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Creating a New Class of Affordable Real Estate



With the average home prices in the United States at historic highs, the American Dream is leaving many of us behind.

First time home buyers, growing families and retirees are finding it harder and harder to find housing that meets their needs, or their budget. The primary driver for these ballooning prices is the increasing scarcity of land on which to build.

Following the laws of supply and demand - as supply drops, and demand increases, so does cost. The unfortunate result is that, no matter the size of the home, or the quality of the construction, overall costs continue to skyrocket due to the increases in the cost of the land.

While this problem is relatively new in many parts of the United States, it is an age-old problem in the crowded cities of Europe, particularly on the island of Great Britain, with its limited building space and growing population. Given these pressures, the British developed a solution to this problem more than a hundred years ago, the leasehold estate.

The leasehold estate circumvents the rising cost of land by allowing a homeowner to construct their home on land that is not sold, but rather leased to the homeowner over a long period of time, often between thirty and one hundred years.

In this way, the homeowner enjoys all of the benefits of complete ownership of their land, without encumbering themselves with the associated cost burden. Leasehold estates are the norm in much of the United Kingdom, including a large percentage of the capital city of London, where much of the land is owned by the Royal Family.

The modern land lease first arrived on these shores in the coastal regions of California, where land prices started to skyrocket in the 1980s. Like in Europe, the first long term land leases were created to provide a more affordable solution to the middle class. While this is still the case, the land-lease model in California has evolved to include multi-million dollar beachfront homes as well as large condominium projects, further validating its advantages.

Given its success in California, the long-term land lease soon found a foothold in other high priced real estate markets throughout the country, particularly throughout the sunbelt states. Here in a bid to compete for the growing baby boomer market, communities began to provide not only the land for the home, but also resort-style amenities, such as club houses, pools, bike paths and parks all for a single fee, thus creating the model for the modern leasehold estate.

As housing prices continue to climb, the leasehold estate concept is spreading like wildfire. Throughout the country, buyers are now able to invest in high quality, resort style living, without having to absorb the tremendous expense of raw land. This allows homeowners to radically reduce the cost of their home, while still qualifying for standard 30-year home mortgage financing, including zero down programs.

Within the modern leasehold estate, home owners pay a monthly fee similar to and often less expensive than HOA and condo fees. This single fee includes not only the land-lease fee, but also includes all real estate property taxes, on-site management fees, common area maintenance and landscaping fees, and unlimited use of a community's resort-style amenities.

Unlike apartments or mobile home parks, the modern leasehold estate agreement clearly spells all leasehold fee increases over the term of the lease - typically over thirty years. The obvious advantage to this long-term agreement is that homeowners are never surprised by an increase in fees, nor can the owner of the leasehold arbitrarily increase yearly costs after a short honeymoon period, a practice common in other rental arenas.

Also, unlike the average American subdivision, most leasehold estates are governed by a set of rules and regulations geared-toward preserving the quality of life for the residents, as well as increasing the value of their investments. With on-site management, and constant maintenance of the common-areas and landscaping, the modern leasehold estate is able to maintain a polished look long after the neighboring subdivisions have started to tire. This is not only an advantage for the residents, but also for the resale value of the homes, which can appreciate on par or in excess of standard non-leasehold neighborhoods.

One misconception about the modern long-term leasehold estate is that one cannot sell a home until

their lease is up. This is simply not the case. Like real estate everywhere, a home on the leasehold estate can be sold at any time. Within the leasehold estate model, the new buyer simply enters into a new long-term lease in the same way as the original owner at the time the home closes. Buyers seeking a sense of community have also found a home in the modern leasehold estate. With most communities offering a central clubhouse, families, seniors and even singles have a "central square" in which to gather. Whether organized by management, or by the residents themselves, these community hubs give rise to many events such as holiday parties, pot lucks, exercise classes and continuing education - all of which help to build of sense of community sorely lacking in many of today's anonymous subdivisions.

While they may not be a stone's throw from Big Ben or the London Bridge, the modern leasehold estate offers all of the same benefits as its distant European relatives, with an American twist. Not only is there a clear cost advantage in this model, but the inclusion of luxurious resort amenities, onsite management, and a rich sense of community is truly redefining the American Dream.