

**INSTITUTE FOR COMMUNITY ECONOMICS  
COMMUNITY LAND TRUST (CLT) NETWORK**

**RECOMMENDATIONS  
TO  
MILLENNIAL HOUSING COMMISSION**

**JUNE 29, 2001**

## **Summary**

Community Land Trusts (CLTs) are perhaps the most powerful and durable housing affordability instruments currently available – capable of housing people with the lowest incomes, regardless of an area's median income, for the longest periods of time. The CLT model serves as an excellent preserver of a community's existing housing stock and as a developer of critically needed new construction units. CLTs have provided permanently affordable housing opportunities for populations unable to afford housing in communities as diverse as some of the most economically distressed neighborhoods of Washington DC to extremely affluent resort areas such as Jackson Hole, Wyoming.

But equally important as the shelter they provide, CLTs help to create critical community linkages among long-time neighborhood residents enabling them to become dynamically active partners in the revitalization of neighborhoods from which they might otherwise have been displaced. CLTs serve as both a 'best housing practice', particularly with respect to creating and preserving healthy neighborhoods, as well as an innovative housing approach deserving of increased public policy awareness and federal budgetary support.

## **Institute for Community Economics**

The Institute for Community Economics (ICE) originated the community land trust (CLT) model and is the only national intermediary dedicated to supporting the growing network of CLTs. Over the past three decades, ICE has played a central role in organizing most of the CLTs now based in urban, suburban, and rural areas throughout the country.

Founded in 1967, ICE serves as the CLT 'think tank', allowing affiliates to boost their individual organizational capacity by plugging into ICE's three decades of experience in community organizing, affordable housing development, CLT organizational development, real estate law and financing. In addition, ICE's \$13 million revolving loan fund has been a critical source of financing for CLTs.

## **CLT Network**

The CLT Network is a national coalition of more than 100 CLTs and other organizations that work collaboratively to advocate and to advance the ideals of the CLT movement. The CLT Network harnesses the considerable community organizing power of CLTs throughout the country and builds coalitions with other networks of housing, environmental, land-use, and social justice activists in order to significantly shape public policy and affect meaningful institutional and social change on a national scale.

## **Community Land Trusts**

A Community Land Trust is a local nonprofit 501(c)(3) organization created to hold land for the benefit of a community and its residents. CLTs provide 99-year renewable leases to homeowners, rental residents, co-op or condominium associations, and commercial or community facilities that are located on CLT-owned land. The buildings remain permanently

affordable through resale provisions which balance a fair return on investment with future affordability. For three decades, community land trusts (CLTs) have been rebuilding neighborhoods and providing **permanently affordable** homeownership opportunities for low-income people in urban and rural communities across the country.

CLTs have been established to serve inner-city neighborhoods, small cities, clusters of towns, and rural areas. A CLT working in a small city neighborhood may be the only local housing group, though it may collaborate with city-wide and regional organizations. Other CLTs, serving larger geographical areas, may work closely with a variety of local organizations, including local governments. CLTs are not limited in the types of structures or structural uses of the buildings that sit on CLT land. The CLT model allows for the development of single-family homes, condominiums, cooperatives, mutual and co-housing; as well as for buildings with commercial or community economic development uses. In rural areas, CLTs have been used to preserve agricultural land for the benefit of small family farmers.

CLTs can be varied in their applications, as well. Similarly, CLT formation can be driven by a variety of forces and factors. In Portland, Oregon the implementation of an 'Urban Growth Boundary' to prevent suburban sprawl had contributed to a doubling of housing prices over a ten-year period. The *Portland Community Land Trust* was started due to the city's Bureau of Housing and Community Development's efforts to counteract the impact of those rising home prices on working class citizen's ability to purchase homes in the city. Rochester, Minnesota provides an excellent example of Employer Assisted CLT housing. The *First Homes CLT* was initiated with financial support of the Mayo Clinic. The Mayo Clinic's efforts grew out of a concern that their employees could not continue to secure housing in Rochester's tight housing market. With ICE's technical assistance, Mayo decided that the CLT model provided the most effective means of accomplishing its objectives and of protecting its \$7 million dollar investment. The *Sawmill CLT* in Albuquerque, New Mexico began as a traditional CDC whose mission was the elimination of an environmentally hazardous plant adjacent to their neighborhood. It later transformed itself into a CLT to achieve its goal of redeveloping a 27 acre brownfield site into a mixed-used development that will include 100 permanently affordable homes, a neighborhood center, space for small businesses, a park, walking and biking trails, and 17 acres of open space..

