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CLTs Go Commercial

The idea of turning the community land trust model into an economic development tool is attracting growing interest, but there are still a lot of unanswered questions about how it would work.

By MIRIAM AXEL-LUTE

In San Francisco's Japantown, many of the businesses that give the storied neighborhood its cultural theme are on month-to-month leases with an absentee landlord. In post-Katrina New Orleans, entire neighborhood commercial strips lie vacant or contain only salons and furniture rental stores. In Albuquerque, stakeholders in the Arbolera de Vida development have turned away a charter school, but now have to figure out what they *do* want as they plan on the non-residential portion of their 27-acre site.

Commercial units in the Champlain Housing Trust's Bus Barns apartments.

These sorts of problems are not new. But what is new is an increasing interest in adapting the community land trust model of shared equity homeownership to address economic development goals like these. In a residential CLT, the trust retains ownership of the land and sells the home, retaining any initial subsidy for the next homeowner through shared-equity resale restrictions that balance affordability and asset-building and maintaining a stewardship interest in the home. These ideas of an ownership stake, community control of land, and retaining subsidy have a clear appeal beyond housing—but those looking into it are realizing just how many unanswered questions there are out there about how the model will have to change to make that leap.

Japantown

Japantown, San Francisco, is one of only three Japantowns left in the country. Its collection of Japanese and other Asian shops and restaurants in a central mall (a result of 1960s redevelopment) and surrounding streets are what set it apart from "any other neighborhood," says Bob Hamaguchi, a retired Bank of America real estate executive who staffs the Japantown Task Force.

The task force is renewing a neighborhood plan developed in 1999, hoping this time to get it officially adopted by the city. In the original plan, a single line suggested that a CLT model be considered to preserve the businesses that give the neighborhood its cultural character. The Ford Foundation, which has a multiyear initiative to support the shared-equity concept, gave them a grant to work with Vermont-based consultants Burlington Associates, who have deep expertise with shared-equity models, to conduct a feasibility study.

It's clear to a lot of folks in the neighborhood that preserving Japantown's cultural assets and history "is going to rest on having a stake in the ownership," says Hamaguchi. They are interested in thinking of a CLT model to purchase the privately owned portion of the mall, which is surrounded by a city-owned parking lot and has a city-owned park within it.

There are several complicated questions to answer. What would be the legal stake the CLT would have in the property, given the complicated existing ownership—deed restriction? air rights lease similar to residential CLTs' ground leases? What entity would have sufficient equity to take on the development?

But there are also questions about the heart of the model. "What is shared equity to me?" says Hamaguchi. "That's going to be the challenge." The goal is to give the cultural businesses "some sort of long-term stability." The CLT looks to be a good way to do that, but, he worries, "if you provide below-market rent on a long term basis, you are affecting surrounding businesses and property owners," giving unfair advantages to your tenants and negatively affecting the value of others' properties. (Unlike residential, commercial properties are assessed based on income generation potential.) What's a fair way to pass along the subsidy to the next leaseholders? "We can't give the mall retailers windfall profitability," Hamaguchi says. He wonders if some sort of profit-sharing arrangement would work. "We want to encourage investment. We want them to prosper, but not at the expense of the community."

New Orleans

In New Orleans, "Downtown left with the middle class in the 1960s and 1970s," says Hal Brown, president of Fortune Development, LLC, who works with the Broad Street Main Street program and is a steering committee member for the newly forming Crescent City CLT, a citywide "central server" style organization designed to support numerous neighborhood-controlled residential CLTs, modeled after Atlanta's Land Trust Collaborative. Crescent City is also planning to act as a CLT for commercial properties, working with neighborhood-based Main Street organizations or nonprofit developers. Like Japantown, they are in the early stages of figuring out exactly what this can and should look like.

"This is primarily a tool of revitalization," says Hal Brown. "It's not about affordability as it is on the residential side. It's more about stimulating commercial turnaround" in a city with a "historic lack of retail space." "The commercial corridors that once anchored these neighborhoods are in terrible shape," agrees Burlington Associates' Mike Brown. "They are missing a grocery store, a café or meeting place."

"If we're going to rebalance [our commercial offerings], and get our fair share of retail sales that are now taking place outside of the parish," says Hal Brown, "we need to get control of strip commercial areas" to allow businesses other than salons and furniture rentals to come in. "That will make areas more attractive to residents."

Mike Brown recounts one instance where a New Orleans developer redeveloping an intersection told him that he figured the long term social effect of the project was ensured—as long as the initial occupants remain in place. That's a big if, as they say. "Our interest in working with a CLT is in what happens when those occupants are no longer there," the developer said.

"The beauty of a land trust is that it captures a subsidy and holds on to it," says Hal Brown, but he admits that it's "unclear" so far exactly how that will be captured and passed on for commercial properties.

Raising funds for commercial development is also different, and more difficult, than for housing, something Mike Brown emphasized at his popular workshop on commercial CLTs at the National Community Land Trust Network conference last year. Even for buildings in bad shape in New Orleans, he says, the acquisition cost can be $1 million. "With homes, it's always a scramble to find subsidy dollars, but at least there are programs designed for that," he notes. "There are no funding sources designed for nonprofits to subsidize acquisition of commercial properties."

"We're still working out the financial models," agrees Hal Brown. "I'm really pleased that we have so many funders at the table trying to make this happen. But pretty soon we're going to have to come up with the model—the mix of services and asset holdings to make this sustainable."

Albuquerque

Sawmill CLT in Albuquerque is already a successful residential CLT, but it is asking many of the same questions as Japantown and New Orleans as it conducts a planning process for the non-residential portion of Arbolera de Vida, its 27-acre development on the site of the former Ponderosa Products factory. "Create commercial and industrial space that benefits the community with jobs and needed services," is among the original goals for the development, and now the question is "how?"

