



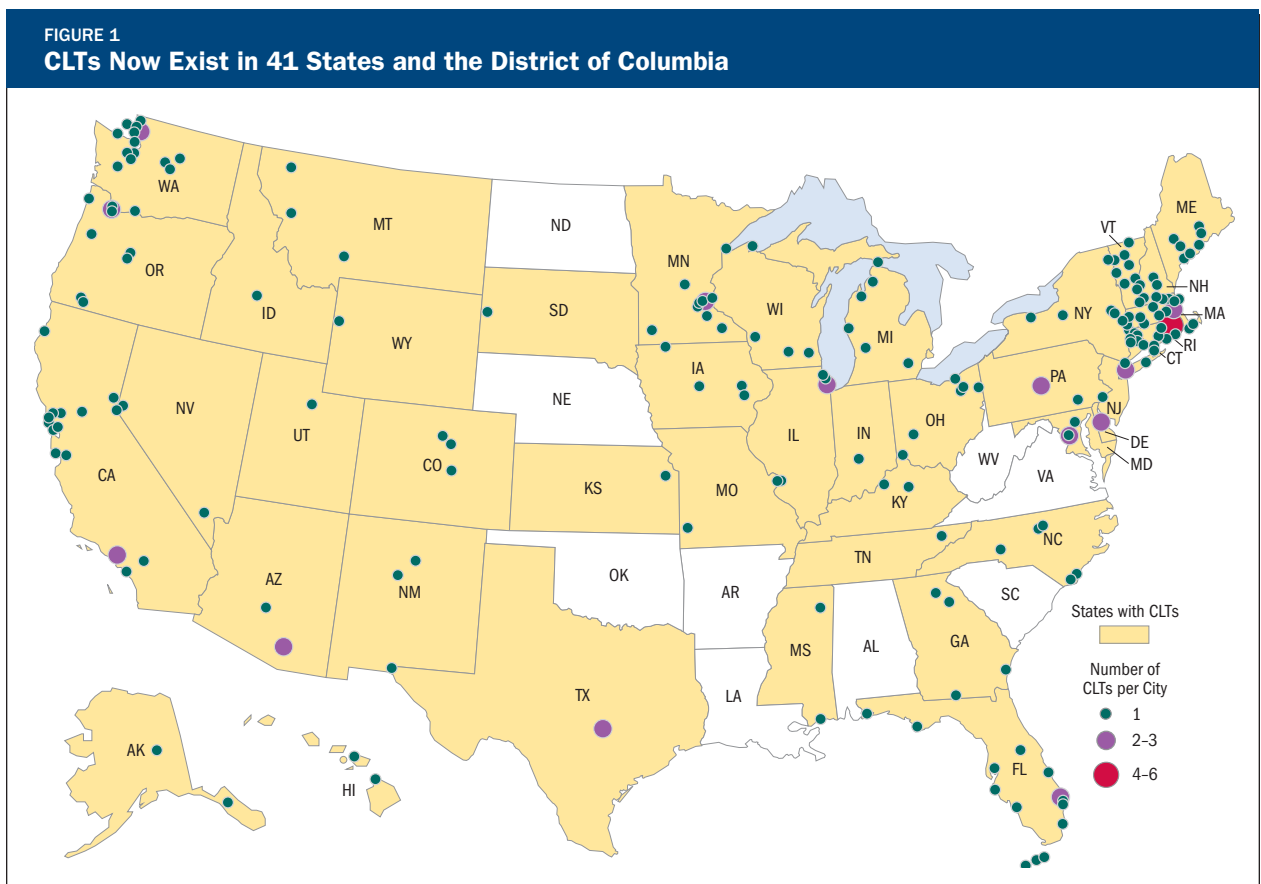
## CHAPTER 1

# 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

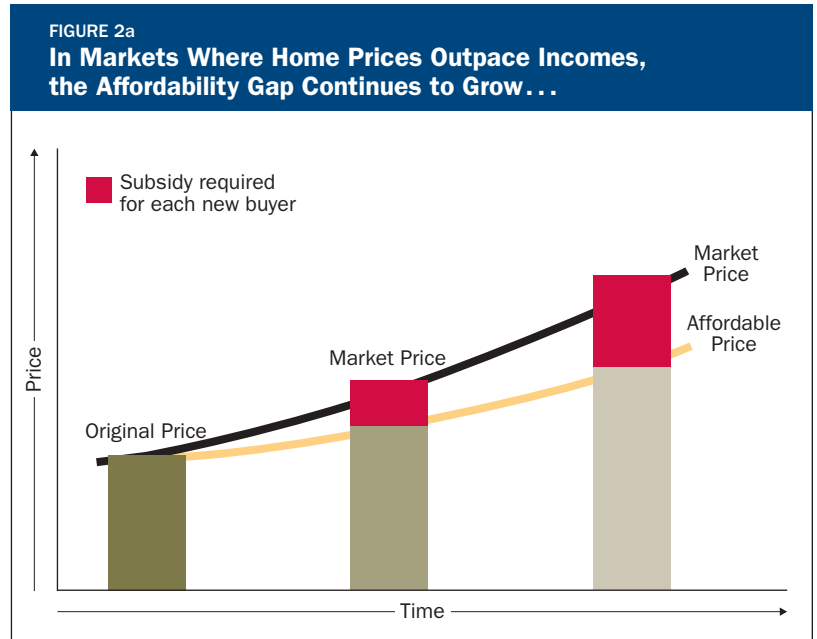
available for stewardship also increase, allowing the CLT to make a permanent commitment to monitoring and supporting homes located on its land.

## HOW CLTS EXPAND HOMEOWNERSHIP

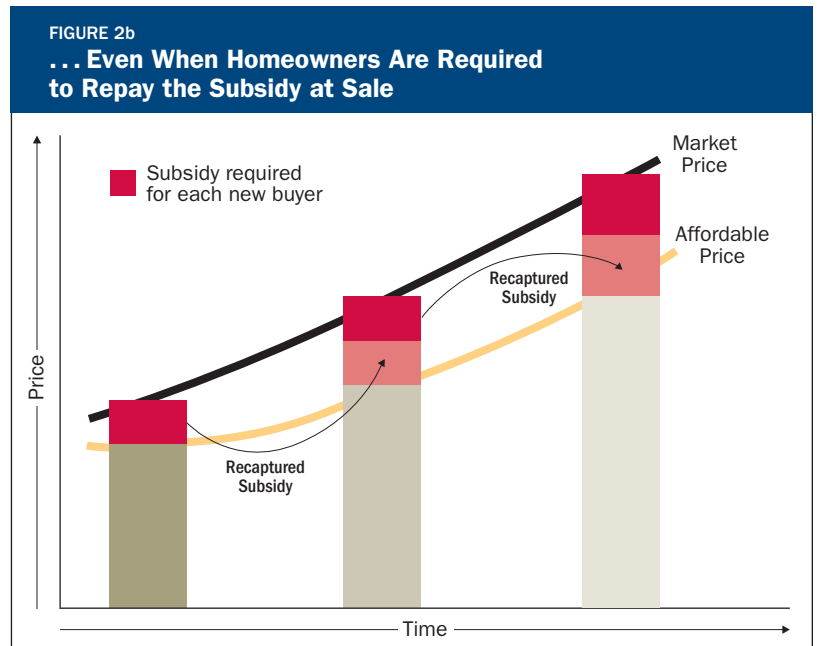
Many municipalities have long operated homeownership programs that provide direct assistance to lower-income buyers. This approach usually involves either an outright grant or a no-interest or deferred-interest loan—typically structured as a second mortgage—to reduce monthly mortgage payments to the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

