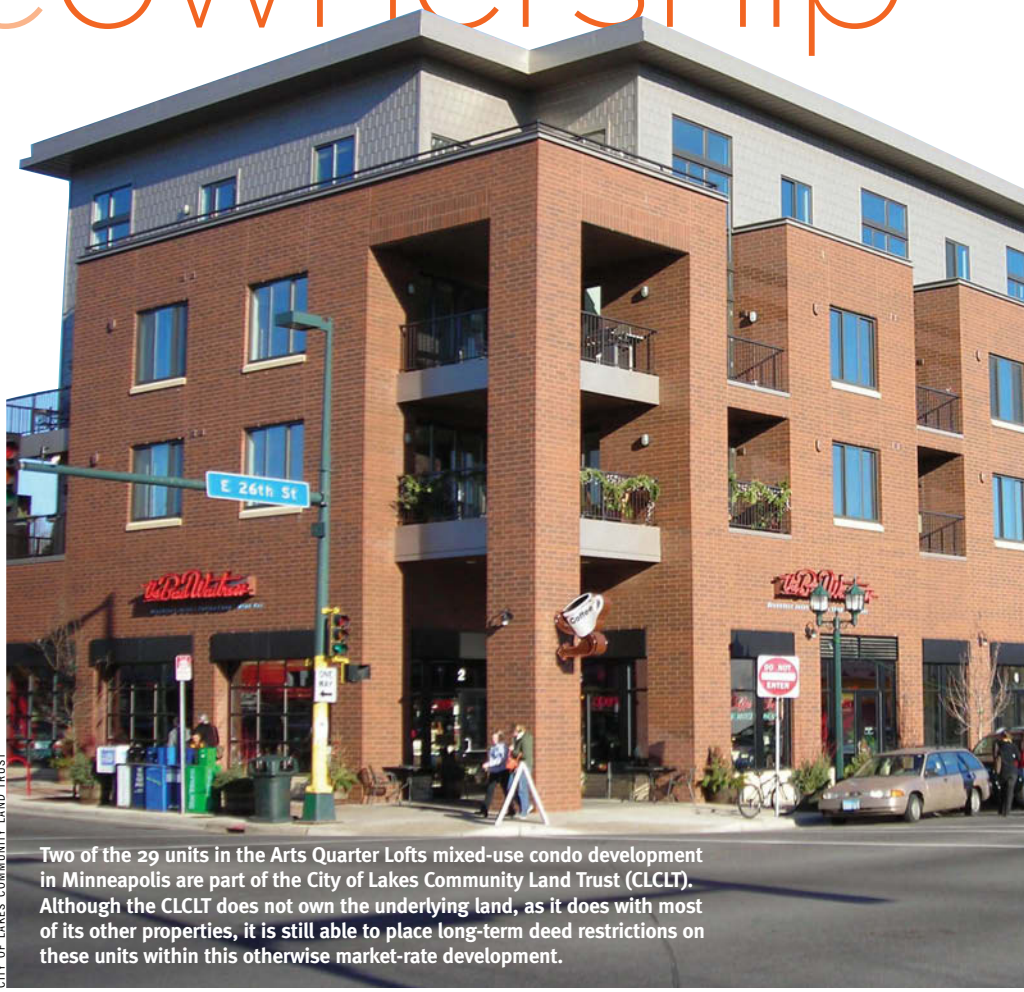
RYAN SHERRIFF

The primary purpose of a community land trust (CLT) is to provide the communities they support with permanently affordable homeownership opportunities, but CLTs also provide other benefits that are useful under today's dire housing market conditions.

AFFORDABLE Homeownership



CITY OF LAKES COMMUNITY LAND TRUST

Two of the 29 units in the Arts Quarter Lofts mixed-use condo development in Minneapolis are part of the City of Lakes Community Land Trust (CLCLT). Although the CLCLT does not own the underlying land, as it does with most of its other properties, it is still able to place long-term deed restrictions on these units within this otherwise market-rate development.

Often categorized within the larger context of "shared-equity homeownership," community land trusts (CLTs) preserve the value and buying power of government housing subsidies in the face of rising housing prices, provide protections for lower-income homeowners against foreclosure, serve as a mechanism to stabilize neighborhoods burdened by vacant and abandoned properties, and offer an effective vehicle for providing affordable housing near mass transit and job centers.

