

Community Land Trusts

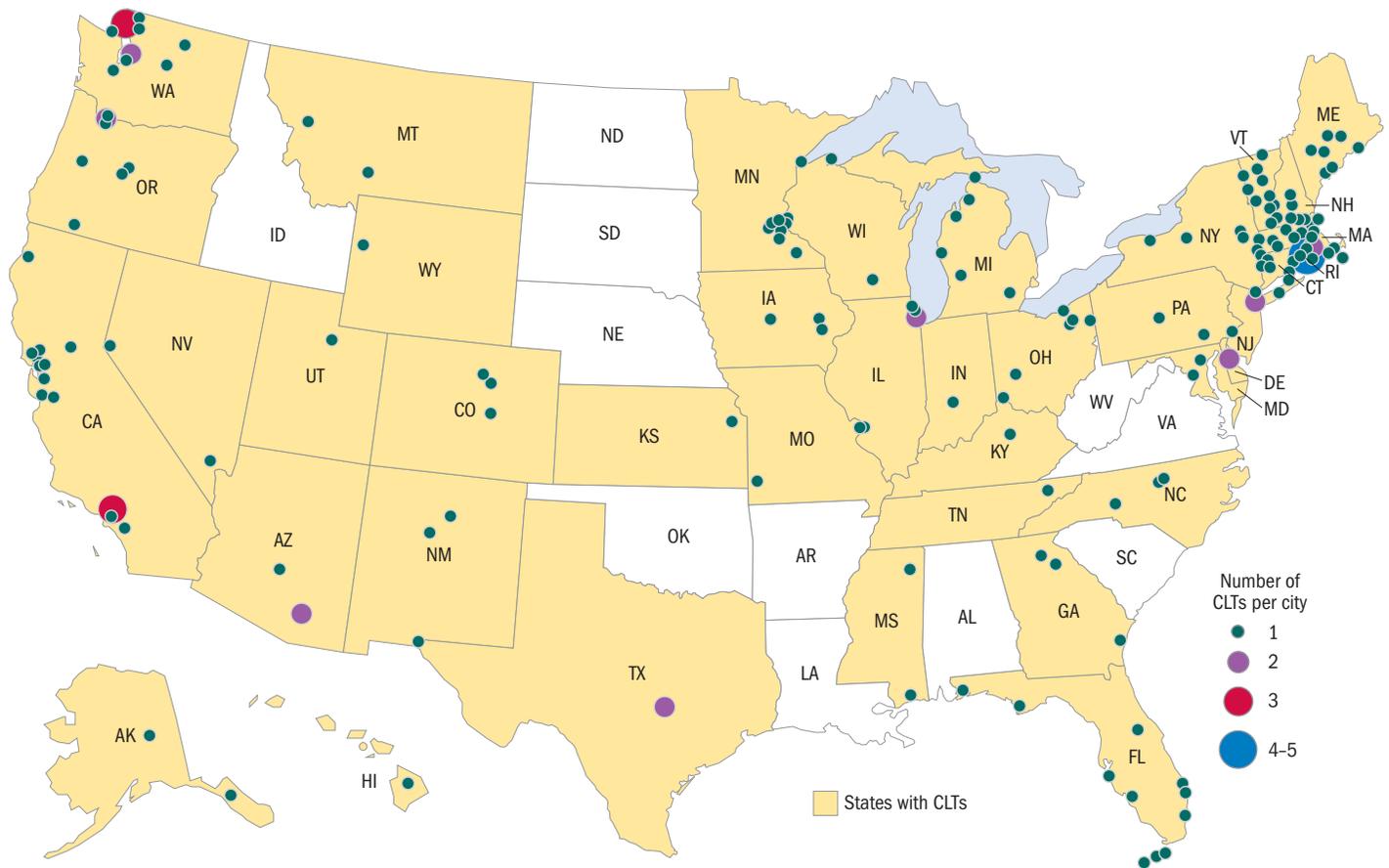
A Solution for Permanently Affordable Housing

Rosalind Greenstein and Yesim Sungu-Eryilmaz

With housing prices outpacing wage increases in the United States, the number of households that paid 50 percent or more of their income on housing rose by 14 percent, from about 13 to 15 million, between 2001 and 2004; of those 15 million households, 47 percent were owners and 53 percent renters (Joint Center for Housing Studies

2006). While this situation is apparent in many cities and towns across the country, it is most acute on the coasts and in some Sunbelt cities. San Diego, for example, had the largest increase in real median home values, changing from \$249,000 in 2000 to \$567,000 in 2005 (U.S. Census Bureau 2006). The widening gap between incomes and house prices moves ownership out of reach for many low- and moderate-income households, and greatly burdens renters.

