



Community Home Trust’s Capital Improvement Incentive Program

Contacts, Frequently Asked Questions, Application, and Guidelines

**Pilot Program: Updated October 13, 2020*

Contacts

For questions about the Capital Improvement Incentive Program, such as how to start the process

or return calculation, please call The Home Trust office at (919) 967-1545 (Extension 300).

Frequently Asked Questions

What is the Capital Improvement Incentive Program?

CHT recognizes that the current appreciation models in the ground lease do not adequately provide an incentive or return on the financial investment required to upgrade your home. This program is designed to give some calculated return on specific improvements.

What upgrades are included?

The following upgrades are eligible for the Capital Improvement Incentive Program:

- Kitchen
- Bathroom
- Window Replacements

Are all homes eligible to participate in the program?

Under the pilot program only homes that are older than 10 years old are eligible. If a home has been rehabbed (which included bathroom and kitchen remodels) within the 10 years, the age is determined by the rehab date.

How is the incentive calculated?

As with the private market, it is not expected that you will get 100% return on the cost of your investment. The amount of return on cost was determined by reviewing average market returns on improvements. Your specific

appreciation model is also factored into the total incentive. Below is a table showing the cost basis calculation for each appreciation model:

Appreciation Model	Cost Basis
Appraisal Based (Purchased prior to March 2007)	75% of Cost
1.5% Fixed Appreciation (Purchased March 2007-2012)	70% of Cost
1% AMI Appreciation (Purchased 2012 – Present)	80% of Cost

What happens to my return over time?

As with all improvements, the value depreciates over time. Therefore, your return will depreciate based on the depreciation schedule below.

- Kitchen – 120 months
- Bathrooms – 120 months
- Windows – 180 months

What is my Cost Basis?

The Cost Basis is the total cost you invested into your improvement multiplied by the percentage above. For example, if your kitchen remodel costs \$8,000 and you are on the 1% AMI Appreciation Model in your ground lease, your cost basis would be \$8,000 x 70% or \$5,600. This is the maximum amount of return you could earn on your investment.



When I sell, how much will I get back from my improvement?

In the previous example your cost basis was calculated to be \$5,600. This is the amount that is depreciated over time. If you upgrade your kitchen, and signed your resale agreement 12 months after the upgrade, your basis would be depreciated by \$560.00. This means when you sell, \$5,040 would be added to your calculated sales price.

Calculation: $\$5,600 / 120 \text{ months} \times 12 \text{ months} = \560.00

What is the maximum amount I can spend on each type of improvement?

You can spend as much as you would like to upgrade your kitchen, bathroom, and/or windows. However, when calculating your cost basis, the maximum cost will be the lessor of your actual total cost or \$15,000 for kitchens, \$8,000 for bathrooms, and \$400 per window. So if you spent \$20,000 on your kitchen, the maximum cost allowed for the calculation of your basis, would be \$15,000.

What are allowable expenses for kitchen and bathroom upgrades?

The only costs excluded in the total expense for the project are personal property. Examples include, but are not limited to refrigerator replacements, detached microwaves, and furniture.

This means vanities, cabinets, countertops, backsplash, light fixtures, plumbing, etc. can all be included in the total cost of the project.

I have more than one bathroom, how does that factor into my calculation?

The maximum amount allowed for bathroom upgrades is \$8,000 total. This can be used in 1 bathroom, 2 bathrooms, 1.5 bathrooms, etc.

Do I have a minimum amount I need to spend to qualify for the program?

The minimum cost for each individual project (i.e. kitchen, bathroom, windows) must be more than \$2,000 to qualify for the incentive program.

How does the stewardship program work with this incentive program? What about insurance proceeds?

If you are using stewardship funds to replace the flooring in the upgraded room, the cost reimbursed by the stewardship program will not be included in your initial cost basis calculation. For example, if you spent \$8,000 on a kitchen remodel, and \$2,000 was for flooring replacement under stewardship, your total cost would be \$6,000. Flooring costs above those reimbursed by stewardship funds can be included in the overall cost of the project. If you are not on stewardship, the entire cost of flooring will be included in the overall cost.

Insurance proceeds used to make eligible upgrades can be considered in the overall cost of the project.

How do I start the process?

If you are interested in renovating your kitchen or bathroom, or replacing your windows, you should contact vendors and secure a proposal. That proposal should be submitted to Ian Morse at imorse@communityhometruster.org for initial approval. The proposal should include general plans, list of materials, and estimated cost. There are minimum material standards that must be met to get approval for the project. Once you get approval, and all required permits have been received, you can start your project. **You must get approval prior to starting the work.**

CHT staff is available at any time to help you find the right vendor, answer any questions, or talk through design questions.

What happens when the project is completed?

Once your project is complete, the following should be submitted to Ian.

- Summary of Costs worksheet
- Copies of receipts (should add up to costs listed on Summary of Costs sheet)
- Certificate of Occupancy (if applicable)
- Pictures of completed work (2-5 pictures)

Ian will send you a formal approval letter to sign that will be attached to your ground lease that includes your final cost basis and date of completion. This will be saved in your file and when you resell, it will be used to calculate the total amount you will receive on top of your calculated sales price.



Application for Capital Improvement Incentive Program

Property Address: _____

Owner(s): _____ Phone: _____

Estimated Start Date: _____ Estimated Completion Date: _____

Name of Contractor/Vendor: _____

Date of last remodel: _____

Describe the complete project below:

Guidelines

_____(Initial) 1. CHT strongly recommends the use of licensed contractors to perform the work.

_____(Initial) 2. CHT staff is available to provide guidance, such as resale preferences, preferred materials, etc., however, the homeowner is directly responsible for hiring the contractor and managing and approving the completed work.

_____(Initial) 3. CHT will review the photos submitted upon completion, but no further inspection will be required. Approval of your final application does not mean the quality of work as been approved by CHT. If upon resale, the quality of work or materials is found to be non-functioning or sub-par, CHT may require repair prior to marking your home for sale.

_____(Initial) 4. Payment to the contractor is the direct responsibility of the homeowner. Any disputes must be resolved between the homeowner and the contractor.

_____(Initial) 5. I understand upon completion, I must submit all receipts and/or invoices in order to receive any type of incentive upon resale. Failure to return receipts will result in reduced or eliminated return.

By signing below I(we) agree to the stated guidelines of the Incentive Program outlined in the Frequently Asked Questions:

Owner Signature(s): _____ Date: _____

_____ Date: _____

I have received the required documents for initial approval of the application. Once all required permits have been secured, this serves as my authorization for work to begin.

CHT Representative

Date



Summary of Costs Worksheet

*Please submit this form once the project is completed. **This form along with receipts/invoices must be submitted and approved to receive any return on your investment at resale.** Other documents required are: 2-5 pictures of the completed project and the certificate of occupancy, if applicable. A separate form should be completed for EACH project. For example, one for a kitchen remodel and one for a bathroom remodel.*

Directions: Please list each receipt and/or invoice separately. Multiple receipts to the same vendor under \$50, can be combined onto one line listed as MISCELLANEOUS.

<u>Date</u>	<u>Vendor</u>	<u>Description</u>	<u>Amount</u>
Total Cost			

Owner Signature(s): _____ Date: _____

_____ Date: _____

For CHT Use:

I have reviewed all receipts and certify the total cost of the project to be \$ _____

The cost basis % based on the owner’s appreciation method is: 75% (Appraisal) 70% (1.5%) 80% (AMI)

Final Cost Basis = \$ _____ (Total Costs x Cost Basis Percentage)

Final Completion Date _____

CHT Representative: _____ Date: _____