A CLT is a nonprofit organization that assembles and manages land upon which affordable homes can be built and maintained. These entities sell the affordable homes to low- and moderate-income families, but maintain ownership of the underlying land, which is leased to the homeowners. Most CLTs are created as new nonprofit entities, but some are established as successors, affiliates, or components of other housing or community development nonprofits. Their prime purpose is to serve as long-term stewards that uphold the affordability of the housing on their land, support and protect the interests of their homeowners, and preserve public or private subsidy.

CLTs receive donated land from public or private entities, or receive subsidies—generally from state and local governments—to purchase land that will be used to develop affordable housing. They may also acquire land with existing viable housing or with housing in need of renovation. In some cases, CLTs may also take on responsibility for the development or redevelopment of affordable homes; in other cases, they work with development partners. The CLT or development partner often has the flexibility to develop rental housing, commercial buildings, and community facilities on CLT land that further enhance their target areas.

Most CLTs initially rely on public or private grants to fund their stewardship functions and day-to-day operations. However, as they build their land portfolio and housing stock to a large enough scale, they are able to use ground lease fees, resale transaction fees, and other income to increase their operational funds. Still, continued public and financial support help a CLT to sustain and expand its stewardship role (see the top box on facing page).

The first urban CLT was established in Cincinnati, Ohio, in 1980. It was the first type of land trust to focus on preserving affordability and catalyzing community development. The creation of this CLT laid the groundwork for other urban land trusts established during the early 1980s, but only about a half-dozen CLTs existed at that time. By the end of the 1990s, however, 118 land trusts existed in 31 states and the District of Columbia.

The rapid growth of CLTs during the 1990s was due in part to amended federal legislation that made CLTs eligible for HOME funding and HUD-funded technical assistance. Fannie

Mae also provided regulatory support for CLTs starting in 2001, facilitating the widespread creation and expansion of CLTs. As of 2008, there were more than 200 CLT programs operating in 41 states and the District of Columbia.

Two key aspects enable a CLT to provide and maintain affordable housing over the long term.

First, ownership of a land trust property is split between the CLT and the individual owner. The CLT maintains ownership of the underlying land through a long-term (usually 99-year) ground lease while selling the home to a lower-income buyer. The land trust rents the underlying land to the homeowner, usually at a nominal rate that does not significantly add to the owner's housing costs. Municipalities provide subsidies to decrease construction and/or land costs, and reduce the initial purchase prices of CLT homes to an affordable level.

Second, a land trust restricts resale prices for the homes on its land. This allows the CLT to preserve the value of the initial subsidy over the long term, ensuring that the residences are always sold at affordable, below-market prices. The land trust establishes a formula that regulates resale prices according to a measure of affordability and incorporates it into the ground lease on the homes. As long as the CLT holds title to the underlying land, it is able to control the price of the homes upon resale, ensuring they will remain affordable (see bottom box on this page).

To illustrate how the CLT model functions, assume that a family with the target income can afford to pay only $200,000 for a home in a market where starter homes cost $250,000. A land trust would invest a subsidy once to buy down the price of one of its homes to $200,000—the level that the target family could afford. This family would typically purchase the residence at that price with a fixed-rate, long-term private-market mortgage, but with an agreement specifying the formula for determining the price at which the dwelling may be resold.

Based on this agreement, when the family is ready to move, the home would be sold for an affordable price, rather than a market price. Assume, for example, that the market price for this housing unit rose to $375,000, but that a family at the target income could afford only $245,000. The CLT ground lease could require that the dwelling be sold for $245,000—a price that would be affordable to families at the target income level without any new subsidy.

CLTs often receive significant financial support from local governments and in essence have a lasting partnership with these governments. Therefore, land trusts place particular importance on effectively preserving this public subsidy, and employ a mechanism of subsidy preservation that ensures that communities reap lasting benefits from their initial investments in homeownership affordability.

Many affordable homeownership subsidy programs provide a grant or loan that is forgiven. While such subsidy forgiveness programs greatly help the recipients, they do not preserve the public subsidy to help future homebuyers. Subsidy recapture is an alternative approach that requires repayment of a loan subsidy, usually upon resale of the home. Although this approach reduces the amount of subsidy required in the future, it does not fully preserve the buying power of the subsidy, especially in markets where home prices are increasing faster than incomes.

Land trusts employ a shared-equity approach called subsidy retention, in which the subsidy stays in the home to help future homebuyers, while also allowing families to

The Importance of Consistent Financial Support

The CLT model is designed to maintain the affordability of its properties as long as the entity exists and holds title to the underlying land. Therefore, it is vital for CLTs to have access to consistent, sufficient financial support for their effective operation, expansion, and stewardship responsibilities.

