Community Land Trusts

Preserving Long-term Housing Affordability

A community land trust combines the best features of home ownership – control, predictability in mortgage costs, inheritability, and wealth creation – with protection against runaway gentrification. Ownership of the house, which stays with the occupant as in any typical homeownership situation, is split from ownership of the land underneath, which rests with the CLT.[1]

As municipalities and community groups seek innovative ways to mitigate the negative impact of foreclosures on borrowers and communities, some are exploring the potential of "bundling" foreclosed properties and converting them into a community land trust (CLT). Foreclosed properties, which would otherwise stand vacant or be sold back into the private market at a loss, would instead be transferred to a CLT and then returned to the community as affordable homeownership opportunities. A community land trust, which is a form of land ownership in which a private, nonprofit organization acquires and holds land–and sets controls for its use–for the benefit of local community residents, can allow low-income families to become homeowners, improve neighborhood stability, and preserve the long-term affordability of homeownership opportunities. These outcomes stand in stark constrast to the negative impacts of foreclosure.

But how do CLTs work? And if there are so many benefits offered by CLTs, why aren't they more common? In this article, we examine how community land trusts are structured, provide a brief history of CLTs, and report on research that measures the benefits and limitations of the CLT model.

How a Community Land Trust Works

Although each community land trust is structured in its own way, the key feature that characterizes a CLT is that it treats land separately from buildings on the land; the CLT owns the land, but individuals or organizations own the buildings. This arrangement allows the cost of land to be removed from calculations of building price, thereby lowering costs. CLT land, which is used most commonly for the development of permanently affordable homes for low- and moderate-income households, is conveyed to individual homeowners through a ground lease. The lease, which typically runs for ninety-nine years unless a shorter term is required by state law, defines the rights and obligations of each of the parties in a CLT, and can be both renewed and inherited.

Those who own housing units on CLT land enjoy the same rights as most homeowners, including security of tenure, privacy, and the right to remodel or redecorate, although permission from the CLT is required for major capital improvements. They can also build equity, albeit not as much as on the private market; the selling price of a CLT house is determined not wholly by the market but rather by a resale formula written into the ground lease, which limits price increases and thereby preserves long-term affordability of the unit. Further restrictions can be written into the lease as well, such as requirements that a CLT home be used as a primary residence; in other words, an owner would not be allowed to sublet the home or use it as an investment property. The CLT also enforces the maintenance of the property, and in the case of mortgage default, the CLT will take over the lease to prevent foreclosure.

Responsibility for monitoring and enforcing all of these restrictions on the use and resale of owner-occupied housing rests with the CLT. This management function of the CLT is an important one, and significant efforts must be made to ensure that the management and governance of the CLT has the capacity to manage the properties effectively. Most CLTs are governed by a board that includes both at-large community members and land-trust residents. The joint governance structure offers balanced accountability: residents have a real voice in the governance and operation of the organization, while members from the community at large ensure the long-term protection of the organization's core values and its integration into the wider community.

The History of Community Land Trusts

The principles underlying community land trusts have a long history, and draw on the cultural traditions and land tenure systems of groups such as the native peoples of North America and South America, the Ejidos of Mexico, the "commons" of England, the Crofter system in Scotland, tribal lands in Africa, the Gramdan movement in India, and the Jewish National Fund in Israel. Many of these systems sought to ensure that land was being put to the use that would most benefit the community at-large, while still recognizing an individual's interest in the land. The late 1960s saw the establishment of the first nonprofit community land trust in the United States–New Communities in Albany, Georgia–which had the goal of providing residential and agricultural leaseholds for African-American farmers.[2]

During the 1980s, CLTs expanded from these rural roots to urban areas. Inner-city communities were turning to community land trusts as a way to prevent runaway housing cost increases and displacement in gentrifying areas, and to curtail the downward spirals resulting from absentee ownership and neglect in disinvested neighborhoods. For example, in the Roxbury neighborhood around Dudley Square in Boston, many parcels had been abandoned and were being used for illegal trash dumping. Neighborhood residents asserted that without ownership of the land in the neighborhood, they would not be able to fully participate in local redevelopment efforts, and that benefits would flow to absentee landlords rather than the community. The Dudley Street Neighborhood Initiative (DSNI) won eminent domain power to acquire the vacant land, and established a community land trust to manage the land and ensure permanent community ownership and affordability. To date, the DSNI's land trust has rehabbed 300 homes and created more than 300 new homes, a Town Common, urban agricultural gardens, a commercial greenhouse, parks and playgrounds on this land.[3]

Spurred on by early successes, community land trusts have emerged in localities across the country, aided by the technical support of groups such as the Institute for Community Economics and Burlington Associates.[4] While many CLTs are still resident-led, many are driven by other stakeholders in the community interested in the preservation of homeownership affordability.[5] Indeed, municipalities are increasingly looking at CLTs as an option to preserve housing affordability for their residents. In Irvine, California, and Portland, Oregon, for example, municipal officials initiated the creation of a CLT as a means to expand and preserve access to homeownership for low-income families. But private companies and other organizations can also play a pivotal role in launching a CLT. In Rochester, Minnesota, the Mayo Clinic used a community land trust model to meet its workforce housing objectives, and in Los Angeles, the California Community Foundation has established a CLT to bridge the growing gap between incomes and the cost of housing in the LA Region.

