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Community Land Trusts: An Alternative Approach to Affordable Homeownership and Neighborhood Revitalization

Despite the significant decrease in housing prices since the end of the housing boom, affordable housing remains a critical issue for low- to moderate-income families. Approximately 9 million homeowners and 10 million renters face severe housing payment burdens, with the share of severely burdened homeowners increasing from 9 to 12 percent over the past decade.[1] Current affordability issues are a result of the long-term, significant increase in housing costs coupled with weak income growth, particularly among low-income households. Because income gains have lagged behind housing prices for decades, it is likely that an increase in the number of severely burdened homeowners will continue, regardless of housing market dynamics.[2]

The conventional approach to making homeownership affordable is to provide some form of subsidy to the homeowner to reduce the costs associated with buying a house. For example, homeowners may receive down payment assistance or a subsidized mortgage. With this approach, the home's affordability is not maintained. At the point of resale, the home is sold at market price and the new buyer would have to qualify for assistance. The shared equity model is an alternative to the traditional homeowner subsidy approach. Shared equity models ensure that homes remain affordable in perpetuity by restricting resale prices. The Community Land Trust (CLT) is a specific type of shared equity housing model that has been around since the 1960s, but has recently gained a lot of attention as a tool for promoting both affordable homeownership and neighborhood revitalization.[3] In this issue of *MarketWise Community* we describe how CLTs operate, why they are gaining in popularity as a shared equity model and how different CLTs have evolved to address different housing market challenges.

COMMUNITY LAND TRUSTS AS A MODEL OF SHARED EQUITY HOUSING

Other common types of shared equity housing arrangements include deed restrictions and limited equity housing cooperatives. Deed restricted housing programs were established in the 1970s and have also gained in popularity since the 1990s. An estimated 200,000-350,000 exist.[4] With deed restrictions, a subsidy is used to reduce the initial purchase price for homeowners. Restrictions on the resale price and stipulations that the units are sold to buyers meeting certain income qualifications are defined in the deed to maintain continued affordability.[5]

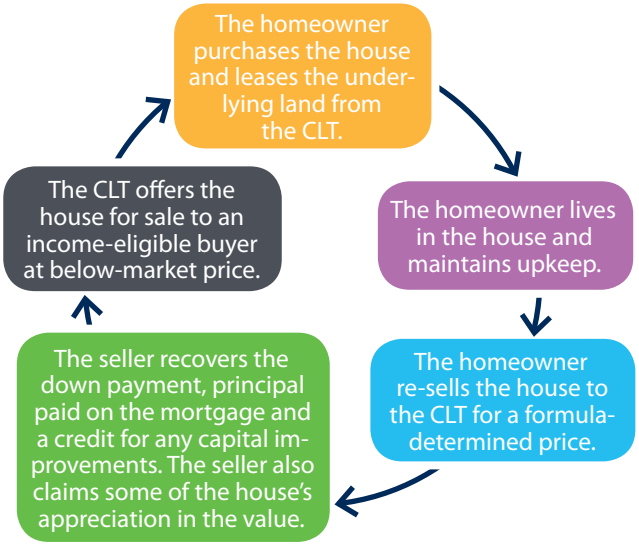
Limited equity cooperatives were established in the 1920s. Although most cooperative housing does not restrict the price of a unit at resale, the limited equity cooperative model is a unique approach designed to preserve affordability. A shared equity formula is applied to resale prices.[6] In all other aspects, they operate in a similar manner to the more common co-op

model. Cooperative members maintain the right to occupy a unit, vote on issues of common interest and have joint responsibility for common areas.[7] According to The National Association of Housing Cooperatives, there are an estimated 1.2 million cooperative housing units in the United States, which includes approximately 425,000 limited equity housing cooperative units.[8]

