



Capital Recovery Fees Compare Favorably to Traditional Real Estate Ownership

Capital Recovery Fees provide long-term inflation-protected income, backed by a transparent asset with no meaningful credit risk long-term income.

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One key to investing success is diversification. For many investors, this includes real estate. However, a direct investment into real estate may not be feasible for everyone. Real estate investments are typically capital intensive; even a modest property can cost over six figures. Therefore, investors with limited capital may be forced to buy less desirable properties, which can then require more upkeep, generate lower rental income, and appreciate at a reduced pace.

Regardless of the price of the real estate, annual costs (such as property taxes, insurance, etc.) continue to chip away at yield. Consider a home with 5% annual appreciation, but with 2% annual property taxes. The gross yield has dropped to 3% before factoring in vacancies, management fees, insurance, maintenance and similar recurring expenses. And, unlike stocks or bonds, real estate is illiquid, and closing costs incurred at both the time of purchase and sale can run as high as 15% of the gross price (7.5% each).

[Capital Recovery Fees](#) stand in sharp contrast. This income stream is a form of deed restriction that imposes a fee of 1% of the sales price, payable at the time of sale, for ninety-nine years.

A home that sells for \$200,000 will generate a \$2,000 assessment. If the home later sells for \$300,000 a \$3,000 assessment is due. This inflation-adjusted income stream, tied to a transparent asset, and with no credit risk, lasts for ninety-nine years.

The obligation appears on a properly prepared title commitment, and the Capital Recovery Fee is then collected at closing (just like mortgage payoffs, liens, HOA fees, etc). This adds up long-term inflation-protected income, backed by a transparent asset with no meaningful credit risk long-term income.

More information:

1. Capital recovery fees relieve burden on cities; reduce homeownership costs (Feb. 17, 2017). <https://www.prnewswire.com/news-releases/capital-recovery-fees-relieve-burden-on-cities-reduce-homeownership-costs-300409752.html>
2. Wikipedia: https://en.wikipedia.org/wiki/Private_transfer_fee

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