FIGURE 1
Community Land Trusts Are Located Throughout the United States



The community land trust (CLT) is one mechanism that addresses this need for affordable housing, and it also can be considered an institutional mechanism for capturing socially produced land value. The CLT is typically a private, nonprofit corporation that acquires land parcels in a targeted geographic area with the intention of retaining ownership of the land for the long term. The CLT then provides for the private use of the land through long-term ground lease agreements. The leaseholders may own their homes or other improvements on the leased land, but resale restrictions apply. In theory, the CLT removes the cost of land from the housing price by separating ownership of the land from that of the house or other improvements.

Growth of the CLT Movement

The CLT movement is relatively new. According to a national survey of CLTs, most were formed over the last 20 years, with the pace of CLT formation increasing in the last decade (Greenstein and Sungu-Eryilmaz forthcoming).¹ There are now approximately 186 CLTs in 40 of the 50 states and the District of Columbia. CLTs are most concentrated in the cities of the Northeast (37 percent), the West (29 percent) and the Midwest (19 percent); only 15 percent of CLTs cur-

rently are located in the South (see Figure 1).

Several factors have remained important to the formation of CLTs over time. The efforts of individual members of the community have been a key factor in the formation of most CLTs, regardless of when they were formed. The efforts of local community groups was the third major factor in start-up support for the CLTs (see Table 1).

The impetus for CLT formation has shifted somewhat over the past four decades since the first CLT in the United States was founded in 1968 in rural Georgia. Over the past 25 years municipal governments have taken a greater interest in sponsoring CLTs than private businesses or other groups. For example, the City of Delray Beach, Florida and the Delray Beach Redevelopment Agency created the Delray Beach Community Land Trust in 2006 to own and manage land for the benefit of the Delray Beach community. In December 2005 the City of Chicago announced its intention to create a citywide CLT to be staffed by the City of Chicago Housing Department. In May 2006 Irvine, California announced its commitment to fund the Irvine Community Land Trust with more than \$250 million to create nearly 10,000 units of below-market-rate housing over 10 years.

According to our survey data, public officials provided a major impetus in the creation of 22

TABLE 1
Community Involvement Is Key to the Formation of CLTs

	Decade of CLT Formation				Number of CLTs
	1970s	1980s	1990s	2000s	
Number of CLTs formed per decade	4	24	39	52	119
CLT formation factors*					
Effort of local individuals	3	18	35	36	92
Financial support from the public sector	0	11	22	28	61
Effort of local community groups	3	12	19	26	60
Effort of local government or public officials	0	10	14	22	46
Effort of an organization outside the local area	3	9	13	19	44
Financial support from the private sector	2	9	16	16	43
Effort of local foundations and businesses	1	5	11	16	33

* Respondents could check one or more formation factors.

1 The goal of the national CLT survey was to provide important baseline data for the CLT model that is gaining national acceptance. The overall response rate for the survey was 64 percent.

of the 52 CLTs formed in the last six years (42 percent), and public financial support was important in more than half of these start-ups (see Table 1). This is in contrast to the first few CLTs in the 1970s, when public sector financial support was not reported as being important.

The municipalities and other entities that are exploring the CLT model are motivated by two features: permanent housing affordability and subsidy retention. CLT homes are made permanently affordable for low- or moderate-income homeowners through contractual controls embedded in the ground lease, even after the resale of the homes. When a CLT homeowner sells her house, the CLT retains the ownership of the land. Thus, subsidies to the CLT to purchase land stay with the CLT. Municipalities and private funders of below-market-rate housing find this subsidy retention to be both fiscally and politically attractive, since most other affordable housing programs—such as down-payment assistance, subsidy of closing costs, or forgivable second mortgages—do not incorporate perpetual affordability in their design.

While some of these programs may require the homeowner to repay subsidies when the house is sold, many do not, thus providing a windfall to the seller. In the CLT model, the selling price of the house is determined by the resale formula. These formulas vary among CLTs and are designed to balance the competing interests of the current owner to realize profits on their house investment with the interests of future owners to find an affordable home. The resale formula and the right of

the CLT to have the first option to purchase upon resale are the mechanisms that ensure permanent affordability for CLT houses.

To explore these and additional features of the CLT model, the Lincoln Institute gathered a group of scholars and practitioners in September 2006 to discuss recent research that addressed and raised critical questions about permanent affordability, the role of the community in the CLT model, subsidy preservation, and property taxation issues.