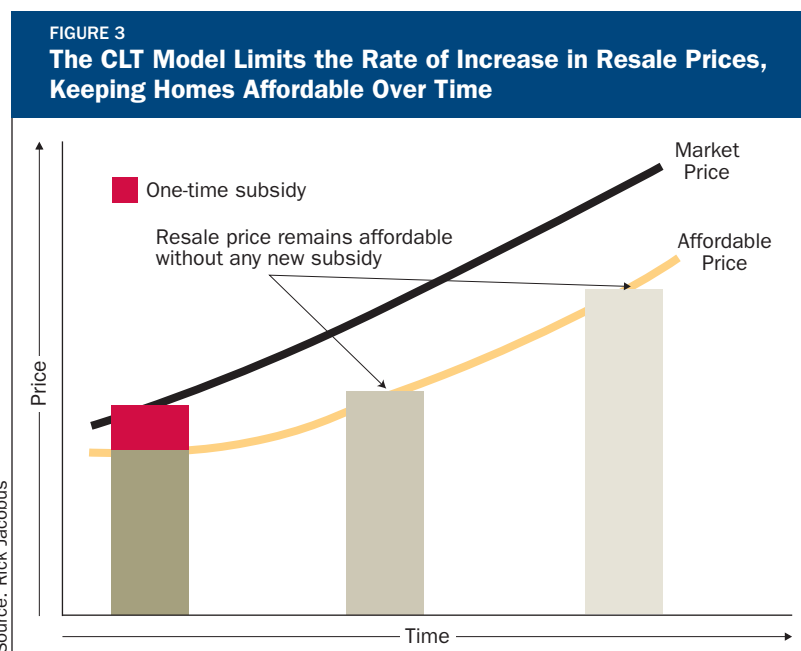


**Recapturing the original subsidy and reinvesting it in new loans to other lower-income households does not prevent the affordability gap from growing. An ever-larger subsidy is still needed to help subsequent generations of homebuyers if prices continue to rise faster than incomes.**

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



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

<b>Initial Sale</b>	<b>Homebuyer Loan (No Interest)</b>	<b>CLT Model (AMI Index)</b>
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.



## CHAPTER 2

# Supporting CLT Startups

Until recently, most municipalities were willing to commit significant resources to a CLT's projects and operations only *after* the land trust had been established. Today, many jurisdictions either take the lead in creating the CLT or become closely involved soon after neighborhood leaders begin the planning process. Given their early participation and investment in CLT projects, local governments have begun to pay closer attention to the decisions and tasks that lay the foundation for the land trust's success (see box 2).

The critical period in a CLT's startup phase is the year immediately preceding incorporation and the first two years of operation. Local governments can bring a full range of support to the table during this phase, from playing a modest role in publicizing the shared goals of the CLT to making major investments in its portfolio and operations.

### *Introducing an Unfamiliar Model*

In some cities, municipal staff have taken the lead in researching community land trusts and then educating political leaders and the wider community about the model. In Portland, for example, the Bureau of Housing and Community Development originated the idea for a CLT and arranged for CLT practitioners from other cities to participate in local forums for nonprofits and housing activists. In Burlington, members of the city's Community and Economic Development Office organized a series of public information sessions about CLTs. In

**The Daniels family enjoys having a yard at their Portland Community Land Trust home in Portland, Oregon.**



## Building a CLT from the Ground Up: A Startup Checklist

### Key Decisions Before Incorporation

- **Beneficiaries.** Who will the CLT serve?
- **Geographic service area.** Where will the CLT operate?
- **Development.** What kinds of housing or other structures will be developed on the CLT's land, and what roles will the CLT play in the development process?
- **Governance.** How will the governing board be structured and selected? Will the CLT have membership? If so, what role(s) will the members play?
- **Resources.** Where will the CLT find funding to pay for projects and operations?

