

November 2005

Affordable Forever

By Ed Finkel

As the so-called housing "bubble" continues to inflate and the number of subsidized units continues to shrink, many cities are turning to community land trusts to narrow the gap.



Established as 501(c)(3) nonprofit organizations, community land trusts either rehabilitate existing housing or build new units. As the term suggests, the trust retains ownership of the land while selling the house itself, typically to a moderate-income, first-time buyer, who could not otherwise afford to purchase a home.

Renters become buyers, buyers gain equity (although at a slower rate than usual), and the community gains a home that will always be affordable. A 99-year, renewable ground lease is typical.

Land trusts offer a second advantage over most subsidized housing: They help to bring diverse groups together to collaborate in decision making. A board composed of land trust residents, other homeowners from the surrounding community, and stakeholders such as government or foundation officials allows concerns to be aired and creates a lasting community bond.

Although the community land trust concept dates back to the 1960s, the pace of construction and rehab has picked up considerably during the last decade with the run-up in housing prices nationwide, particularly on the coasts, proponents say. While the exact number of land trusts nationwide is hard to pin down, estimates generally place the figure between 125 and 175. They range from as few as eight units in Highland Park, Illinois, north of Chicago, to more than 800 units in Burlington, Vermont.

"The defining characteristics are the separation of ownership of land and housing, and that the homeowners have representation on the board," says Julie Orvis, former network events coordinator for the Springfield, Massachusetts-based Institute for Community Economics, which developed the concept. "There's more interest from cities today because of the need for housing and limited dollars for making that happen."

City planning departments like the notion of creating diverse communities while recycling subsidy dollars, since no new money is needed to repurchase the land when a second owner buys the house, says Bob Reeder, a planning consultant with J.R. Reeder & Associates, who formerly worked for the institute.

"That's the piece that has been the most intriguing," he says. "It allows us to go across the aisle, if you will, to embrace the fiscal conservatives as well as the social progressives. You don't have to put any more money in that unit even as house prices in your community rise. Ten years from now, when the next low-income or middle-income family needs to access that housing, they can do so, and you don't have to re-up with another \$100,000 or \$200,000 from shrinking resources."

A house that first sold for, say, \$100,000 might be worth \$180,000 when it sells again 10 years later, but the second buyer might pay only \$105,000, says Brenda Torpy, executive director of the Burlington Community Land Trust in Vermont.

The membership base adds another dimension to the benefits, Reeder says. Both the families living in land trust housing and their neighbors have a voice in housing decisions that affect their daily lives. "They won't feel left out," he says.

Recycling subsidies

In 1984, that ability to recapture subsidies convinced Burlington (pop. 39,000 — the largest city in the

state), to create a land trust. The trust has built 850 housing units, mostly in the city but also spread across three counties, says Michael Monte, director of community and economic development.

"Some people are homeless and need shelters. Some people want to own a house outright," he says. "Between those, there's a range of options and choices, and the land trust is one option for people who want to own their home but might not otherwise be able to afford one."

Mayor Peter Clavelle, who formerly held Monte's position, adds the following: "Many of the federal investments in housing served the community for a period, but the primary beneficiaries were the developers, landlords, and first-time homeowners. We were looking for a model that would deliver longer-lasting benefits and that would leverage the limited public monies that were available to invest in housing."

A typical single-family house built by the Burlington land trust this year has 1,300 square feet and sells for \$190,000 minus a \$25,000- to- \$35,000 subsidy, Torpy says. The typical buyer has a family household income of \$38,000. In contrast, the median price of a market-rate, single-family house in Burlington was \$218,000 in 2004, according to figures from the nonprofit group Housing Vermont. Torpy estimates that new market-rate homes now sell for between \$230,000 and \$240,000.

With a staff of 31 and an annual budget of \$2 million, the Burlington land trust is quite possibly the largest in the U.S., Torpy says. The trust gets money for land purchases and housing construction from federal, state, and city government as well as foundation and corporate donors. It sold 52 homes to members of its homeownership classes last year, she says.

Near the opposite end of the size scale — but with plans to grow — is Albuquerque's Sawmill Community Land Trust, founded in 1997 to redevelop a 27-acre site near downtown that sits directly in the path of gentrification. The trust has built 26 units to date, which typically sell for \$80,000 to \$90,000.

The Sawmill trust provides an ongoing community resource in a way that most developers would not, says Ken Balizer, the trust's executive director. "The idea of permanent affordability is an important issue for us," he says. "The other thing that goes along with that, but is often missed, is the idea of creating social capital in neighborhoods."

Land trusts also provide resources for first-time homeowners, says Mike Barros, director of housing and community development for Durham, North Carolina (pop. 187,000). The Durham Community Land Trust, founded in 1987 in the West End neighborhood, has completed more than 100 units of housing.

"They're very good about conducting homeownership classes," he says of the Durham CLT. "It's not simply a matter of locking the land in. You're committing yourself to a certain income of clientele that most likely has not had homeownership experience before."