Provision of Affordable Housing

As interest in the CLT model as a mechanism for providing affordable housing expands, the evaluation of the model becomes very important. Currently CLTs largely serve low- and moderate-income households, but not very low-income households (see Figure 2). Steve Bourassa’s paper includes simulations of the costs to households of several CLT options relative to renting or fee-simple ownership given various assumptions about interest rates, house price inflation, and resale formulas (Bourassa forthcoming).

Since house appreciation is highly affected by local real estate conditions and interest rates, Bourassa concludes that CLT housing, when evaluated as an investment from only the homeowner’s point of view, may be a good investment only under certain conditions, just like market-rate, fee-simple housing. His paper raised the important policy question of whether any subsidies ought to go to home ownership when there remains such

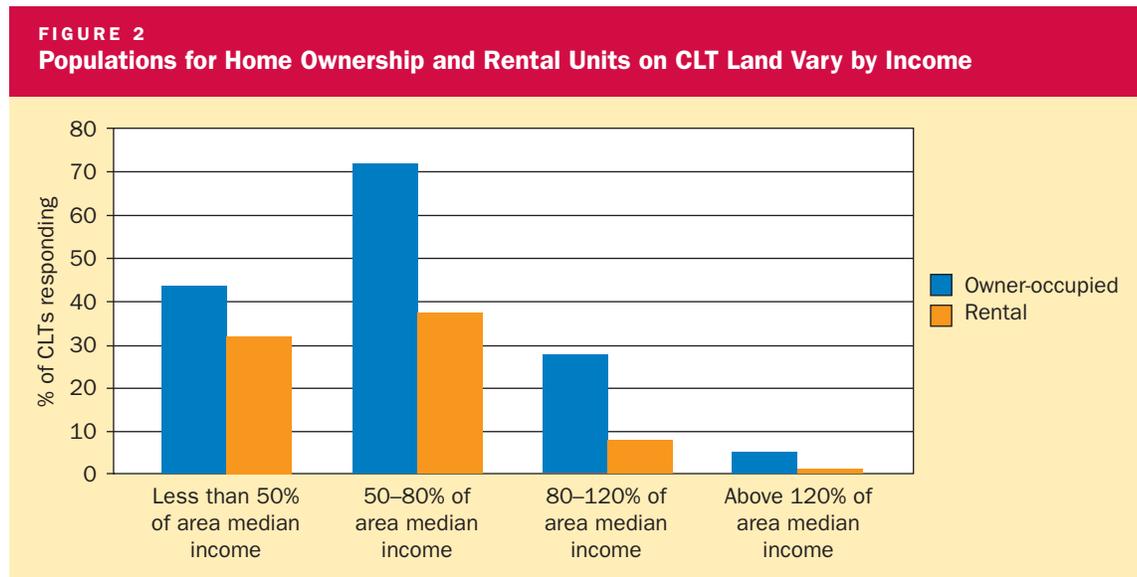
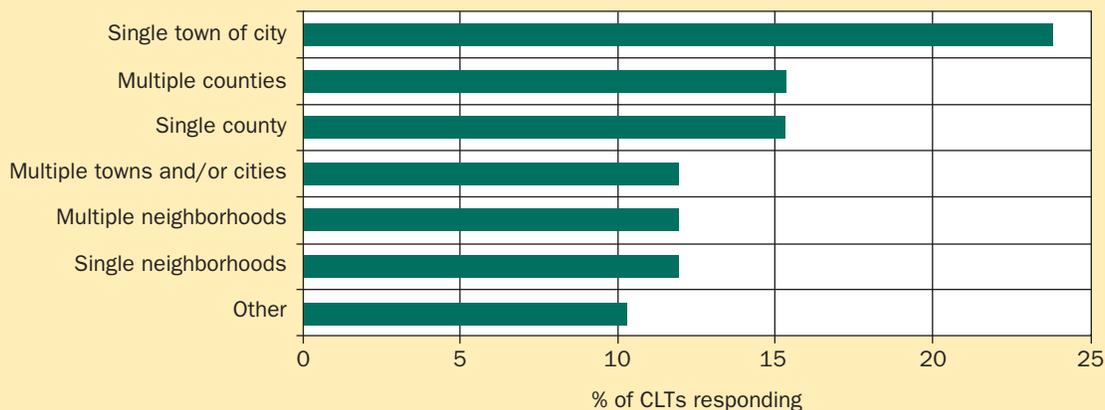


FIGURE 3
CLTs Serve Single and Multiple Communities



a great unmet need for assistance to low-income renters.

