



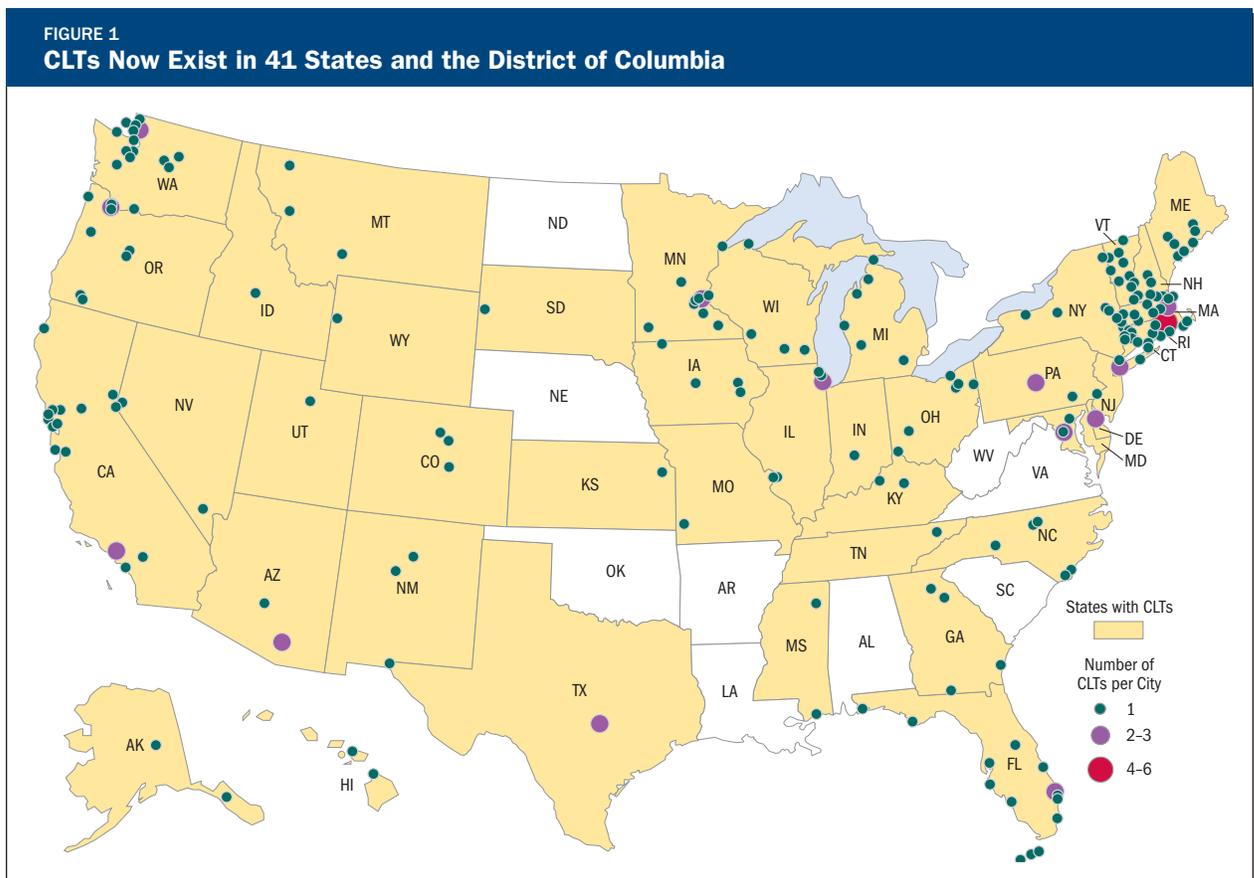
## CHAPTER 1

# Introducing the CLT

In the early 1980s only a handful of community land trusts existed in the United States—nearly all located in rural areas. By 2008, more than 200 CLT programs were operating in 41 states and the District of Columbia, with a growing number of new CLTs added each year (see figure 1). Now located predominantly in cities, towns, and suburbs, these CLTs are holding land, developing housing, revitalizing neighborhoods, stewarding assets, and recapturing publicly generated value for the benefit of future generations.

### HOW COMMUNITY LAND TRUSTS WORK

A community land trust is a nonprofit organization formed to hold title to land to preserve its long-term availability for affordable housing and other community uses. A land trust typically receives public or private donations of land or uses government subsidies to purchase land on which housing can be built. The homes are sold to lower-income families, but the CLT retains ownership of the land and provides long-term ground leases to homebuyers. The CLT also retains a long-term option to repurchase the homes at a formula-driven price when homeowners later decide to move (see box 1).



Source: Produced by Yesim Sungu-Eryilmaz for the National CLT Academy, 2008.

