

Community Land Trust Basics

What they are

What they are not

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- **Homebuyer purchases new or renovated home at 75% or less of appraised value**
- **Homeowner retains most homeowner bundle of rights**
 - **To make improvements and repairs as needed/desired**
 - **To bequeath to relatives as inheritance**
 - **To retain equity contributed from principal payments and down payments**
 - **To build equity from appreciation albeit on a shared basis**
- **CLT owns land with land lease that defines use and resale restrictions of CLT home**
 - **Homeowner must use as primary residence**
 - **Homeowner proceeds on sale limited to equity contributed plus 25% of appreciation**

INTRODUCTION

Besides creating a homeownership and wealth building opportunity for families who otherwise could not qualify for mortgage financing, the Community Land Trust (CLT) model also creates sustainability and long-term affordability for communities by preserving the “one-time” infusion of capital from philanthropy and/or governmental sources needed to cover the gap in creating the affordability. Within the past 50 years, the number of community land trusts in the United States has grown to more than 225, a solid indication of the increasing interest in this approach for creating affordable homeownership opportunities for families who would otherwise not qualify.

In many traditional affordable homeownership programs, the process of raising capital subsidies to ensure affordability is a never-ending cycle, as the cost for land and construction continues to increase. Recapture provisions for the capital subsidies that made it possible for the original homebuyer to own the home are often dropped within a few years, which while beneficial to the original homeowner, often leaves the community facing the need to, once again, repeat an increasingly costly fundraising process for the next homebuyer, with no guarantees that an inventory of affordable housing can be preserved in the long-term within the community. The current affordable housing crisis is substantially a result of these normal market forces, leaving many communities struggling to meet, not just the housing needs of their lowest income residents, but also the housing needs for a large percentage of their moderate income, blue collar and service industry workforce.

THE COMMUNITY LAND TRUST ALTERNATIVE

In the CLT model for affordable homeownership a nonprofit housing organization, formed for this purpose, purchases land with existing homes for rehabilitation and/or builds new homes on the land. The typical CLT Board may be comprised of community members, housing experts, funders as well as CLT homebuyers. The percentage of CLT homeowners on the board is usually limited to no more than one-third.

The improvements (the home but not the land which is held by the CLT) are then sold to a low-moderate income homebuyer at a substantial discount from the appraised value (most often 75% or less of the appraised value), using conventional bank financing. Homebuyers are also required to complete HUD certified homeownership training which is sometimes offered by local housing organizations but is also offered virtually through Habitat for Humanity of Michigan. In some cases, down payment assistance may also be available to the homebuyer to further enhance affordability. The substantial discount on the sale price enhances affordability and generally eliminates the need for mortgage insurance because of favorable loan to value ratios. In return for this assistance, the homebuyer agrees to share a portion of the appreciation earned over time whenever a future sale occurs.

A Fannie Mae compliant land lease between the CLT and the homebuyer prescribe nominal use restrictions as well as enforceable resale restrictions if the homeowner ever decides to sell their home. These shared equity resale provisions benefit both the homeowner and the community. In a resale, the homeowner is able to recoup equity contributed through down payments or principal payments on their mortgage and a percentage of appreciation from the date of purchase through the date of sale. In some cases, repairs and improvements made over time can increase a home's appraised value. When that happens a homeowner could recoup, at least a portion of those costs from their share of the appreciation or increased value.

A commonly used percentage split of appreciation is 25% to the homeowner and 75% to the CLT but these can vary from CLT to CLT. Shared equity provisions benefit the community by ensuring that the home can be resold to another low-moderate income household at an affordable price. Retaining a portion of the appreciation also increases the likelihood that a CLT will be able to address any needed repairs or improvements prior to resale of the home to another low-moderate income CLT homebuyer without the need for a second round of capital subsidies.

Sustainability is built into the design in this model for affordable homeownership, allowing communities to grow a permanent inventory of affordable “for-sale” homes, blunting some of the more onerous effects of gentrification in neighborhoods and communities. In the simplest of terms:

1. CLTs should be seen as one of a number of “tools in the toolbox” for communities to consider in addressing their needs for affordable homeownership and workforce housing.
2. CLTs are a form of shared equity ownership that allows households who would otherwise not qualify for conventional mortgage financing, to become stable homeowners, keep the equity they contribute to the home purchase and build wealth from appreciation, albeit on a shared basis.
3. CLTs are a form of shared equity ownership that allows communities to preserve scarce public and private capital subsidies, creating a permanently affordable inventory of “for sale” housing without the need for future capital subsidies.

One of the more common criticisms levied against the CLT model for affordable homeownership is in reference to its claim as a wealth builder for low-moderate income families. Detractors will often point to the shared equity provisions in the land lease (25% to the homeowner and 75% to the CLT) as evidence of this assertion. The fallacy in this critique lies in several faulty assumptions including:

1. That “for sale” homes “in good repair” are readily available in the market at a price for which the prospective low-moderate homebuyer could qualify for a mortgage, and/or
2. That repairs needed on any inventory of “affordable for sale homes” will not create a financial burden on the homebuyer, such that they might be in jeopardy of eventually forfeiting the home, and/or
3. That the community can continue to provide the public and private funding needed for large capital subsidies to defray the ongoing and increasing costs for land, renovation, and new construction, and/or
4. That communities are willing to forgo the opportunity to build a sustainable inventory of affordable “for sale” housing by allowing scarce capital subsidies to solely benefit the original homebuyer.

To make a finer point, it is important to explain what CLTs are not.