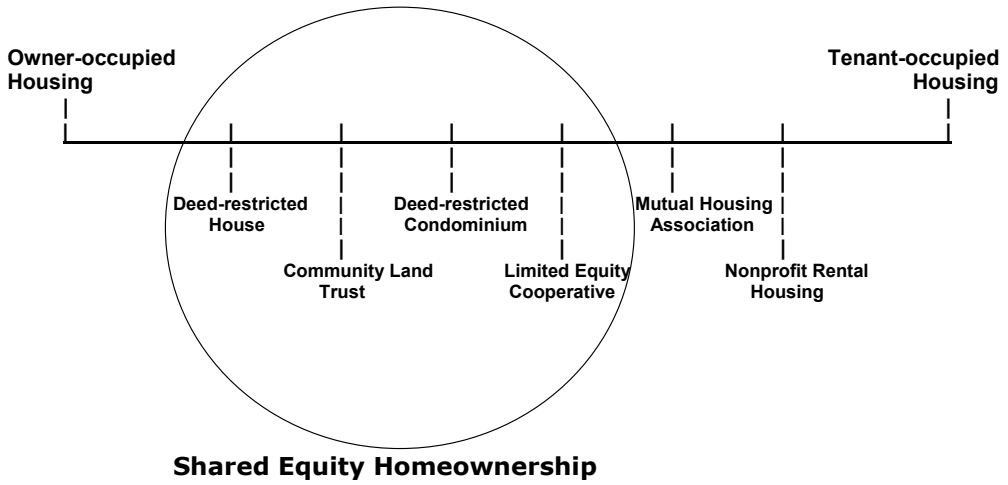
A CLT is a nonprofit organization that owns and manages the land on which affordable homes are built. These homes are sold to low- and moderate-income families, and the CLT maintains ownership of the land, which is then leased to the homeowner through a ground lease agreement.[9] The U.S. Department of Housing and Urban Development Department (HUD) recognized CLTs and established federal definitions and guidelines in 1999.

There are currently 258 CLTs (about 9,000 units) in the U.S., distributed across 46 states and the District of Columbia.[10]

Sustainability of Owner-Occupied Housing in a Community Land Trust



Continuum of Third Sector Housing



Source: John Emmeus Davis. 1994. "Beyond the Market and the State." Chapter 2 in *The Affordable City: Toward a Third Sector Housing Policy*. Philadelphia: Temple University Press. [Figure 2-1. revised in 2008 by the author]

Ten Key Features of the Classic Community Land Trust

Excerpt from The City-CLT Partnership: Municipal Support for Community Land Trusts by John Emmeus Davis and Rick Jacobus.

1. **Nonprofit, tax-exempt corporation.** A community land trust is an independent, nonprofit corporation that is chartered in the state where it is located. Most CLTs are started from scratch, but some are grafted onto existing nonprofit corporations. Most CLTs target their activities and resources toward charitable goals such as providing housing for low-income people and redeveloping blighted neighborhoods, and are therefore eligible for 501(c)(3) designation.
2. **Dual ownership.** The CLT acquires multiple parcels of land throughout a targeted geographic area with the intention of retaining ownership permanently. The parcels do not need to be contiguous. Any buildings already located or later constructed on the land are sold to individual homeowners, condo owners, cooperative housing corporations, nonprofit developers of rental housing, or other nonprofit, governmental or for-profit entities.
3. **Leased land.** CLTs provide for the exclusive use of their land by the owners of any buildings located thereon. Parcels of land are conveyed to individual homeowners (or the owners of other types of residential or commercial structures) through long-term ground leases.
4. **Perpetual affordability.** By design and by intent, the CLT is committed to preserving the affordability of housing and other structures on its land. The CLT retains an option to repurchase any structures located upon its land if their owners choose to sell. The resale price is set by a formula in the ground lease providing current owners a fair return on their investments and future buyers fair access to housing at an affordable price.
5. **Perpetual responsibility.** As the owner of the underlying land and of an option to repurchase any building located on that land, the CLT has an abiding interest in what happens to these structures and to the people who occupy them. The ground lease requires owner-occupancy and responsible use of the premises. If buildings become hazardous, the CLT has the right to force repairs. If property owners default on their mortgages, the CLT has the right to cure the default, forestalling foreclosure.
6. **Open, place-based membership.** The CLT operates within the boundaries of a targeted area. It is guided by, and accountable to, the people who call this locale their home. Any adult who resides on the CLT's land or within the area the CLT deems as its "community" can become a voting member. The community may comprise a single neighborhood, multiple neighborhoods, or even an entire town, city, or county.
7. **Community control.** Voting members who either live on the CLT's land or reside in the CLT's targeted area nominate and elect two-thirds of a CLT's board of directors.
8. **Tripartite governance.** The board of directors of the classic CLT has three parts, each with an equal number of seats. One-third represents the interest of people who lease land from the CLT; one-third represents the interests of residents of the surrounding community who do not lease CLT land; and one-third is made up of public officials, local funders, nonprofit providers of housing or social services, and other individuals presumed to speak for the public interest.
9. **Expansionist program.** CLTs are committed to an active acquisition and development program that is aimed at expanding their holdings of land and increasing the supply of affordable housing and other structures under their stewardship.
10. **Flexible development.** While land is always the key ingredient, the types of projects that CLTs pursue and the roles they play in developing the projects vary widely. Many CLTs do development with their own staff, while others delegate this responsibility to partners. Some focus on a single type and tenure of housing, while others develop housing of many types and tenures. Other CLTs focus more broadly on comprehensive community development.