The trust's executive director, Selina Mack, says Durham CLT sells its three-bedroom, two-bathroom units for \$93,000 — recently increased from \$75,000 but still lower than the neighborhood's market-rate price of \$125,000 for a comparable property.

The nationwide jump in housing prices has begun to make affordability difficult even for middle-income households, particularly in suburban and vacation-home areas. Among those moving into the Highland Park (Illinois) Community Land Trust, adopted in 2001, were a school nurse, a teacher's aide, and a city worker, says Mary Ellen Tamasy, the trust's executive director. "They were all people who were already living here in the community and providing essential services," she says.

In Highland Park (pop. 31,500), where the median home price was \$380,000 in the year 2000, the eight land trust housing units sold in the range of \$110,000 to \$190,000.

Getting started



Those wishing to begin land trusts face challenges common to all affordable housing developments, ranging from finding the ingredients for the proverbial layer cake of financing to gaining government and neighborhood support. They must also explain the concept to

residential mortgage suppliers and to would-be residents, who may balk at the limited equity they will gain — unless the trust is their only path to homeownership.

Reeder says extensive community outreach is needed upfront. "CLTs don't work unless the community piece is there, unless you have buy-in from stakeholders all the way up the food chain," he says.

The most common gripe about land trusts is that they limit homeowners' equity, often by means of a formula, Reeder says. His answer: "Some equity is better than no equity, and [regular homeownership] is not an option for everybody. Many of the people community land trusts reach are not reached by these other affordable housing programs."

Keith Hamre, manager of community development and housing for Duluth, Minnesota, where the Northern Communities Land Trust recently celebrated its 100th home sale, figures that if the overall housing market gains 10 to 12 percent per year, land trust homeowners might see a three- to four-percent appreciation in their properties. "I don't see that as a drawback," he says. "It's someone who's getting into homeownership for the first time. They're receiving that opportunity probably many years before they would otherwise."

Others see pluses and minuses to the model. "It's a mixed blessing," says Marti Luick, community development manager in Albuquerque, reflecting on the merits of the Sawmill trust. "It doesn't fit the conventional, you-use-your-house-as-an-equity-building-tool." But, she adds, "the property values in that [downtown] area are escalating tremendously. It's wonderful to have [affordable] homes a half-block away from condos selling for a half-million dollars."

Neighborhood residents sometimes need convincing. In Burlington, Monte recalls that a NIMBY group called Homeowners Against the Land Trust, fearful of affordable or low-income housing, did spring up in the early days, but the community involvement in the board helped quell concerns. "That group doesn't exist anymore," he says. "That was a short-term misunderstanding."

Neighborhood opposition in Durham caused the Durham Community Land Trust to withdraw one proposal for a group home for troubled teenagers, Mack recalls: "Their attitude was, 'Why are we creating an instrument to invite more troubled teens into our neighborhood when we already have enough troubled teens?' They had a valid point."

Lenders are tough sells, too, Tamasy says. "Our ground lease is recorded first when we transfer a property. That lease gets recorded against the title. And mortgage lenders don't like that, or don't understand that, a lot of times," she says.

She also had to work with the township assessor to ensure that taxes would reflect the limited resale value of the homes. "That assessment's going to go up every year," she says, "but it's going to be based on our resale formula, so it won't jump the way other taxes do."

Clavelle adds that the loss in municipal tax revenue shouldn't be a significant problem. "To the extent that there are restrictions on value, that should be reflected in the appraisal of the property," he says. "But the benefits far outweigh the loss of tax revenue."

They're cousins

Land trusts may vary from place to place in their initial motivation for starting up, breadth of service area, and mix of properties. Those properties may include rental housing and commercial development as well as for-sale housing.

Orvis says Durham and Duluth wanted to build infill housing in disinvested areas, whereas the trust in Jackson Hole, Wyoming, aimed to keep vacation areas affordable. And in Highland Park, Illinois, support grew as teardowns and "McMansions" began to change neighborhoods. "One of the beauties of the model is that there's flexibility," she says. "People are using it in a lot of different ways."

The Burlington trust, which began with the goal of redeveloping the city's then-abandoned, industrial waterfront while retaining low-income residents, now counts rental properties as the majority of its 850 housing units, Torpy says. Land trusts become involved in rental housing to keep units affordable beyond

the usual 10- to 20-year windows available for rental units, she notes.

Albuquerque's Sawmill trust includes 26 housing units and a three-quarter-acre park and plaza. The next project is a 60-unit, live-work, rental loft apartment building targeted exclusively toward artists and craftsmen, Balizer says. "We see this project as a housing project but also an economic development project, bringing 60 businesses into the district along with providing residences."

Balizer estimates the construction costs of the one- to three-bedroom units, which will rent for \$353 to \$774 per month, at \$7 million. The Sawmill trust is using primarily federal low-income housing tax credit money. Construction began June 15 and is expected to be finished next May, he says.

Measuring true worth



To assess the true value of land trusts, it's important to account for longevity, the experts say. These units simply stay affordable longer.