## Ten Key Features of the Classic Community Land Trust

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 buildings 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 interests 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 (2007)

The “classic” CLT balances the multiple interests of homeowners, neighborhood residents, and the city as a whole in serving as the steward for an expanding stock of permanently affordable, owner-occupied housing. Homeowners leasing and living on the CLT’s land (leaseholder representatives), residents of the CLT’s service area (general representatives), and individuals representing the public interest (which may include municipal officials) each make up a third of a typical board of directors. This tripartite structure ensures that different land-based interests will be heard, with no single set of interests allowed to dominate.

On an operational level, CLTs take on a range of responsibilities for developing and stewarding their lands. Some focus on creating only homeownership units, while others take advantage of the model’s flexibility to develop rental housing, mobile home parks, commercial space, and other community facilities. Most CLTs initiate and oversee development projects with their own staff, but others confine their efforts to assembling land and preserving the affordability of any buildings located upon it.

In their capacity as stewards, CLTs provide the oversight necessary to ensure that subsidized units remain affordable, that occupants are income-eligible, and that units are kept in good repair. Because they retain permanent ownership of the land under housing and other structural improvements, CLTs are closely connected to the homes and to the households that live in them. And as the landowner, the CLT collects a modest monthly ground lease from every homeowner, allowing the CLT to monitor its assets, protect its investment, and support residents who experience financial difficulties.

Although specific stewardship roles differ from one community to the next, nearly every CLT performs the following tasks:

- assembling and managing land;
- ensuring that owner-occupied homes remain affordably priced;
- marketing the homes through a fair and transparent process;
- educating prospective buyers about the rights and responsibilities of owning a resale-restricted home;
- selecting income-eligible buyers for the homes;
- monitoring and enforcing homeowner compliance with contractual controls over the occupancy, subletting, financing, repair, and improvement of their homes;
- verifying that homeowners maintain property insurance and pay all taxes;
- managing resales to ensure that homes are transferred to other income-eligible households for no more than the formula-determined price; and
- intervening in cases of a homeowner’s mortgage default.

Most CLTs initially rely on grants from local governments, private foundations, or other donors to pay for stewardship functions. As its portfolio of land and resale-restricted housing expands, however, the CLT can generate ground lease fees, resale fees, and other income to support the costs of managing the affordable housing stock. With growth, the revenues

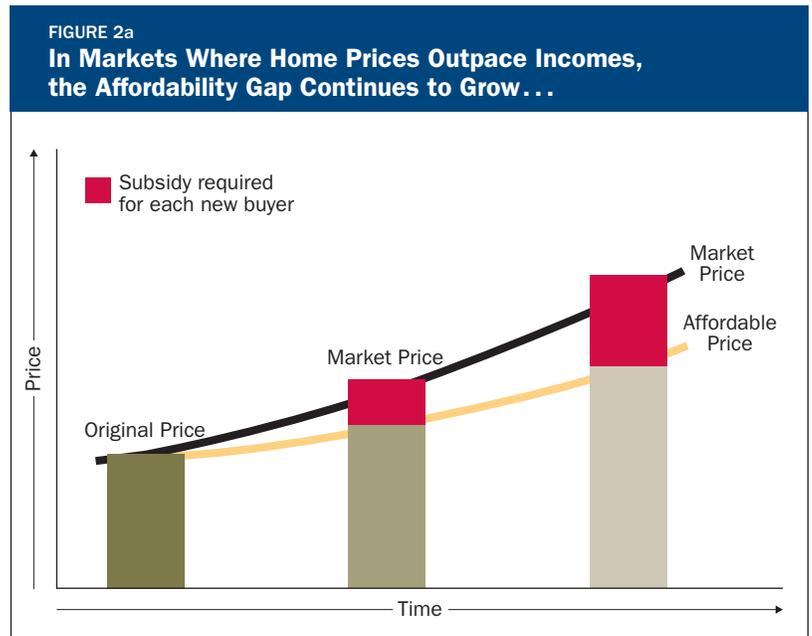
available for stewardship also increase, allowing the CLT to make a permanent commitment to monitoring and supporting homes located on its land.