Source: Davis, John Emmeus, and Rick Jacobus. "The City-CLT Partnership: Municipal Support for Community Land Trusts." Policy Focus Report. Lincoln Institute of Land Policy (2008): 1-44. www.lincolninst.edu.

COMMUNITY LAND TRUSTS IN ACTION

Although facilitating affordable homeownership tends to be the primary purpose for developing a CLT, the model has also been adapted for broader neighborhood redevelopment and revitalization: eliminating vacant or abandoned properties in distressed neighborhoods, the preservation of historic neighborhoods and commercial redevelopment. Each CLT is unique in that it is created and structured to meet specific community goals and objectives.

Community Home Trust in Orange County, N.C.

CLTs often operate in expensive housing markets, where low-income households cannot afford to live in the community. Inclusionary zoning laws enable affordable housing to be constructed. Community Home Trust (CHT) is an example of a CLT operating in such a market.

In the 1990s in Chapel Hill, N.C., CHT — then known as Orange County Community Land Trust — formed a CLT to address the growing demand for affordable housing. The demand for housing generated by proximity to the University of North Carolina had significantly reduced the affordable housing stock. The town had instituted inclusionary zoning in previous years that required private sector developers to include affordable housing as part of larger developments. While this increased affordable housing options, many homes were eventually resold to families who were not in need of affordable housing. In order to retain affordability, the local governments asked a nonprofit affordable housing developer (now Community Home Trust) to create a community land trust. CHT sold its first CLT home in June 2000 and today has 194 homes in its inventory.

The main challenges in the early years for CHT were setting up the processes necessary to run a CLT, educating the community on the benefits of the CLT model, and learning how to sell homes developed by the private sector as part of the town's inclusionary housing efforts.

Today, CHT is challenged by the economic downturn. Many low-income households seem to be less willing to consider homeownership. Though data suggests that declines in home values during recent years have affected higher-income buyers to a larger degree, when surveyed, 80 percent of homeowners with incomes above $75,000 indicated they would purchase their current home if given the opportunity to make that decision again. In contrast, of those surveyed with incomes below $30,000, just 62 percent indicated they would again make the decision to buy.[11] Additionally, some CLTs say that they are finding it more difficult to obtain loans from financial institutions to cover operating funds. According to Robert Dowling, executive director of CHT, this is a significant problem: "Raising the operating funds that are needed to maintain long term stewardship is key to a successful CLT."[12]

The Sterling Community Land Trust in Greenville, S.C.

In many cases, CLTs are an opportunity for community revitalization and redevelopment. The CLT evolves from grassroots leadership in an effort to reignite or stimulate reinvestment. The Sterling Community Land Trust (SCLT) is an example of this type of CLT.