Tom Angotti and Cecilia Jagu (forthcoming) examined the costs and benefits of low-income, multifamily rental housing provided by three CLTs: Cooper Square Community Land Trust in New York City; Northern California Land Trust in Berkeley; and Burlington Community Land Trust in Vermont. Cooper Square emerged out of a decades-long community struggle to secure below-market-rate housing in lower Manhattan. The City of New York deeded the land to the CLT on which it built rental housing. While most CLTs do not face Manhattan’s high land costs, rising costs in many metropolitan areas are likely to increase CLTs’ stocks of multifamily housing.

Based on their analysis of Cooper Square, Angotti and Jagu argued that land trusts are able to provide rental housing at very low cost when compared to local markets, when there is strong local government support. However, reports from the field should cause CLTs to be quite careful as they enter the rental housing market. Bratt (2006) reports a series of challenges that experienced nonprofit organizations have faced in renting subsidized units, such as high turnover and vacancy rates, limitations on the ability to raise rents, overly optimistic revenue projections, and an inability to anticipate changing market conditions.

John Davis suggested that it is helpful to see CLTs, along with deed-restricted housing and limited-equity cooperatives, as shared-equity housing. In this sector, “occupants have more rights than are typically offered in rental housing and more restrictions than are typically imposed in home-

owner housing” (Davis 2006). The housing continuum then can include a variety of options for households with different needs based on income and family composition. While most CLTs have focused their resources on home ownership, according to the CLT survey, 46 percent of CLTs have some rental units in their housing portfolios.

Stewardship also plays an important role in the CLT philosophy. For example, CLTs steward land for community use and benefit, and they steward houses for low- and moderate-income families. The CLT typically is responsible for inspecting the house once a year. In addition, some CLTs dedicate a portion of lease fees to a capital reserve fund that stays with the house, not the leaseholder.

This philosophy of stewardship also has led CLTs to provide a package of homeowner services to the CLT leaseholders, who are frequently first-time homeowners or even first-generation homeowners. CLTs call this “backstopping.” That is, they work with families who may face financial difficulties and or are on the verge of defaulting on their mortgage. When CLTs enter into landlord-tenant relationships, they bring this same stewardship philosophy to their renters.

The Role of the Community

The community served by CLTs differs among locations. According to the CLT survey, only 12 percent of CLTs described the community they served as a single neighborhood, whereas almost 25 percent encompassed a single town or city (see Figure 3). Reports on two case studies—the Durham, North Carolina CLT (Grey and Miller-Cribbs forthcoming) and First Homes of Rochester, Min-

nesota (Packnett 2005)—facilitated discussion of the definition of the community in the CLT model and allowed the seminar group to contrast a classic CLT with a variant on the model.

The Durham CLT, founded in 1987, targets multiple neighborhoods located between downtown Durham (former home of the “Black Wall Street,” the Hayti district, and the tobacco warehouses) and Duke University’s West Campus. Like most Southern cities, Durham had a flourishing African-American district, which was home to the social, cultural, spiritual, and commercial center of the community. As in many other cities, the Civil Rights Movement brought increased choices to individuals and, ironically, had a devastating effect on this historic section of Durham.

The Durham CLT develops affordable housing and engages in community revitalization in its service neighborhoods. Its elected board of directors is made up of one-third leaseholders, one-third community residents, and one-third representing the “public interest.” This tripartite board structure reflects the varied interests in a CLT property and is the structure referred to as the “classic CLT.” The CLT as the landowner and community steward of the land for affordable housing has an interest in the land that extends beyond the current users. The homeowner/leaseholder as the occupant of the land has an immediate interest, and the surrounding neighbors have a stake in the land since their own property values are affected by conditions in the neighborhood. The general

public also has an interest in the property as a mechanism to provide below-market-rate housing for their community.

First Homes, on the other hand, is a project of the Rochester Area Foundation. This program received half of its \$14 million in start-up funds from the Mayo Clinic, which saw the CLT as an effective tool to create affordable workforce housing in multiple surrounding counties. Its board of directors, appointed by the foundation, consists of both leaseholders and the public at large.