## HOW CLTS EXPAND HOMEOWNERSHIP

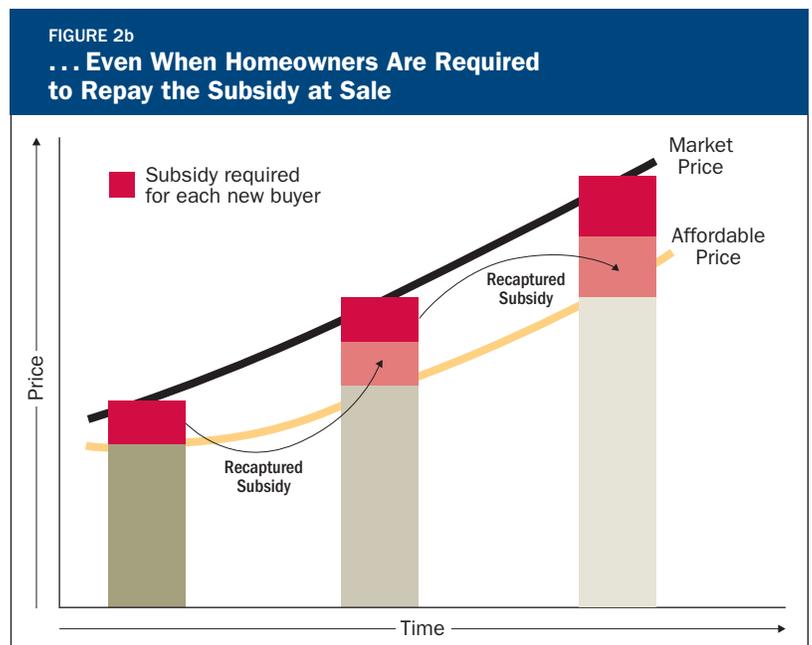
Many municipalities have long operated homeownership programs that provide direct assistance to lower-income buyers. This approach usually involves either an outright grant or a no-interest or deferred-interest loan—typically structured as a second mortgage—to reduce monthly mortgage payments to the point where the buyer can afford to purchase a market-priced home.

The CLT model is built around a different approach that uses the same subsidy—typically given to the CLT rather than to the homebuyer—to reduce the purchase price of the home to an affordable level. Over the long term, the effect of the two approaches differs dramatically. The traditional subsidy temporarily creates affordable payments, while the CLT model permanently creates affordable housing.

In real estate markets where housing prices rise faster than household incomes, the level of traditional subsidy that each successive homebuyer needs to afford market-priced housing increases steadily (see figure 2a). Even if homeowners are required to repay most or even all of the subsidy when they sell, an additional subsidy is usually necessary to fill the affordability gap that continues to widen during their occupancy (see figure 2b). The next generation of lower-income buyers is likely to need far larger subsidies than those required to lift the first households into homeownership.



**If housing prices rise faster than household incomes, the affordability gap widens. As a result, it takes an ever-larger subsidy to keep a home affordable. Programs providing loans or grants to homebuyers must constantly increase the level of subsidy to keep pace with the growing gap between market and affordable prices.**

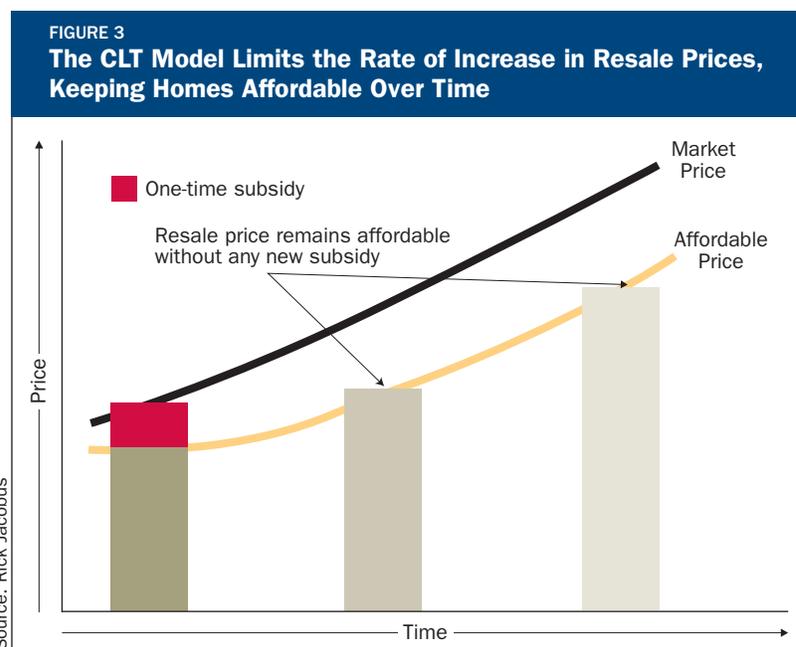


**Recapturing the original subsidy and reinvesting it in new loans to other lower-income households does not prevent the affordability gap from growing. An ever-larger subsidy is still needed to help subsequent generations of homebuyers if prices continue to rise faster than incomes.**

The CLT strategy, in contrast, is to invest in creating a stock of permanently affordable, owner-occupied housing (see figure 3). The CLT uses the public (and private) funds to acquire land and perhaps to cover other costs of housing development. As a result, it can sell homes at prices that lower-income households can afford without a second loan or other special financing. If they decide to move, the initial buyers must sell the subsidized homes for a formula-driven price that other lower-income homebuyers can afford. By maintaining ownership of land across multiple sales of the house, the CLT can usually keep homes affordable for many years without the need for additional infusions of public capital. But because it cannot control other factors that influence housing costs—such as rising insurance or utility costs, property taxes, and/or mortgage interest rates—no CLT can absolutely guarantee it will never need an additional subsidy. It can, however, assure its municipal partner that any further subsidy will always be substantially less than what would be required without the CLT’s resale controls.