A key element of a CLT and a key distinction between CLTs and traditional CDCs is the composition of a CLT Board of Directors. The composition of a CLT board is designed to balance the interests of the community's stakeholders to insure democratic representation, while not allowing any one interest group to dominate. Usually a CLTs board will include three kinds of directors with equal numerical representation – those representing residents of CLT properties (sometimes referred to as 'Leaseholders'), directors representing residents of the surrounding community who are not CLT leaseholders, and directors representing the general public at large such as public officials, local funders, or other nonprofit organizations.

Homeownership in a CLT is a simple concept. The Community Land Trust sells a brand new or fully renovated house at a reduced cost to a buyer. The buyer owns the home; the community retains the land. If the homeowner decides to sell, he or she leaves with a share of the

equity while the community retains an affordable house, preserving the opportunity to own decent and low cost housing for other families, for generations to come.

The CLT buyer, typically someone who never dreamed of owning a home in their community, gets most of the advantages of homeownership — the tax benefits, the long term security, a share of the equity, the simple delight of planting a garden or making other improvements — paying a mortgage that is often lower than rent. The community control provides a powerful tool in reversing neighborhood disinvestment or gentrification. Congress has recognized the effectiveness of community land trusts in developing and preserving affordable housing in the Housing and Community Development Act of 1992, which explicitly states that CLTs are eligible for assistance through the HOME Program. See Appendix A.

Today, with ICE's help, there are more than 120 developing and operating CLTs in 31 states and the District of Columbia. Representing practically every geographic region of the country, CLTs have developed over 5000 units of permanently affordable housing.

### **Benefits of the CLT Model**

The CLT housing model has several noteworthy benefits from a public policy perspective. CLTs promote permanent, long-term affordability of a community's housing stock while at the same time preserving all public and private subsidies that were utilized to develop the housing. By removing the cost of land and utilizing a resale formula that balances the homeowner's equity interest with the affordability interest of the community, CLT housing is more affordable than most any other housing program and can be purchased by households otherwise locked out of the housing market. The CLT model typically protects the public investment for renewable 99-year periods – allowing one subsidy to keep operating for a century or longer – far more permanent than the average 20-year life span of most public subsidy programs. Many CLTs also provide pre- and post purchase counseling, helping buyers not only to get a mortgage, but also making sure that they can maintain the payments and keep up their home.

CLTs serve to promote the building or re-building of community. As membership-controlled organizations, CLTs promote civic participation and nurture new leadership. The natural interdependency of CLT participants can rebuild community fiber, as residents often create enduring relationships, share resources and help each other out.

CLTs are also tremendously flexible in the ways in which they respond to the distinctive needs of individual communities. CLTs accomplish several goals at one time and function well in a variety of real estate markets. They stabilize distressed neighborhoods by reducing absentee ownership. They prevent displacement and preserve the income diversity of neighborhoods leading an increasing number of policymakers to point to CLTs as the perfect antidote to the unintended gentrification and increased housing costs that often accompany “Smart Growth” anti-sprawl initiatives.

## **Public Policy Support Needs and Recommendations**

CLTs have been actively engaged in acquiring, constructing, rehabilitating, marketing, and, in many cases, managing permanently affordable housing for decades. Yet, due to the uniqueness of the CLT model, many CLTs are still struggling to receive the public policy awareness and public financial support they deserve. **Public policy initiatives supportive of community land trusts should prioritize or should require permanent affordability.**

Permanent affordability has been a scoring advantage in competing for Federal Home Loan Bank funds and a number of CLTs have benefited from this priority. Community Development Block Grant (CDBG) and federal HOME funds have been primary sources of CLT financing and both of these programs have often placed a strong emphasis on permanent affordability. In recognition of the subsidy retention and long-term affordability benefits of CLTs many localities have enabled CLTs to utilize these programs to acquire the land for their projects debt-free, further maximizing the long-term affordability of the housing units. **Encouraging these funding programs to maintain permanent affordability and subsidy retention as program goals or requirements should be a high priority on the public policy agenda.**

**In qualifying for any public or private funding community land trusts should be accorded a competitive advantage over affordable housing brought to the market either without resale restrictions, with resale restrictions that are forgiven over time or restrictions that expire in 20-30 years. Policy and funding should also be structured to require or to at least reward subsidy retention in the housing itself rather than recapturing of subsidies with interest.** In the latter scenario, the value of the subsidy is greatly diminished over time as the market appreciates. In contrast, CLT subsidy retention maintains affordability by removing the land from the equation and controlling the value of the improvements.

**Equally high on the public policy agenda should be continued funding for ICE's HUD funded CHDO technical assistance provision activities.** The *1992 Housing and Community Development Act* makes specific provision for CLT funding under the federal HOME program. The *Act* defines CLTs as "community housing development organizations" (CHDOs) under the HOME program, thus qualifying them for additional project funding, operating support, and technical assistance. In 1999 ICE received its second three-year national contract with HUD to provide technical assistance to CHDOs that operate as or want to start CLTs.

