

## MEMORANDUM

**Date:** 11 January 2024

**To:** Housing Strategy Committee

**From:** Isaac Matthias, Common Council Legislative Analyst

**Subject:** Models of Housing Acquisition

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**Summary:** This memorandum describes different models of housing acquisition and the ways that Madison assists residents to access homeownership through these various models.

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**Fee Simple:** Fee simple homeownership describes a type of ownership where one is entitled to “full enjoyment of the property, including the land and any structures that may be erected on the land.”<sup>1</sup> In fee simple ownership, the owner may do anything to their property “as long as it doesn’t interfere with others’ rights.”<sup>2</sup> This includes allowing the owner to sell, lease, or take another action with their property.<sup>3</sup> In the case of owning a single family home via fee simple ownership, one would have these rights for their single family home and the land that it occupies.

Fee simple condo-ownership describes a similar type of ownership as above, but it extends to the individual units and not necessarily the full property.<sup>4</sup> The owner of the individual condo would have full legal rights to that space but would share common rights for the use of public areas and carry certain obligations toward its upkeep.<sup>5</sup> In the case of a structure like a duplex or a townhouse, the owner would only share common rights of a shared wall or floor, but otherwise outright own the rest of the unit and the land it sits upon.<sup>6</sup>

The City of Madison works to help residents access fee simple ownership by providing funding for down payment assistance for first-time homebuyers. One way this comes about is via Home-Buy the American Dream, which is “a down payment and closing cost assistance program aimed at supporting low-to-moderate income homebuyers purchase a single-family home, condominium or one-half a duplex in the City of Madison.”<sup>7</sup> Home-Buy the American Dream allows for qualified homebuyers to access up to \$35,000.<sup>8</sup> In addition to Home-Buy the American Dream, the City of Madison has provided funds to Habitat for Humanity and Movin’ Out, each of which helps residents in accessing fee simple ownership through down payment assistance.<sup>9</sup>

**Land Trust:** A land trust refers to a legal entity that either takes ownership of or authority over a piece of property at the request of the owner.<sup>10</sup> Within a land trust there are three key parts: the grantor, the trustee, and the beneficiary.<sup>11</sup> The grantor is the person who forms the trust and transfers the property, the trustee is the person who manages the trust, and the beneficiary is the one that benefits from the land trust.<sup>12</sup> Oftentimes, as it relates to accessing homeownership, this model results in what is called a community land trust. A community land trust (CLT) describes “nonprofit organizations governed by a board of CLT residents, community residents and public

representatives that provide lasting community assets and shared equity homeownership opportunities for families and communities.”<sup>13</sup> Typically, a community land trust works by having a party purchase a home that sits on land that is owned by the CLT and since only the home is being sold and not the land, the purchase price is more affordable.<sup>14</sup> During this process, the owners of the home would lease the land from the CLT in a long-term, renewable lease.<sup>15</sup> Then, for when this homeowner would sell the home in the future, they “agree to sell the home at a restricted price to keep it affordable in perpetuity.”<sup>16</sup> Despite agreeing to sell at a restricted price, “they may be able to realize appreciation from improvements they make while they live in the house.”<sup>17</sup> An example of this can be seen in the Madison Area Community Land Trust, which has received funding from the City of Madison.<sup>18</sup>

**Cohousing:** Cohousing is a type of living arrangement that is often described as an “intentional community” that holds an emphasis on shared space, time, and values.<sup>19</sup> Typically, cohousing arrangements operate with individual residents and families owning their individual units which are then combined with extensive shared common areas such as kitchen and dining areas, playrooms, laundry facilities, garden space, and more.<sup>20</sup> This allows for residents to balance solitary time and community time. Additionally, cohousing residents typically participate in the design and operation of their community.<sup>21</sup> The legal structure for a cohousing community is typically a homeowner’s association or a housing cooperative.<sup>22</sup> Within Madison, there is Arboretum Cohousing<sup>23</sup>, Linden Cohousing<sup>24</sup>, and the Village Cohousing Community<sup>25</sup>, each of which has received funding from the City of Madison.

