

# SPECIAL REPORT: *Buying on Leased Land*

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Many big companies and wealthy individuals have been making purchases on leased land for a long time. But when marketing homes that have been constructed on lease land, we still find that potential Buyers have many questions and concerns regarding land lease facts.

It is true that the land lease concept is more prevalent in other parts of the country

where land is not as readily available as in the Phoenix Metro area. However, as our Metroplex grows ever further into the distance, the ease and convenience of a central location has encouraged quite a few land lease developments in Scottsdale. Santo Tomas at McCormick Ranch, the multiple Briarwood developments throughout Scottsdale, Casa del Monte near Scottsdale Fashion Square, and golf patio homes at the Phoenician are examples of this type of community.

The typical land lease in Scottsdale is for 99 years; when developed, each of the homeowners on the land enters into a sublease, the cost of which is typically determined by some type of formula based on the homeowner's percentage of land usage. The formula takes uses of common ground into consideration, but simplified this means, that if 200 homes are on the leased parcel of land, each land owner pays one-two-hundredth of lease cost.

Since the value of the land does not remain constant over such a long period of time, and the lease price is generally determined as a percentage. When you purchase a residence built on lease land, together with other recorded documents affecting the

specific subdivision such as CC&R's, you will also receive a copy of the recorded land lease which sets forth, in detail, how your land lease cost is determined.

*Would you like to save over \$499,000 during your 30 year mortgage? Invest your money the way Walgreens, Safeway, Saks & other big companies do*

So why would you want to consider the purchase of a residence on leased land? The most prevalent reason is the fact that, since your purchase price does not include the value of the land (and land in prime areas comes rather dear) *you can buy more house for your money.*

Consider, if you purchase a \$500,000 residence built on a lot worth \$150,000, you may be able to purchase an equivalent home for \$350,000 on leased land. If you take out a fixed rate 30-year mortgage at 6.5%, the \$150,000 lot investment costs you \$948 per month in principal and interest payments. The land lease rent on an equivalent residence, however, may be only \$350. That rent will remain constant. The \$598 savings per month, invested at a 5% yield, would grow to a nest egg of over \$499,848 if the money were placed in a savings account each year for the full 30 year mortgage.

The following is an illustration comparing some of the aspects of purchasing a typical home including land versus a home on lease land.

In our example, we assume you are purchasing a home in Scottsdale for a total price of \$500,000:

\$350,000 is the value of the house, \$150,000 is allocated to land value.

## CASH PURCHASE

In purchasing this residence with no mortgage, you have tied up your cash which could have been invested elsewhere. The amount tied up in the land is \$150,000. Suppose that instead of investing the \$150,000 in the land you had the opportunity to invest that amount at a conservative rate of 5.0%. Over a 30-year period, this \$150,000 investment at (5.0%) would grow to a compounded total of \$499,848.

*\$150,000  
Invested at 5%  
Will Earn You  
\$7,500 Per Year  
or \$625  
Per Month*

## MORTGAGED PURCHASE

Not having to pay for the land, you can purchase an equivalent home for \$350,000. You now have a lower payment and can now invest the \$150,000 saved (land value) at 5%. Your return the first year alone is \$7,500 or \$625 per month - which more than covers the typical monthly land rent charge or \$350 for this type of home.

Perhaps this helps you better understand why many companies and individuals choose the land-lease option. It still may not be the vehicle for you, but consider all options before rejecting what might be a good way to get more home for your money.