ICE's cooperative agreement with HUD is national in scope and provides for several kinds of assistance: (1) assessment of the technical needs of organizations that request assistance; (2) direct assistance to groups, provided through site visits, telephone and email consultation, and supported by a range of introductory and technical publications; (3) provision of regional trainings on the CLT model; (4) development of further instructional materials, and (5) provision of pass through funding to new groups needing start up support and established groups encountering specific one time needs.

**Operating support** for community land trusts is another policy issue worth mentioning. Operating support is an issue for any non-profit affordable housing developer. Community land trusts because they take on the task of building membership and stewarding land over the long term are especially in need of a stable base of support to build organizational capacity for these multiple roles. In the start-up years of such organizations at least three-years of operating support is critical because the organization can not generate developer's fees, property management income, or ground lease fees until it has developed property. **Such financial support could easily be provided by enabling legislation designed specifically to assist CLTs particularly during their formative years.**

**The marketability of individual CLT homes is yet another area in which progressive public policy initiatives directed at the lending community and at the secondary market would be beneficial.** Lending institutions need to be assured that they are not undertaking any greater risk in financing a CLT home with a ground lease and resale restrictions than with financing a conventional dwelling. In most instances they are assuming less risk because of ground lease provisions that mandate early notification to the lender by the CLT that the homeowner may be at risk of falling behind in the payments. In these cases the CLT would work with the homeowner to prevent an eventual default and if those efforts failed the CLT would have the option of purchasing the home and continuing the payments to the lender.

Fannie Mae, the nation's largest secondary market member and ICE have collaborated successfully for many years to develop a Fannie Mae CLT Mortgage Product, opening up additional lending opportunities for CLT homebuyers and making it easier for lenders to sell CLT mortgages to Fannie Mae. Additionally, the Fannie Mae Foundation is promoting CLTs as a way to capture the value of traditionally undervalued resources in distressed communities. The foundation also plans to undertake research on CLTs as a value-recapture mechanism, and ICE expects to be a part of that discussion and research.

In contrast, FHA has been reluctant to purchase CLT mortgages without insisting on the addition of an onerous "Rider" which requires that resale restrictions be extinguished, thereby defeating the purpose of permanent affordability. Some CLTs have encountered problems in obtaining project financing due to problems with securing FHA insurance where the mortgages contain resale restrictions. ICE is currently working with FHA officials to have those insurability barriers eliminated. **A federal 'long-term affordability/ resale restriction' policy backed by specific legislation that would address the concerns of the lending community, FHA and those of the secondary market would eliminate the need for ICE and individual CLTs to negotiate solutions on a time-consuming case by case basis.**

## **Conclusion**

CLTs represent a unique and innovative affordable housing model offering significant opportunities with respect to the provision of permanently affordable housing. Because of the model's uniqueness and because of the many issues and challenges confronting CLT practitioners, policy issues impacting the model do not fit neatly into any one of the 'Task Forces' or 'Cross-Cutting' issues outlined by the Commission. Our brief comments and policy recommendations have been designed to educate the members of the Commission about this exciting model and to reflect our desire to highlight the benefits and needs of CLTs around the country. We very much look forward to a dialogue with the Commission on the CLT contributions to the community development field and related policy issues. We also look forward to participating in the upcoming hearings that will be held by the Commission.

## APPENDIX A

In the Housing and Community Development Act of 1992, Congress defined the distinctive features of the CLT model and recognized their significance in developing and preserving affordable housing. The legislation conforms to the community land trust definition promoted by the Institute for Community Economics. This legislation states in part:

*HOME funds may be made available to CLTs for organizational support, technical assistance, education and training and continuing support; and to community groups for the establishment of CLTs. A community land trust is a community housing development organization that:*

- (i) Is not sponsored by a for-profit organization;*
- (ii) Is established, and carries out activities to:*
  - (A) Acquire parcels of land, held in perpetuity, primarily for conveyance under long term ground leases;*
  - (B) Transfer ownership of any structural improvements located on such leased parcels to the lessees; and*
  - (C) Retain a preemptive option to purchase any such structural improvement at a price determined by formula that is designed to ensure that the improvement remains affordable to low- and moderate-income families in perpetuity;*
- (iii) Has a corporate membership open to any adult resident of a particular geographic area specified in the bylaws of the organization;*
- (iv) Whose board of directors includes a majority of members who are elected by the corporate membership and is composed of equal numbers of lessees, corporate members who are not lessees, and any other category of persons described in the bylaws of the organization.*