SCLT is a unique community-based, inner-city land trust formed in Greenville, S.C., in 2010. SCLT's mission is to protect, preserve and promote the historic legacy of the Sterling community through economic development, education and historic preservation. Sterling is a historic neighborhood just outside downtown Greenville named after a high school that was destroyed in a fire in 1967. The loss of the school led to the beginning of the neighborhood's downward spiral into poverty, high

crime, decreased home ownership and a rise in slumlords leaving behind vacant and blighted housing. The concept of a land trust grew out of the return of Sterling high school graduates and older, more active residents who sought opportunities to revitalize this historic community. Neighborhood leaders, in partnership with other community stakeholders, formed the SCLT as a regional collaborative.[13]

The Sterling neighborhood is divided by city and county lines, making comprehensive revitalization a challenge due to different government policies and politics. The CLT presented an opportunity to bring together the city, the county, the residents and Bon Secours St. Francis Health System, a major anchor institution within the Sterling community. The number of vacant low-cost properties in the neighborhood presented a unique opportunity for SCLT to purchase properties for creative redevelopment strategies, including urban farming, historic preservation, mixed income housing and recreation. Vacant commercial properties are another economic development opportunity for SCLT in the future.

Although it was incorporated as a 501(c)(3) only recently, SCLT already has much of its legal documentation in place and is in the process of acquiring property for land banking, historic preservation, affordable housing and micro-enterprise opportunities. However, being a new entity, it still faces the challenge of getting buy-in from city and county administrations, making it difficult to raise funding for land acquisition. Maxim Williams, SCLT's director, explains, "It has been difficult to build community support since many of the neighborhood residents and community leaders do not understand the community land trust structure, or how it operates as a community-based initiative."[14]

The Atlanta Land Trust Collaborative

As communities seek additional tools to implement broader redevelopment efforts in larger urban areas, CLTs are more frequently being utilized as a means to maintain affordability in rapidly growing or redeveloping markets. For example, to prevent displacement of low- to moderate-income households along the Atlanta Beltline redevelopment corridor, a group of public, private, nonprofit and community partners established the Atlanta Land Trust Collaborative (ALTC), whose primary goal is the establishment of local community land trusts for the creation of permanently affordable homeownership opportunities and preservation and revitalization of existing neighborhoods in the area.[15]

ALTC's role is to create a favorable climate for CLT development, including advocating for and implementing local public policies that support CLTs, acting as a steward in neighborhoods where local capacity does not exist, and spurring the formation of several CLTs along the Beltline. ALTC currently has no homes in its portfolio; however, the unique model has resulted in approximately 23 new CLT homes in two key neighborhoods.

Currently, ALTC is working with both the Cornerstone Partnership and the National CLT Network to create a national model for Transit Oriented Development/CLT Housing Policy implementation.[16] The Atlanta Beltline Partnership is an ambitious transit-oriented development project that targets the dilapidated 22-mile railroad corridor around Atlanta's downtown and midtown core, as well as surrounding neighborhoods.[17] The Atlanta Beltline Partnership has committed to create over 5,000 units of affordable housing as part of the redevelopment project.

A large-scale approach to the redevelopment of the Atlanta Beltline does not come without challenges. ALTC faces the challenge of managing multiple partners and priorities while keeping affordable housing a top priority. Although the project is just under way, leaders describe the need to balance large-scale redevelopment with the desire to preserve historical neighborhoods and create mixed-income, mixed-use housing options as one of the most difficult challenges. Developing partnerships with so many diverse stakeholders takes time, patience and commitment to a common goal.

Tony Pickett, executive director of the ALTC, explains: "While a lack of awareness and general understanding of community land trusts in the Atlanta market continues to be a huge hurdle, the progress we have made to date with this large-scale initiative could not have been achieved without the essential support of partners like the Fulton County/City of Atlanta Land Bank Authority, and the coordination and cooperation of over 30 organizations during the past two years to discuss approaches to effectively solve affordable housing issues in the Atlanta area."[18]

City First Enterprises in Washington, D.C.

