

Growing Land Trust nonprofit uses unique development style

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by Wayne Nelson

Pictured: Northern Communities Land Trust is selling the last of these four new homes it constructed last year in the 3300 block of Restormel Street in Lincoln Park. Jeff Corey, above, has steered the nonprofit to more stable footing. (Photo: Wayne Nelson)

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The Duluth-based Northern Communities Land Trust brings a unique component to the city's affordable housing development initiatives, and is positioned for another banner year.

In 2003, the nonprofit built and sold 11 new single-family homes in Duluth to income-qualified buyers. This year the land trust has 30 more in its development pipeline — 15 new construction and 15 rehabs of existing homes. It expects to finish 2004 with an inventory of nearly 100 homes.

Because of its unique housing development structure — modeled on successful efforts after World War II to spur home ownership in India, Israel and in the rural South — the land under these properties stay on the land trust's balance sheet. It reveals little debt and net worth that's grown to \$1.3 million.

In 2003, the land trust generated a \$27,500 net profit on \$2.2 million in revenues.

Land trust homes don't sell on the open market. A resale formula limits the owner's share of appreciated value, ensuring a home will remain affordable when it's resold. "This isn't for speculators," said Jeff Corey, executive director. "Anyone who can buy without our help should do that," he said.

Eligibility for land trust home ownership is limited to households with annual income less than 80 percent of the Duluth median income. In 2004, the aggregate income limit for a household of four is \$42,550.

Here's how it works.

A buyer of a land trust home acquires only the structures with the trust owning the underlying land. With land costs accounting for up to 30 percent of a typical home purchase, severing the land from the deal keeps the purchase price low and within reach of buyers with limited incomes.

The owner gets a 99-year land lease and pays a nominal \$25 per month lease fee. The buyer also is responsible for all real estate taxes. When it's time to move on, an owner has three options: selling to the land trust, which holds a first option; to another income-qualified buyer; or gifting the property to children or heirs.

When the property is sold the seller gets back 100 percent of the initial equity, but only 30 percent of the equity from value appreciation. In the example cited in the box, a new owner would pay as little as \$82,000 for a property appraised at \$125,000.

“It (the resale formula) passes along 40 to 60 percent of the public subsidy to the next owner,” Corey said.

The nonprofit land trust has adeptly tapped a variety of individual and private funding sources, including architectural firms, builders, lenders and foundations. It’s also lined up public sector funders, including the city of Duluth’s Community Development Block Grant program, Duluth Economic Development Authority, Greater Minnesota Housing Fund (GMHF) and Minnesota Housing Finance Agency (MHFA).

In March, GMHF and MHFA awarded \$1.4 million in grants and loans to support “At Home in Duluth,” a collaboration of 20 public, for-profit, nonprofit and neighborhood organizations that includes the land trust. (The two funders have contributed more than \$7.5 million in grants and loans in the “at home” project over the last four years, attracting an additional \$24 million of investment in city neighborhoods.)

The latest round of funding will help 39 Duluth families purchase or rehabilitate affordable homes. The land trust will receive the largest share to build 15 new homes.

In partnership with the Housing and Redevelopment Authority, the land trust will build two single-family homes this summer in the first phase of a massive replacement slated for the Harbor View public housing project, the city’s largest. The land trust plans construction of six single-family homes in the HRA’s Hawk Ridge Estates development.

Separately, the land trust plans four single-family units in Duluth Heights this year, two more in Garry-New Duluth and a single-family home near the Duluth Zoo.

Its board of directors includes representation from land trust homeowners, lenders and other nonprofits with an interest in affordable housing. Director Michael Colclough, a business lender at North Shore Bank of Commerce, said the land trust organization is “financially astute” and plays an important role in a community where real estate prices are rising far faster than incomes. “It’s getting more difficult to get people into homes at the bottom level and they’re doing a good job of increasing home ownership in these neighborhoods,” Colclough said.

The collaboration with HRA and others in the “at home” program also reflects a level of networking among affordable housing players that’s hasn’t always been there. The land trust requires its applicants to complete a first-time homebuyers education program operated by Neighborhood Housing Services.

The nonprofit’s traditional role has been to provide gap financing and counseling for first-time buyers in low-income neighborhoods. But it plans to begin an expanded role this year as a developer. It is acquiring vacant land and existing structures to develop 16 condominium units — eight new and eight rehabbed — at 1-15 E. Fourth St., said George Garnett, the nonprofit’s executive director since mid-2003.

“Jeff and I have a great relationship,” Garnett said.

Corey agrees.

But he conceded the benefits of collaboration is one of the lessons his own agency, Neighborhood Housing Services and others in Duluth's affordable housing sector have learned along the way, some painfully.

When Corey was named to manage the agency in 1998 — eight years after it went into business — the land trust had a portfolio of 44 homes. But it already had regrouped to get its financial house, and just about everything else, in order. The land trust added no homes in 1998, then just two a year through 2001.

“We didn't have a handle on the bottom line. There was little collaboration among housing agencies, and a lot of competition. We were doing too much with too little. It almost sunk us,” he said. “We made legitimate mistakes, and we've learned from it.”

Among the lessons: Building costs are high in Duluth, which requires particular attention to controlling costs for low-end housing development. “You can't just bring a subsidy to the table. You have to be a general contractor, as well as a developer,” he said. “We needed to be a housing development organization offering good, quality housing.”

In 2003 the land trust partnered with Lake Superior College's Building Construction program to build two homes; two more will be ready for sale in June.

The land trust also has learned to do a better job in screening home buyers, thus the requirement to complete the Neighborhood Housing Services buyer education program. “Some aren't ready. Now we sell only to buyers who meet our criteria,” Corey said.

It's also beginning a new venture, Common Ground Deconstruction, that will provide a source of reasonably-priced building supplies for land trust rehabilitation and construction projects, as well as a second revenue stream (story, Page 14A).

It's taken a while to get there, but Colclough, the banker, believes the land trust is positioned to weather future problems. “In the past, there was concern when a house wouldn't sell. The organization has built a fair amount of stability to handle that kind of situation,” he said.

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