1. CLTs are not a panacea to solve all of the affordable housing problems faced in communities across Michigan. Housing needs are varied and often complex. Solutions to these problems need to address these complexities. To do so, solutions must be creative and multi-faceted, capable of addressing a variety of housing needs including those faced by low and moderate incomes households in the workforce, special populations such as the elderly and disabled and for those who may be experiencing homelessness.
2. CLTs are also not a substitute for traditional forms of home ownership. If a prospective homebuyer is able to qualify for a traditional mortgage on a market rate home, they should be encouraged to pursue this option as it generally holds the greatest potential for wealth building.

CAPITAL SUBSIDIES: ESSENTIAL INGREDIENTS IN THE CREATION OF AFFORDABLE HOUSING

The creation of affordable housing (for rent or for sale) is a capital-intensive activity. It always has been. The amount of subsidy needed to acquire property, build homes/condos/apartments, and rent or sell these residences at an affordable price is significant.

For many decades, governmental policies have played a leading role in the creation and maintenance of affordable housing through both direct appropriations from governmental agencies and indirectly through the use of the tax code (tax expenditures) to attract investors in affordable housing. Low Income Housing Tax Credits for rental housing and New Markets Tax Credits, used in both housing and commercial revitalization projects, are two examples of tax expenditures. In fact, individual homeowners at all income levels have historically benefited from federal tax policy through their use of mortgage interest deductions in their personal tax returns.

In rental housing, governmental policies have generally required that developers/owners receiving capital subsidies through direct appropriations or tax expenditure programs, agree to deed restrictions that ensure long term affordability, usually for a minimum of 30 years.

With homeownership programs, these restrictions are usually for a much lesser period of time, in part, because the direct beneficiary of the capital subsidy is most often a low-moderate income homeowner. In some cases, a capital subsidy may take the form of a “soft-second” mortgage that a homeowner may need to repay at the point in time when the homeowner decides to sell their home. In many cases, however, these requirements “burn off” over time, allowing the homeowner to keep the equity generated from the initial subsidy in the home. While this approach in creating affordable homeownership opportunity is clearly beneficial for the initial homeowner, it is unlikely to benefit the next low-moderate income homebuyer or the community wanting to maintain an inventory of affordable homeownership opportunities. New capital subsidies must then be found to begin this cycle all over again.

CLTs stand out in their unique capacity to retain a home’s affordability in perpetuity without further subsidy. This is due, in part, to the fact that CLT homeowners are responsible for the ongoing maintenance and repair of their homes but also because CLTs are able, if needed, to use a portion of the shared appreciation/equity earned as homes are resold for repairs and improvements.

The amount of capital subsidy needed to create a CLT project will vary depending on the following factors:

1. The number of homes being built at any given time
2. Cost of land
3. Cost of construction or rehabilitation
4. The market/appraised value of the home being sold. In some neighborhoods/communities, development costs for a CLT home may exceed its market value, requiring the CLT to fund, not just the sales discount, but also the differential between the appraised value and the actual cost of development.

In many communities, CLTs have grown incrementally, one home at a time, in part because the capital subsidies needed, have largely been sourced from individual, corporate and institutional donors. One drawback in this approach is the amount of time it takes for a “stand alone” CLT to become sustainable because of the costs for staffing related to development, ongoing operations. Finding ways to incorporate CLT programs within existing “high capacity” organizations or at least in some form of collaborative relationship with “high capacity” organizations until they reach a level of sustainability can help to mitigate this problem.

CREATING A CAPITAL SUBSIDY FUND USING BROWNFIELD TIF, PHILANTHROPY AND ARPA FUNDS

We seek to test a CLT model for development that is both scalable and replicable in communities across Michigan by combining philanthropy with the state's Brownfield Tax Increment Financing (TIF) program which is already being used for a variety of industrial, commercial, and housing initiatives in communities all across Michigan. Many communities are also considering the potential for funding affordable housing programs from the American Rescue Plan Act (ARPA). ARPA funds could become part of a larger community strategy to build the capital subsidy needed in creating a community land trust project for their community. In our modeling for development of a twenty home CLT development we anticipate that the estimated \$100,000 "one time" capital subsidy needed for each home could be financed by using the property taxes generated from these homes to reimburse the CLT for eligible brownfield expenses using tax increment financing (TIF). In many cases, to maximize the use of this financing tool, it will require the use of a local or state land bank in the chain of title to secure a brownfield designation and a local brownfield authority that will allow the use of (TIF) from these homes to reimburse eligible expenses over a period of 30 years. Since the CLT will need most or all of the capital during the development phase, a loan would be needed in the project. The 30-year TIF stream of reimbursements would be used to repay a 0% or very low interest loan created to bridge some or all of the TIF reimbursement period. Loans would be derived from some form of capital subsidy fund to be created from philanthropic and/or governmental sources. The Capital Subsidy Fund could become permanent, subject to approvals from the original funders, to allow loan repayments to be recycled into additional new homes, growing the inventory of affordable "for sale" homes within the CLT.

In 50 years of experience across the United States, the CLT model for homeownership has created a strong track record for both preserving affordability and reducing the likelihood for additional capital subsidies to maintain that affordability. Community Land Trusts offer communities a means to grow a sustainable inventory of permanently affordable home ownership opportunities, in much the same way as land and farm conservancies preserve the use of land for future public good. No single approach for addressing affordable housing can be expected to meet every community's housing needs but the Community Land Trust, as a shared equity housing model, offers a unique approach with some distinct benefits for both the homebuyer and the community that should not be ignored.

OTHER CLT INFORMATIONAL LINKS

<https://groundedsolutions.org/strengthening-neighborhoods/community-land-trusts>

<https://burlingtonassociates.com/clt-resources/>

<https://dwellingplacegr.org/clt/>

<https://www.neighborworks.org/Community/Shared-Equity-Housing>

<https://singlefamily.fanniemae.com/media/24896/display>