The most common sources of external operating support are municipal funds and private donations. Consistent support from local governments not only helps support vital CLT functions, but also enables land trusts to leverage additional public and private funding. Often, the continuation of municipal funding is dependent on a CLT's performance in relation to its stated goals and mission.

The city of Albuquerque, New Mexico, has made a multiyear financial commitment to the Sawmill Community Land Trust for operating support. This commitment initially involved the annual allocation of $150,000 in community development block grant (CDBG) funds to Sawmill, but in 2007 the city increased the allocation to $200,000 in response to the CLT's continued success and expanding operational needs.

The Two Main Types of CLT Resale Formulas

CLTs employ a variety of resale formulas, but they mainly fall into one of two categories:

▷ **Appraisal-based formula.** This type of formula ties the resale price to the change in market value of a property. Usually, the seller receives the original price plus some specified percentage of any increase in the appraised value.

▷ **Indexed formula.** This type of formula ties the resale price to an index that ensures that affordability is maintained. Many CLTs use the consumer price index (CPI) or area median income (AMI) to do this. Homes are resold at the original price adjusted according to the annual change in the respective index.

build equity through paydown of the principal balance of the first mortgage. In addition, this approach permits families to sell their homes for a resale price that affords them some home price appreciation (albeit less than they would generally obtain through the sale of an unrestricted home). Specifically, CLTs preserve public subsidy through the resale restrictions placed on land trust homes. These restrictions limit the amount of home price appreciation that land trust homeowners may accrue in order to preserve long-term affordability.

Despite limiting the full potential equity that CLT homeowners get compared to what they might gain on a market-rate home without resale restrictions, land trust homes can still offer homeowners significant equity gains. The amount of appreciation, and therefore the potential for equity gains, varies among housing markets, as well as within housing markets depending on the length of time one owns a land trust home. But in general, CLT homeowners can realize substantial equity gains at resale. In 2008, for instance, equity gains for homeowners in the Champlain Housing Trust in Burlington, Vermont, ranged from $12,000 to $47,000 (see box below).

Although these gains were achieved in a relatively healthy housing market, this example shows that CLTs can be an effective means of asset-building for lower-income families who may not otherwise have significant opportunities to build wealth. In addition, many CLT homeowners move on to become market-rate homeowners upon selling their land trust home, demonstrating the potential for enabling upward residential mobility through CLTs.

Community land trusts also act as stewards to maintain the well-being of the communities they serve, not just CLT homeowners. Therefore, CLTs employ a "community control" mechanism that enables representation from members of the surrounding community and the government officials and nonprofit organizations that support the land trust, in addition to land trust homeowners.

A traditional CLT board of directors has three groups with equal representation. One group represents the CLT residents who own homes on and lease land from the trust; one group represents members of the surrounding community; and one group represents public officials, nonprofit organizations, and other entities that fund, provide services for, or otherwise support the land trust. In addition to board membership, anyone who resides on CLT land or within the targeted CLT "community" can become a voting member. This tripartite system ensures full representation of the three major parties that have a stake in the CLT.

While CLTs were set up to deal with the problem of rapid increases in home prices, they have a lot to contribute in a down market as well. For example, CLT homes do not appear to be suffering from the foreclosure crisis affecting market-rate housing. A December 2007 survey of 49 CLTs (about a quarter of the nation's total) conducted by the National Community Land Trust Network found that out of 3,115 residential mortgages, there were only 19 reported cases of foreclosure or transfer of deed in lieu of foreclosure—a 0.6 percent foreclosure rate. Only 12 of these foreclosures led to the actual loss of a home, and in only three cases was a foreclosed property lost from a CLT's portfolio.

In general, CLTs and other shared-equity homeownership strategies offer a safer model for achieving affordable homeownership than

CHAMPLAIN HOUSING TRUST

Promoting Asset-Building and Residential Mobility

The Champlain Housing Trust (CHT) in Burlington, Vermont, provides a good example of the asset-building and residential mobility potential of CLTs. From its establishment in 1984 to 2008, the CHT oversaw the resale of 205 of its houses and condominiums. In 2008, sellers realized $12,000 to $47,000 in equity gains.