**Lease Purchase:** A lease purchase is another model of housing acquisition. This involves a rent-to-own contract in which a tenant and a landlord agree for the tenant to purchase the property at a later point in time.<sup>26</sup> In this contract, the tenant would pay the seller/landlord an option fee at an agreed-upon price which would give them exclusive rights to buy the property.<sup>27</sup> Within the agreement, both parties would set a purchase price at the end of the lease term and, typically, would include a stipulation that a portion of the monthly rent would go towards the down payment.<sup>28</sup> In the end, the owner is obligated to sell the property to the renter and the renter is obligated to buy the property from the owner.<sup>29</sup>

The Common Wealth Development, which has received funding from the City of Madison, has a lease purchase program.<sup>30</sup> This program is one where the participant leases a home from Common Wealth and has a portion of their rent payments deposited into an account until they accrue a down payment of 3-5%, when, at that point, they can purchase the home outright.<sup>31</sup>

**Land Contract:** A land contract is a model of housing acquisition where there is a contract between the buyer and the seller, with the seller financing the sale of the home.<sup>32</sup> As a part of the contract, the buyer would agree to make payments to the seller over a period.<sup>33</sup> This operates like a lease when one rents a property, as the person would have access to the property in return to making payments to the seller; however, the major difference is that the buyer would own the property outright after the payments are completed.<sup>34</sup>

## Endnotes:

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- <sup>1</sup> Kimmons, Jim and Hannah Hottenstein. “What is Fee Simple Ownership?” *The Balance*. 13 January 2023. ([online](#))
- <sup>2</sup> Ibid.
- <sup>3</sup> Ibid.
- <sup>4</sup> Taylor, Mia. “What is Fee Simple Ownership in Real Estate?” *Bankrate*. 28 November 2023. ([online](#))
- <sup>5</sup> Ibid.
- <sup>6</sup> Daniel Johns, Email Message to Author. 4 January 2024.
- <sup>7</sup> “Home-Buy the American Dream.” *City of Madison – Community Development*. 23 December 2023. ([online](#))
- <sup>8</sup> Ibid.
- <sup>9</sup> Ibid.
- <sup>10</sup> Boyte-White, Claire. “Land Trust: What It Is, How It Works, Types, and Examples.” *Investopedia*. 31 July 2023. ([online](#))
- <sup>11</sup> Ibid.
- <sup>12</sup> Ibid.
- <sup>13</sup> “Community Land Trusts.” *Grounded Solutions Network*. Accessed 8 January 2024. ([online](#))
- <sup>14</sup> Ibid.
- <sup>15</sup> Ibid.
- <sup>16</sup> Ibid.
- <sup>17</sup> Ibid.
- <sup>18</sup> “About MACLT.” *Madison Area Community Land Trust*. Accessed 9 January 2024. ([online](#))
- <sup>19</sup> MacCleery, Rachel. “Building Community with Cohousing.” *Urban Land*. 28 April 2023. ([online](#))
- <sup>20</sup> “Home.” *Village Cohousing Community*. Accessed 3 January 2024. ([online](#))
- <sup>21</sup> “What Is Cohousing?” *Linden Cohousing*. Accessed 3 January 2024. ([online](#))
- <sup>22</sup> McBride, Morgan. “Cohousing: What Is It And What’s The Appeal?” *Rocket Mortgage*. 19 May 2023. ([online](#))
- <sup>23</sup> “About ARBCO.” *Arboretum Cohousing*. Accessed 9 January 2024. ([online](#))
- <sup>24</sup> “About Us.” *Linden Cohousing*. Accessed 3 January 2024. ([online](#))
- <sup>25</sup> Village Cohousing Community, *Home*
- <sup>26</sup> Araj, Victoria. “What Is A Lease Purchase Agreement.” *Rocket Mortgage*. 14, December 2023. ([online](#))
- <sup>27</sup> Ibid.
- <sup>28</sup> Ibid.
- <sup>29</sup> Fontinelle, Amy. “Lease Purchase Agreement: Benefits for Buyers and Owners.” *Forbes*. 16 February 2023. ([online](#))
- <sup>30</sup> “Lease / Purchase.” *Common Wealth Development*. Accessed 9 January 2024. ([online](#))
- <sup>31</sup> Ibid.
- <sup>32</sup> “What is a Land Contract in Wisconsin?” *Moen Sheehan Meyer*. Accessed 3 January 2024. ([online](#))
- <sup>33</sup> Ibid.
- <sup>34</sup> Ibid.