



Capital Recovery Fees make home ownership more affordable

Traditionally, initial buyers bear 100% of the costs of roads, sewers, parks, etc when they will use such capital improvements only a fraction of useful life.

AUSTIN, TEXAS, UNITED STATES, December 28, 2018 /EINPresswire.com/ -- A modern subdivision requires significant expenditures for long-term capital improvements, such as streets, water lines, parkland, etc.



You can't put all of the costs on home buyers and still sell at an affordable price."

Inman News, Builders, Realtors square off on transfer fees. May 16, 2007.

Traditionally, initial buyers are asked to shoulder 100% of the costs, despite the fact that initial buyers will use the capital improvements for a fraction of the useful life. The initial buyer must finance these capital improvements costs, and then pass the costs along to the next buyer. This is an inefficient process that leads to high home ownership costs. Consider a simplified example of a

modern subdivision with infrastructure- costs of \$10,000 per Lot:

The price of the home includes the \$10,000

Buyer 1 incurs closing costs on the \$10,000 (est. \$500).

Buyer 1 must qualify for a mortgage that includes the \$10,500 (Buyer 1 can afford less house).

The \$10,500 accrues mortgage interest, rising to estimated \$14,500 in 7 years.

Buyer 2 repeats the process, but starts out having to absorb \$14,500 (which means Buyer 1 must sell for a higher price).

Modernly, [capital recovery fees](http://www.freeholdcapitalpartners.com) such as those originated by [Freehold Capital Partners](http://www.freeholdcapitalpartners.com) <http://www.freeholdcapitalpartners.com> help reduce the initial sales price by spreading infrastructure costs over all participants. As the California Building Industry Association pointed out:

"You can't put all of the costs on home buyers and still sell at an affordable price." Source: Inman News, Builders, Realtors square off on transfer fees. May 16, 2007.

Continuing the above example (\$10,000 in capital costs), by using a Capital Recovery Fee:

Buyer 1 pays \$10,000 less for the home. (Buyer 1 can afford more home or enjoy lower payments).

Buyer 1 pays a 1% Capital Recovery Fee (typically \$2,000 - \$3,000) when Buyer 1 sells.

Buyer 2 pays \$14,500 less. (Buyer 2 can afford more home or enjoy lower payments).

Buyer 2 pays a 1% Capital Recovery Fee when Buyer 2 sells.

The above continues for subsequent buyers, generally for 7-10 sales spread over 99 years.

In this manner infrastructure costs are spread over those who will use the infrastructure and the debt is repaid in large part from appreciation in property prices. Capital Recovery Fees offer a choice in how to finance infrastructure costs.

For more information on capital recovery fees, visit https://en.wikipedia.org/wiki/Private_transfer_fee

Source: Freehold Capital Partners <http://www.freeholdcapitalpartners.com>

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