Table 1 compares the performance of two types of subsidies: (1) a homebuyer loan in the form of a silent second mortgage where the funds are to be repaid at resale without interest; and (2) a CLT subsidy in which the resale price may not exceed the initial (affordable) purchase price plus an adjustment based on the annual change in the area median income (AMI). The home is assumed to have a value of \$250,000 in a market where a family in the target income range can afford to pay only \$200,000.

Bridging the affordability gap at the time of initial sale entails a \$50,000 subsidy regardless of the option selected. When the first owner sells, however, the two approaches differ in how well they preserve the value of the public investment and how large a return the seller realizes on his/her investment. The first homebuyer’s net proceeds following the sale in the



**A one-time subsidy in a CLT home lowers its initial sale price to an affordable level and then limits the rate at which the price can rise over time. This strategy helps to increase the stock of permanently affordable housing.**

seventh year are greatest under the loan program, although the CLT-subsidized owner also walks away with assets of just over \$56,000. This represents a 21 percent annual return for the CLT homeowner, given an initial investment of about \$15,000 (3 percent down and 3 percent closing costs).

There are good fiscal reasons for limiting the amount of equity a homeowner may remove from a subsidized property at resale. In the case of the homebuyer loan, ensuring the continued affordability of this one home would require a public investment totaling \$820,000 over 30 years. If the initial subsidy were instead invested through a CLT, the same house could serve the same number of homebuyers at the same targeted income for the same period of time for a total municipal investment over 30 years of only \$50,000.

## EFFECTIVE CITY-CLT PARTNERSHIPS

When investing public funds and delegating responsibilities to a nonprofit organization like a CLT, local jurisdictions have legitimate concerns about how their resources will be used and how their partners will perform. Supporting a CLT to expand and preserve a stock of permanently affordable, owner-occupied housing raises crucial questions. How effective will the CLT be in managing this growing inventory of land and housing? Will the CLT's beneficiaries succeed in their venture into homeownership? Will the CLT itself survive?

Based on analysis of selected city-CLT partnerships across the country, it is clear that there are many effective methods and mechanisms to support the projects and operations of a community land trust while also providing prudent municipal oversight of performance. This report presents many

TABLE 1 Performance of Alternative Subsidies Over Time		
Initial Sale	Homebuyer Loan (No Interest)	CLT Model (AMI Index)
Initial market value	\$250,000	\$250,000
Subsidy	50,000	50,000
Initial sale price	250,000	200,000
<b>Resale in Year 7</b>		
Sale price	375,000	245,000
Repay first mortgage	(174,051)	(174,051)
Repay public subsidy	(50,000)	0
Sales costs (6%)	(22,500)	(14,700)
<b>Seller's net proceeds</b>	<b>128,449</b>	<b>56,249</b>
Affordable price to next buyer	245,000	245,000
Recaptured subsidy	50,000	0
<b>Additional subsidy required</b>	<b>80,000</b>	<b>0</b>
Total subsidy for next buyer	130,000	0
<b>Resale in Year 14</b>		
Sale price	565,000	303,000
<b>Additional subsidy required</b>	<b>132,000</b>	<b>0</b>
<b>Resale in Year 21</b>		
Sale price	850,000	372,000
<b>Additional subsidy required</b>	<b>216,000</b>	<b>0</b>
<b>Resale in Year 28</b>		
Sale price	1,278,000	458,000
<b>Additional subsidy required</b>	<b>342,000</b>	<b>0</b>
<b>Total subsidy invested over 30 years for 5 families</b>	<b>\$820,000</b>	<b>\$50,000</b>

Note: Data assume 6 percent annual home price inflation, 3 percent annual income inflation, and stable interest rates.

Source: Jacobus and Lubell (2007)

options for local government assistance during a CLT's startup, early growth, and mature phases of development, as well as for taxation and regulation of CLT land and homes. Highlighted within each set of options are "model practices" that offer the greatest promise for creating CLTs that are accountable, productive, and sustainable. The report concludes with a discussion of how cities and CLTs are changing the roles they play in their partnership to preserve affordable homeownership.