In keeping with its mission to build strong and economically diverse communities, City First Enterprises (CFE) launched its most recent subsidiary, City First Homes, in 2007, to address the city's increasing shortage of affordable housing.[19] City First Homes is a community land trust aimed at providing permanent affordable housing to working families in the District. Executive director David Wilkinson explains that many low- and moderate-income families are priced out of homeownership, which is a challenge to community stability, school systems and urban economic health.[20] In response, City First Enterprises launched City First Homes, which was selected by Washington's government to coordinate a replicable, large-scale workforce housing solution in the District.

"We focus on creating affordable housing in transitioning neighborhoods," says Wilkinson. "Over 90 percent of our homes are transit oriented. To adjust to the economic downturn, we adjusted our unit acquisition model to include foreclosure prevention and REO acquisition rehab, which accounts for nearly half the 80 units in our portfolio to date. The most challenging barrier is attracting the blend of subsidy and finance necessary to create affordable housing. With a dedicated financial source we could get to scale more quickly. For now, we work with a variety of partners, including institutional finance, private foundations, developers, housing advocates, local banks, tenant groups and local government to grow our program."[21]

City First Homes was recently selected by Cornerstone, an NCB Capital Impact consortium, for a grant through the Social Innovation Fund, which aims to identify and grow the nation's most promising and innovative community solutions.[22]

POLICY AND FINANCING CONSIDERATION FOR CLTS

Although CLTs have existed for several decades, they are still a relatively unknown model. The legal and financial aspects of implementing CLTs tend to create barriers to widespread adoption of the model. While a lack of enabling legislation does not preclude a CLT from operating, it does make it more difficult to establish one and increases the likelihood that a CLT could be legally challenged. The passage of enabling legislation helps clarify the ground lease, terms, taxation, and resale conditions, and how resale at below-market prices will impact the assessments of neighboring properties.[23]

Financing CLTs continues to be a challenge. The Institute for Community Economics (ICE) is a federally certified Community Development Financial Institution focused on financing permanently affordable housing. Over the past 30 years, ICE has loaned $44 million dollars, primarily to community land trusts, limited equity cooperatives, and community-based nonprofits. Financial institutions that are not familiar with the CLT model may be reluctant to provide mortgage financing to potential buyers. Andy Slettebak, director of the ICE Revolving Loan Fund, notes, "Much of the financing for CLT mortgages has been due to relationship building between the local CLT and a local bank, which begins with the one-on-one relationships started by CLT staff and/or Board members that can help 'de-mystify' CLTs for those in the mainstream banking industry."[24]

Critics of shared equity housing models argue that resale-restricted homes do not generate sufficient individual or community benefits. Owner-occupants of resale-restricted homes may gain stability, but forego full control over their home and total accumulated equity. Furthermore, some argue that these are potentially poor investments, building relatively little wealth for current or future homeowners.[25] Shared equity housing is intended to balance the interests of both individual homeowners and the larger community, creating fair and mutually beneficial outcomes for both.[26] In a weak housing market, shared equity housing can be utilized to stabilize and revitalize low-income neighborhoods. Jacobus and Lubell in a 2007 Center for Housing Policy report state: "Well-designed shared equity housing models can protect the value of public resources even in the face of rapidly rising housing prices while still offering homebuyers the benefits of homeownership, including the opportunity to build significant wealth."[27]

CONCLUSION

An increasing number of state and local leaders recognize the potential for CLTs to address affordable homeownership, wealth creation for low-income households, and neighborhood revitalization. New research by the Urban Institute finds that CLTs have experienced lower rates of foreclosure than traditional homeownership models.[28] The full impact of CLTs on homeowners and their communities are the subject of future research. We know that as shared equity models increase in scale, enabling state legislation and access to sufficient capital will be keys to their success.

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RESOURCES:
For additional information on CLTs see:

The Institute for Community Economics, *Community Land Trust Handbook*. (1982). Emmaus, Pennsylvania. Rodale Press.