The benefits of the CLT model

Recent research on community land trusts suggests that CLTs are an effective affordability tool, and that compared to many other homeownership subsidies, such as downpayment assistance programs, they use public subsidies more efficiently. In traditional downpayment assistance programs, when a unit is sold by a homeowner the public subsidy is generally recaptured by the program. However, if the same house is to be re-purchased by another low-income buyer, the program must now subsidize its appreciated value. If the land has appreciated significantly, the program must provide a new, larger subsidy to get another low-income household into the same home. In contrast, the CLT model ensures that "the value of public subsidies used to develop the affordable housing are permanently tied to the housing, thus recycling subsidy dollars from owner to owner."[6]

The Kulshan Community Land Trust's Matthei Place in Bellingham, Washington provides permanenly affordable–and environmentally sustainable–homeownership opportunities for low and moderate-income families.

In addition, research has shown that CLTs also allow homebuyers to build equity–perhaps not as much as they would have in the private market–but certainly more than if they had remained renters. As John Emmeus Davis, a leading scholar of CLTs, has noted, "The CLT resale formula is designed to give departing homeowners a fair return on their investment, while giving future homebuyers fair access to housing at an affordable price – one homebuyer after another, one generation after another."[7] Research appears to bear out this claim. In one study, the average annual rate of return for CLT homebuyers in Minnesota was 33.2 percent, although the rate varied depending on how long homeowners had stayed in the home.[8] These equity gains mean that CLTs can provide an important step for low-income households up the housing ladder, allowing them to build some equity that could be used for a downpayment on a market rate home. In addition, this same research found that the CLT homes were resold at a value that, on average, was $17,000 less than the original price, demonstrating that CLTs can and do preserve affordability over the long-term.

CLTs also play a long-term stewardship role in the community. Often, they provide homebuyer education and training as well as other services to homeowners, such as support in the face of unexpected financial difficulties and assistance in cases of delinquency and foreclosure.[9] In addition, the governance structure of CLTs plays into this stewardship role, in that the diverse board representation enables the CLT to receive guidance from, and be responsive to, a host of community interests.

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Challenges to the expansion of CLTs

Despite these benefits, the total number of homes in community land trusts remains small. While estimates vary, there are approximately 160 land trusts operating in the United States, with control over somewhere between 5,000 and 9,000 units.

There are a number of factors limiting the proliferation of CLTs. Many community land trusts face challenges in acquiring land and developing properties. The CLT model works best when land is owned debt-free by the CLT, allowing the CLT to remove the entire cost of the underlying land from the selling price of housing and other improvements. This can be difficult to achieve, especially in high-cost areas where the value of land makes it particularly difficult to acquire. In addition, most CLTs require additional subsidy to achieve the desired level of affordability. Where construction costs are high, a CLT—like every other nonprofit developer—requires grants that are sizeable enough not only to remove the costs of the land but to subsidize a portion of the building's cost as well. But aside from recent support from select municipalities, public funding for CLTs has been limited in scale.

Not only can CLT developers face difficulties in assembling the land and other resources to create a land trust, would-be purchasers may find it hard to secure a mortgage for their CLT homes. Financial institutions are often leery of underwriting mortgages for resale-restricted homes on leased land. Melody Winter Nava, regional manager for Southern California, has been working to raise awareness about community land trusts among the lending community in the region. "Banks have a lot of questions about the Community Land Trust model," notes Melody. "There can be a hesitancy to jump into something that they're not comfortable with. What happens if a borrower in a CLT property defaults? What types of financing do CLTs need? Will there be enough volume for the lender to justify developing a CLT product?" Melody works with lenders to answer these types of questions. "My role is to keep the lenders at the table, and bring in CLT experts to explain the benefits of the model to the lending community."

Conclusion

In many rapidly growing areas within the Federal Reserve's 12th District, the high cost of land has been the primary contributor to escalating house prices, placing homeownership out of reach for low-income households. While there is still much that lenders, community-based organizations, and municipalities must learn about CLTs in order to support them and foster their expansion, the effort could pay off as CLTs may be a particularly effective way of providing homeownership opportunities that are affordable over the long-run. CI

From Mattress Money to Checking Accounts

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5. Abby Hughes Holsclaw (2008). "NLC's bank on cities campaign to help city leaders expand access to mainstream financial services." February 4, 2008, *Nation's Cities Weekly*.
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3. Gus Newport (2005). "The CLT Model: A Tool for Permanently Affordable Housing and Wealth Generation," Poverty and Race, January/February 2005. See also: "Building Urban Villages," E. F. Schumacher Society Newsletter Jan 2006, accessed online on February 22, 2008, http://www.schumachersociety.org/newsletters/06jan26.html.
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Employer Assisted Housing

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Streamlining the Mortgage Approval Process in Indian Country

1. As sovereign governments, tribes have the right to form their own government; the power to make and enforce both civil and criminal laws; the power to tax; the power to establish membership; the right to license, zone and regulate activities; the power to engage in commercial activity; and the power to exclude persons (Indian and non-Indian) from tribal territories.
2. See Listoken et.al (2004). The effective homeownership rate is calculated to reflect the factors that are usually associated with homeownership tenure in the United States: many owned units on Reservations are Mutual Help (which is a rent to own program and is not market based, and 'owners' cannot sell their units). The effective homeownership rate also excludes units that don't have electricity, plumbing or a kitchen.
3. The terms of the mortgage product are also beneficial to borrowers. The downpayment requirement is low: 1.25% to 2.25% depending on the appraised value of the home. In addition, borrowers need not take out private mortgage insurance (borrowers pay a 1% guarantee fee at closing), and need only to demonstrate a 41% debt to gross income ratio which can be exceeded with compensating factors. Section 184 loans can also be sold to Fannie Mae and Freddie Mac in the secondary market. While initially the program was targeted primarily to on-reservation lending, the Section 184 program was expanded in 2002 to apply more broadly to all tribal areas.