"I don't feel by numbers alone we've made a huge dent," Torpy says of the Burlington land trust. "Where we've made a huge dent is with people who might not be creditworthy. When they come up for resale, our homes are way more affordable than anything on the market."

An analysis of the trust's first 100 resold homes shows that without any additional subsidy, the homes sold to lower-income families than the first time around, dropping from 62 percent of the area median income to 57 percent, she says. "It's far more than a drop in the bucket," adds Mayor Clavelle. "What's really important is that the contribution will last forever."

Cynthia Borrego, division manager for the Metropolitan Development Agency in Albuquerque, notes that land trusts can help communities in other ways. The Sawmill Land Trust has "helped the community organize and become a stronger neighborhood," she says, and it has helped address environmental issues.

Duluth's Northern Communities Land Trust is a pioneer — the first builder in three revitalizing neighborhoods, says Jeff Corey, the trust's director. Corey notes that the trust has tried to "turn the tide in those neighborhoods."

Part of the work has been done with the help of the Duluth office of Local Initiatives Support Corporation, which has provided training, technical assistance, and short-term financing. Pam Kramer, LISC's local senior program director, figures that the trust builds about 10 new housing units per year, or about one-third of the city's new single-family affordable housing stock. Without the trust, Hawk Ridge Estates would otherwise have nothing but high-end, custom-built housing, she says.

The Durham trust, which is about 60 percent ownership and 40 percent rental, has tried to build or rehab its housing in clusters of five to 10 properties to make a visible impact, Mack says.

The Institute for Community Economics plans to explore opportunities to create land trusts in hurricane-ravaged towns and cities along the Gulf Coast, particularly in flooded New Orleans, to ensure that new affordable housing is locked in place before private developers snap up all the available land, says Gus Newport, executive director of the institute.

"We are planning to get a group of us down there to engage people," he says. "The land trust won't be the only strategy. We'll look at a variety of strategies based on what plans come out. Certainly I think land trusts could play a major role." Newport adds that he does not know of any land trusts adversely affected by Hurricane Katrina.

Part of the mix

Planners in cities with active land trusts say the trusts are an essential part of a larger affordable housing strategy that is specified in comprehensive plans and codified in zoning ordinances. Burlington's consolidated plan calls for 25 percent of the city's housing stock to be "social housing," Monte says. "The

land trust is a key player, owning a quarter to 30 percent of that."

Clavelle says the land trust touches on all four points of the city's affordable housing strategy: Preserve the existing stock; produce more of it; protect the vulnerable such as the elderly or people with disabilities; and promote homeownership. "It's certainly not the sole strategy," he says. "We have a very active public housing authority, we partner with other nonprofits, and the city itself has some programs. But the land trust is certainly a critical and essential partner."

In Highland Park, the trust is one of three prongs noted in the city's 2001 plan. Also included are a new tax on residential demolitions and an inclusionary zoning ordinance, which requires that 20 percent of all units in new developments of five or more units be affordable, says Betsy Lassar, the city's housing planner.

Likewise, Durham views the land trust as one tool in the toolbox. "You probably wouldn't want a preponderance of land locked into a land trust in a certain geographic area," Barros says. "But you'd certainly want sprinkles."

Ed Finkel is a writer based in Evanston, Illinois.

Images: Top — Since 1984, a land trust in Burlington, Vermont, has built 850 housing units, including the Waterfront Apartments. Photo by Gary Hall. Middle — Mary Ellen Yamasy, executive director of the Highland Park, Illinois, Community Land Trust, which built these eight units. Photo by Ed Finkel. Bottom — "If it weren't for the SCLT, I would never have been able to afford a home in the North Valley," said this exuberant homeowner in Albuquerque's Arbolera de Vida. Photo by Dory Wegrzyn.

Anatomy of a Resale

Land trusts calculate the homeowner's share of an increase in equity over time. While the formula varies from locale to locale, the three-step process used by the Burlington Community Land Trust provides a typical snapshot.

The trust starts by awarding the seller 100 percent of the principal that has been paid down with each month's mortgage payment. Sellers also receive 100 percent of the appraised value of any capital improvements, and 25 percent of the property's appreciation based on a comparison of appraisals at the time of purchase and sale.

Such formulas produce a win-win-win scenario, says Brenda Torpy, executive director of the Burlington trust. The seller reaps some benefit, the new buyer often pays close to the same price as the seller originally did, and the trust ends up with a considerably larger subsidy than it had the first time around.

Consider a homeowner whose house cost \$100,000 but who received a subsidy of \$20,000, and who decides to sell 10 years later. If the house is appraised at \$180,000, the seller receives \$105,000: the original \$80,000 mortgage, another \$20,000 for the 25 percent of the \$80,000 increase in value, plus about \$5,000 for the principal pay-down over the 10 years.

The trust can then sell to a new buyer for the same \$105,000, effectively gaining a built-in subsidy of \$75,000, based on the home's increase in open-market value to \$180,000.

©Copyright 2005 American Planning Association All Rights Reserved