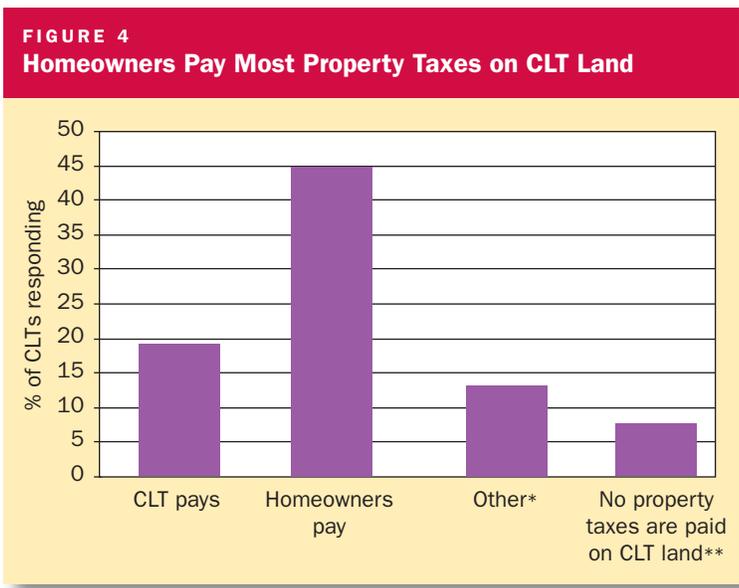
The different ways that board members are elected or appointed in these two cases affects the make-up and meaning of their respective communities, but we do not yet fully understand the implications of these differences.

Subsidy Preservation

Are CLTs a good investment for public and private agencies interested in promoting below-market-rate home ownership, and how does investment in CLTs compare to investment in other similar programs? How effective are CLTs compared to other affordable housing strategies in maintaining affordability for subsequent owners? Mickey Lauria and Erin Comstock (forthcoming) raised these questions and provided an empirical analysis of the Northern Communities Land Trust in Duluth, Minnesota, and the Minnesota Urban and Rural Homesteading Program, another affordable home ownership program in the same locality.

They reported three preliminary findings. First, less money was required to subsidize the purchase of a house through the CLT program than through a conventional mortgage assistance program, because the CLT does not have to subsidize the owner’s purchase of the land. Second, the CLT used subsidies more efficiently than the Homesteading Program. Considering that both programs served the same household income group, it cost the CLT around \$100,000 less to assist a low-income household to buy a house. Furthermore, for every one household assisted by the Homesteading Program, the CLT can assist an average of four households.

Lauria and Comstock’s third finding indicated that CLTs preserved affordability for subsequent low-income buyers in Duluth. For the most part, affordability was not only preserved upon resale of the CLT home, but it actually increased. That is, on average, homes were resold to households earning 4 percent less than the original purchasing



* Other includes cases where both the CLT and the homeowner pay the taxes.
** None of the CLTs that pay no property taxes make payments in lieu of taxes (PILOTs).

household, and furthermore homes were sold at prices less than the original purchase price.

Restricted Resale Value and Property Taxation

Property tax laws and procedures vary greatly across and within state jurisdictions, and CLTs must operate within the realities of local taxing environments. Because many CLTs are incorporated as a 501(c)(3) nonprofit organization, they can sometimes claim exemption from local taxes on their land. However, according to the national CLT survey, less than 10 percent of CLTs pay no property taxes on their CLT land. Forty-five percent of CLTs reported that property taxes on the land are paid by the homeowners (see Figure 4).

Alexis Perotta (forthcoming) found similar results and further explored issues in assessment and taxation of CLT homes and land. Her study surveyed 27 CLTs in 17 states to discover how property is assessed. Most cities are not in the practice of assessing land and improvements separately. However, in the case of CLTs, where the ownership of land and buildings is split between the CLT and the leaseholder/homeowner, her research found that land and property are assessed separately, although the same tax rate is usually applied to both assessed values. Her study also raised the issue that can occur when land and property are taxed without considering either the restricted resale value or the separation of land from improvements. The assessed value of a CLT house should reflect the contractual controls that reduce the value, and consequently the CLT land should be taxed at a reduced rate (Davis 2006).

Conclusion

The CLT model is an attractive institutional mechanism for providing and maintaining the stock of affordable housing, but more research is needed to evaluate the CLT model. From an economic perspective, research is needed about the effectiveness of the CLT model as a vehicle for creating initial affordability, preserving long-term affordability, and retaining the public's investment with respect to different populations served and varying market conditions.

From the legal and financial perspectives, understanding key policy issues such as the taxation, subsidization, and the mortgaging of CLT houses is needed. From a social perspective, questions of neighborhood stability and homeowner mobility

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are important. Research may determine the extent to which the CLT model is effective in foreclosure prevention, in creating personal wealth for individual homeowners at different income levels, and in retaining community wealth in locations with mixed social, economic, and political characteristics. Such research would provide recommendations for policy changes at the local, state, and federal levels. □