How it Works

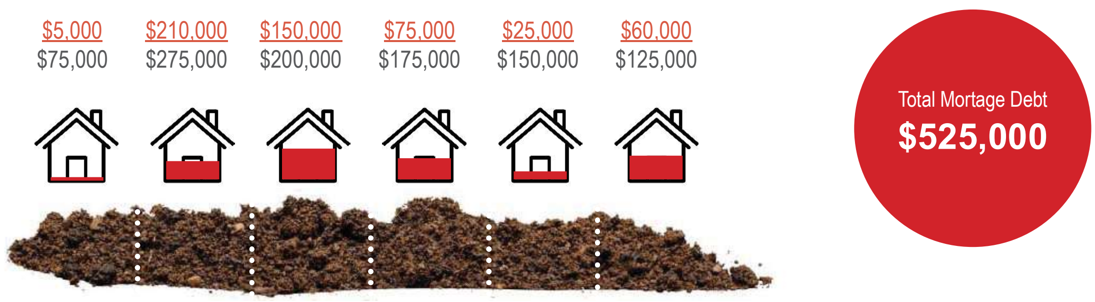
Ownership in Land Trust Calculation

Owning property can be a rewarding asset, however, assembling that property into a land trust with adjacent properties can considerably expand development options bringing significant returns for stakeholders in years to come. As part of the land readjustment process, properties are assembled into one continuous piece of land. However, before that land is ready for redevelopment, some steps need to take place.

As long as a lien exists on any one of the properties, the land cannot be redeveloped. While there are different types of liens from tax and mechanic's liens, the most common is the mortgage lien which is simply a legal claim placed by the creditor on the property to ensure the creditor will receive full payment for the mortgage issued. To clear any forms of lines on the properties, an investor is engaged to cover their cost whether they be mortgage, tax, or mechanic's liens, however, does not claim ownership in any one of the properties. In exchange, the investor will be credited for these expenses when negotiating the "no-fee" ground lease on the commercial land. Once all the liens are cleared, the land can be redeveloped.

Since the investor covers the unpaid portion of the mortgages and other liens, ownership percentages in the land trust are determined by an owner's equity and not the total market value of the property. Ownership percentages are calculated by dividing the owner's equity by the total homeowner equity for all properties in the land trust. An owner who has greater equity and fewer liens will have a greater ownership percentage in the land trust, than the one who has less equity in their property.

Land Must be Cleared of Liens before Development



An Investor is Engaged to Clear Liens on the Properties

Ownership Percentage is Based on Property Equity (Not Market Value)

$70,000 / $475,000	$65,000 / $475,000	$50,000 / $475,000	$100,000 / $475,000	$125,000 / $475,000	$65,000 / $475,000
15%	13%	11%	21%	26%	14 %

Individual Property Equity / Total Property Equity = Ownership Percentage

Equity is what each property owner "brings to the table" to fellow neighbors. While a property might have a high market value, it could also have a high mortgage debt which is viewed more as a liability among the property owners. The equity represents true ownership in the land earned by each property owner free of any claims of possible future property collection. It is therefore fitting that ownership percentages in the land trust be based on the ratio of individual property equity divided by the total property equity.

Key Takeaways

- A critical mass of geographically connected properties is assembled to form a larger piece of land collectively owned by all the property owners.
- When the land is being prepared for land readjustment, properties must be cleared of any liens before development.
- An investor is engaged to clear all the liens on all the properties in the land trust.
- Property owners enjoy 100% mortgage debt clearance and other lien clearances on their properties.
- The investor does not claim ownership in any of the properties but uses the capital used on lien cancelation as a credit towards a future "no-fee" ground lease on the commercial piece of land in the land trust.
- Ownership percentage in the land trust is based on property equity (not market value).

ChangingGround

FJC A Foundation of Philanthropic Funds

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