Originally, says Sawmill executive director Connie Chavez, she expected that they would follow the traditional CLT model—retain ownership of the land and sell a building on it, with the owner responsible for leasing. But through Sawmill's signature community planning processes, as of this spring, after a tense debate over a charter school that wanted the whole space, a consensus seemed to be emerging that stakeholders wanted Sawmill to own and operate a community building, with some space for businesses and some for community facilities. (They are also separately planning a community garden that will include some space to raise vegetables for sale to benefit the community and provide a couple of jobs.)

Chavez sees the goal as serving the community and eventually supporting the organization, not subsidizing businesses. "I always go back to the original scope and mission of the land trust, from the original organizers," she says. "What was their vision? It was to support the organization, not necessarily subsidized rents."

Though exciting, she calls the prospect of running a facility with commercial tenants "more than a little bit challenging, because we've never done it before and there are not very many places to look at." In terms of what kind of businesses will be able to lease there, they will probably have "absolutely nots, absolutelys, and maybes," says Chavez. "Those spaces should be nimble. They shouldn't be set for one single use."

Voices of Experience

Brenda Torpy has faced many of these questions in one way or another. Not because she or anyone else set out to make Champlain Housing Trust, one of the country's largest and longest lived residential housing trusts, in Burlington, Vermont, into a player in commercial spaces, but because as they were fulfilling their mission, some commercial properties began to come with the territory. "We primarily do residential. We do commercial really as a support to that residential," such as dealing with a blighted property in a neighborhood, or keeping retail under downtown housing, says Torpy, CHT's executive director. And, she says, they've had their share of lessons learned about it the hard way.

Torpy's first bit of advice is if a planned use, like "business incubator," requires programming, make sure the land trust already has that capacity. If not, either sell or master lease the building to some entity that wants and is able to run the programming. CHT recently backed out of a development deal for a permanent farmer's market space on the Lake Champlain waterfront right before the planning and zoning stages when they realized that none of their partners actually wanted to manage the market.

For the storefront retail under its downtown housing, CHT does the leasing, but it is straightforward market-rate rental; the shared-equity part is only for the residential units. In its other non-residential buildings it is generally working with nonprofits, sometimes leasing, sometimes selling. There, perhaps the most important lesson is one of exit strategy—as in, it's much easier to resell a house than to resell or re-lease a commercial space. "Each commercial tenant is more of a one-off," and it takes time and money to adapt space to their needs, says Torpy, whereas "people who want a two-bedroom [home] all need same thing."

In CHT's first commercial project, a nonprofit community health care facility bought the building. CHT sold it under terms similar to its residential projects—it promised to buy it back when the group needed to move, with a credit for improvements made. The health care facility added an entire second story to the building, and then decided it needed to move anyway. The building didn't appraise for even half of what the group had put into it. To honor its agreement, CHT had to suddenly raise a lot of capital to buy an overpriced building. And even though it did honor the agreement, the health care facility was angry at the trust for delaying its move while it raised that money.

Lesson? "Make sure your deal is underwritten by someone familiar with commercial," says Torpy. "You might want to say, 'Whatever it sells for then, we'll share it.' But don't promise an increase. ... Make sure you've figured out an exit that doesn't hurt someone on the way out."

Also make sure everyone knows the agreement. With homeowners, notes Torpy, you signed the deal with the same people who will be selling. They agreed to the resale formula and any other restrictions. But with a nonprofit, 10 to 15 years later it's likely to be a totally different board and staff. Even if you have tight legal agreements, you need an annual check in. You don't want a group to think it can sell the building free and clear and then try to enforce a surprise limitation.

On the other hand, Torpy isn't worried about competition with surrounding property owners. "The reason we charge market is when you redo an old building to the standards we do, you have to cover the cost," she says. But in a hot market, "if you're losing businesses because they can't afford to stay, then lower rents might be the right thing." Meanwhile, in a down market, everyone will lower rents to keep from losing their tenants because it's so hard to fill a vacancy. "We're not doing anything they're not doing to each other."

Connie Snow, executive director of Windham Housing Trust in Brattleboro, Vermont, which has a few buildings with ground-floor commercial, feels similarly. "We didn't put in lower rent to support certain businesses, but we've had to make concessions to keep businesses there," she says. "We want the downtown to be vital, and what that means is not having vacant storefronts. Commercial vacancies take a while to fill." But, Snow says, it is delicate. There was a lot of political discussion around one of its downtown purchases about whether the trust's tax breaks on the housing units on the upper floors would let it compete unfairly with other commercial landlords. "We had to be careful politically that we set a rent within market range," says Snow. "We didn't want to create the appearance that we'd gotten the advantage of subsidies and then were undercutting." Of course once the market went down, everyone was cutting rents and it became less of an issue.

To Torpy, the caution comes down to this: mitigate risk. Build in vacancy, operating, and capital reserves and pay attention to the market, and you'll get up the learning curve with a minimum of pain.

Building a New Model

Perhaps the widest open question for CLTs who want to forge a shared-equity economic development strategy is what "stewardship" will mean for commercial properties. It won't mean the same as it does for residential, but once a few more trailblazers build on the lessons of places like CHT and Windham and create some workable models, communities across the country could have a new tool to recycle scarce economic development funding, stabilize neighborhood commercial districts and downtowns, and support locally owned businesses. Stay tuned.

Miriam Axel-Lute is associate director of the National Housing Institute and editor of *Shelterforce*. She has returned to NHI/*Shelterforce*, where she began her career in the late 1990s, after overlapping stints as a journalist, newspaper editor, freelance editor, parenting blogger, urban planning student, and community development consultant. Based in Albany, N.Y., she is also a parent, poet, award-winning columnist, and not-so-award-winning gardener.

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