In addition, about 67 percent of CHT homeowners who sold their residences between 1984 and 2008 moved on to market-rate homeownership. Many others remained CHT homeowners, trading their first resale-restricted dwelling for another within the land trust.

subprime and other "creative" or "stretch" financing. Since land trust homes are sold for a price that is affordable to income-qualified buyers, the household's monthly payments start out and stay affordable. In addition, the purchase of CLT dwellings at values that are substantially below market provides a measure of protection against drops in home values. If market prices decline, the owner of a CLT residence may not lose as much as a market-rate owner and may even turn a profit.

For example, say a housing unit with a market value of $300,000 was sold as a CLT home at a regulated price of $200,000. Over a three-year period, home values decline by 10 percent while incomes increase by 10 percent. If the resale price of the CLT residence is tied to changes in the area median income, the maximum sales price would be $220,000 (10 percent higher than the $200,000 purchase price). Since the home is now worth $270,000 on the market (10 percent less than the $300,000 initial value), the CLT owner may still be able to find a buyer at the maximum purchase price, earning $20,000 in home price appreciation. By contrast, a market-rate owner would have lost $30,000.

The land trust model and other forms of shared-equity homeownership can also be used as a foreclosure-prevention strategy for those already in default. Under these approaches, a family in danger of foreclosure is provided with substantial financial assistance in exchange for converting their dwelling into a shared-equity home. So in the case of a CLT, the land trust buys the residence and resells it to the homebuyer at an affordable price. In exchange, the homebuyer agrees to honor the resale restrictions.

Still another foreclosure-prevention benefit is that a land trust has the right to step in and cure mortgage defaults on CLT homes. A land trust is written into the mortgage offered by the private lender so that the lender notifies the CLT in the case of a mortgage default. The land trust is then given an opportunity to facilitate loan workouts or other measures to cure the default. Should a foreclosure occur, the CLT is given the first right to buy the home out of foreclosure. In most cases of foreclosure, the property remains in the CLT's hands, enabling the land trust to maintain the affordability of the housing unit.

CLTs can also be an effective component of a strategy to stabilize neighborhoods affected by foreclosures. Say a community has acquired foreclosed homes that it wants to return to productive use. There are no buyers for the property at its market value, so the community decides to provide subsidies to make the residences affordable to working families or others who would be interested in purchasing the dwellings at a reduced price. By doing this through a CLT, the community ensures that the buying power of that subsidy is preserved once home prices stabilize and increase. Long term, renewable CLT ground leases also ensure that these residential properties will remain occupied and in stable physical condition well into the future. (See box on this page.)

Land trusts can also be a vehicle for ensuring the ongoing availability of affordable, well-located housing in areas where demand remains high despite an overall down market, such as areas near public transit or job centers. The CLT model and other types of shared-equity homeownership provide a critically important strategy for preserving the affordability of homes in these desirable locations. And when home prices eventually recover and rise in high-demand areas, a CLT established now for these purposes can easily be adapted to help cope with these rising prices.

Despite their effectiveness in providing and sustaining quality affordable homeownership, CLTs and other forms of shared-equity programs exist on a relatively small scale compared to more traditional affordable homeownership programs. The target areas of many land trusts have expanded from individual neighborhoods to entire cities or even metropolitan regions, yet nationwide they represent only about 10,000 units.

However, the flexibility, financial sustainability, and growing municipal support for CLTs make future expansion of this model promising. In particular, the CLT's applications to foreclosure prevention, neighborhood stabilization, and the preservation of affordable homeownership opportunities around job centers and public transit make it a useful tool for responding to some of today's most pressing housing issues. **UL**

RYAN SHERRIFF is a research associate at the Center for Housing Policy in Washington, D.C.

Using the CLT to Revitalize and Stabilize Blighted Neighborhoods

In 1984, two church associations came together to form the Time of Jubilee Community Land Trust (TJCLT) with the mission of revitalizing a blighted section of Syracuse, New York. The TJCLT and its development affiliate, Jubilee Homes of Syracuse Inc., partnered with the city of Syracuse to develop vacant city-owned land in southwest Syracuse into affordable single-family residences. By 1992, Jubilee Homes had developed and sold 26 dwellings, with the TJCLT taking ownership of the underlying land in order to oversee the long-term affordability of the housing units and the preservation of the city's subsidy.

Since then, the TJCLT and Jubilee Homes have greatly expanded their revitalization efforts through the acquisition and renovation of dilapidated, vacant single-family houses and duplexes that have burdened the neighborhood for decades. The TJCLT's portfolio now includes some 100 newly constructed and renovated homes that will remain affordable for the foreseeable future. These two organizations have also joined with local partners to create a homeownership education program for land trust homeowners and a business resource center to aid local small, minority- and women-owned businesses.