 100% that is made on the house goes to the city along with monies.

OR It could be more regressive, In year 4, you would be eligible for 30%. etc. This means also, that when he goes to refinance, you use the banks market appraisal to determine your payout. So if he pays you back at the end of 48 months, he owes you the lent amount plus 30% of any appreciation that has taken place at that time. at 60months 40% of the appreciated value etc. This percentages can be adjusted to reflect your and his intentions. Also I would recommend that a certain dollar amount- \$10,000 for example – be forgiven from the total after 5 years. (this is an incentive for him to stay and if he pays you back before then, he can pay back – the \$10,000. which he will pay back if he leaves before 5 years and is forgiven if he doesn’t.

One of the reasons I recommend that is that I believe you should have forgivable loans for retention purposes in all your positions in the City, which are expensive to turn over (not a secretary, yes a trained employee, where turnover means new investment by the city.