For additional information on the organizations mentioned in this article, please visit their websites:

Community Home Trust
communityhometrust.org

Sterling Community Land Trust
www.bshsi.com/healthy-communities-our-healthy-communities-south-carolina-sterling-greenville-projects-sterling-community-land-trust.html

Atlanta Land Trust Collaborative
www.atlantaltc.org

City First Enterprises
www.cfenterprises.org

Institute for Community Economics (ICE)
www.nhtinc.org/ice.php

National Community Land Trust Network
www.cltnetwork.org

Urban Institute Shared Equity Research
www.urban.org/sharedequity/

Endnotes:

1 The Joint Center for Housing Studies of Harvard University. The State of the Nation's Housing 2011. June 6, 2011. www.jchs.harvard.edu. The report defines cost-burdened households as spending more than 30 percent of their pre-tax income for housing.

2 Ibid.

3 Davis, John E. "Shared Equity Homeownership: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing." National Housing Institute, 2006. Accessed June 7, 2012. www.nhi.org/pdf/SharedEquityHome.pdf

4 Ibid.

5 NCB Capital Impact. Accessed June 8, 2012. www.homesthatlast.org.

6 Ibid.

8 Ibid.

9 Sherriff, Ryan. "Affordable Homeownership." Urban Land, September 2009, 128-131. A CLT ground lease is a legally binding agreement that gives homeowners a long-term right to exclusive use of the land and full responsibility for the property.

10 National Community Land Trust Network. Accessed June 6, 2012. www.cltnetwork.org/index.php?fuseaction=Main.MemberList.

11 Pew Research Center. "Five Years after the Bubble Burst Home Sweet Home. Still." Social & Demographic Trends (2011):1-31. Accessed June 8, 2012. www.pewsocialtrends.org.

12 Robert Dowling, executive director, Community Home Trust, discussions with the editor in October, 2011.

13 Maxim Williams, director, Community Relationship Building for Bon Secours St. Francis Health System, Sterling Community Land Trust, discussions with the editor in October, 2011.

14 Ibid.

15 Cohen, Rebecca, and Emily Salomon. "Building in Affordability." Shelterforce, Winter 2010, 24-27.

16 Collaborative, Atlanta Land Trust. 2011 ALTC Overview. 2011. Accessed May 15, 2012. files.wcrpphila.com/Oct.6.2011Pickett.pdf

18 Sherriff, Ryan. "An Affordable Beltline?" Shelterforce, Winter 2010, 12.

19 Tony Pickett, executive director, Atlanta Land Trust Collaborative, in discussion with the editors on October 4, 2012 and May 18, 2012.

20 City First Enterprises is the federally regulated holding company of City First Bank, one of the region's most innovative community banks.

[20] David Wilkinson, director, City First Enterprises, in discussion with the editor on June 11, 2012.

[21] Ibid.

[22] Ibid.

[23] Kelly Jr., James. "Maryland's Affordable Housing Land Trust Act." Journal of Affordable Housing and Community Development Law 19, no. 3 & 4 (Spring/ Summer 2010): 345.

[24] Andy Slettebak, director, ICE Revolving Loan Fund, in discussion with the editor in October, 2011.

[25] Davis, John E. "Shared Equity Homeownership: The Changing Landscape of Resale-Redistricted, Owner-Occupied Housing." National Housing Institute, 2006. Accessed June 7, 2012. www.nhi.org/pdf/SharedEquityHome.pdf

[26] Ibid.

[27] Jacobus, Rick and Jeffrey Lubell. "Preservation of Affordable Homeownership: A Continuum of Strategies." Center for Housing Policy. 2007. www.nhc.org/media/documents/Preservation_of_Affordable_Homeownership2.pdf

[28] Theodos, Brett. "Understanding Outcomes for Buyers in Permanently Affordable Homeownership Programs" (presentation, Shared Equity Housing: A Forum on Financing and Capitalization, Federal Reserve Board of Governors, June 22, 2012).

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