### Essential Tasks Before Incorporation

- Assign responsibility for key decisions about CLT structure, service area, beneficiaries, and activities.
- Begin outreach to community residents and key stakeholders.
- Evaluate housing market conditions, optimal prices, and likely demand for units serving the target population.
- Estimate the availability and sufficiency of public and private resources for land acquisition, housing development, housing subsidies, and CLT operations.
- Conduct legal research as needed.
- Prepare documents establishing the CLT and institutionalizing its structure and governance.

### Formative Tasks After Incorporation

- Seat and orient the CLT's first board of directors.
- Design the ground lease and resale formula.
- Create an outreach plan and materials for building CLT membership and for educating the broader community.
- Develop and implement homebuyer selection and orientation programs.
- Create a three-year plan for bringing the CLT's portfolio to scale, including a staffing plan, operating budget, policies and procedures, and housing development goals.
- Apply for 501(c)(3) designation as a tax-exempt charitable organization.
- Review municipal and state programs for compatibility with the CLT model and negotiate modifications to expand access to funding sources.
- Negotiate property tax treatment for the CLT's resale-restricted, owner-occupied housing with the local assessor.
- Build relationships with private financial institutions in preparation for mortgaging of CLT housing.
- Develop job descriptions for staff and complete a hiring process.

Chicago, a senior official in the Department of Housing teamed up with a program officer from the MacArthur Foundation to commission a report on the CLT model, and then followed up with individual briefings for foundation staff and various city officials.

### ***Participating in the Planning Process***

In many jurisdictions, elected officials and/or municipal staff have taken an active part in planning the CLT. Officials from the Town of Chapel Hill and surrounding Orange County, for example, sat on the advisory committee that created that region's CLT. In Irvine, the mayor and a city council member served on the CLT's planning committee and first board of directors. Irvine's mayor was also the board's first chair. In Chicago, the housing commissioner was part of the advisory committee that created the CLT and now sits on the CLT's board of directors.

#### **MODEL PRACTICE**

##### **Early and Ongoing Participation of Community and Municipality**

Among the many tasks involved in starting a CLT, none is more important than systematically introducing the model to a wide array of constituencies. The municipal agencies to which the CLT must look for project funding, regulatory approvals, and equitable taxation are a high priority for any campaign of outreach, education, and organizing. It is equally important, however, to reach out to the individuals and institutions that call the CLT's service area their home, as well as to other nonprofit organizations serving the same population. For many of these individuals and groups, these outreach efforts will likely be their first introduction to the CLT model.

Municipalities may resist working with neighborhood activists who are known critics of city hall, or they may simply be reluctant to relinquish control over a fledgling organization that will receive a major commitment of public resources. Particularly if the CLT depends on a municipality's resources and is dominated by its priorities, some of the model's democratic components can be lost. For example, municipal participants may invite nongovernmental constituencies into the process only after critical decisions have been made, or worse, attempt to eliminate community members from the board altogether.

Full participation of both the community and the municipality is essential to create the transparency necessary to make this unconventional model of tenure a success. Including community residents and prospective CLT homebuyers is especially important because they can help the CLT mitigate opposition to its projects, build a market for its homes, and win acceptance among public funders, private lenders, and the community at large.

### ***Staffing the Startup***

Municipal employees have sometimes taken responsibility for convening meetings and staffing the CLT's advisory committee and/or governing board. On occasion, they also have assumed primary responsibility for administering the CLT and serving as de facto staff in



the early years. For example, the first executive director of the Chicago CLT is a municipal employee working out of the Department of Housing. A city attorney is also providing invaluable legal advice as the CLT's first projects get under way. In Delray Beach, the Community Redevelopment Agency staffs the newly founded CLT.

***Contracting for Expert Assistance***

Several cities and counties have taken the lead and borne the cost of hiring consultants to assist with planning the CLT. Burlington, Chicago, Delray Beach, Highland Park, Irvine, Phoenix, Portland, San Bernardino County, and Sarasota have contracted with consultants for a wide range of CLT-related services, including advice on organizational development, ground lease issues, project feasibility, and business planning.

***Providing Startup Financing***

In several cases, municipalities have provided grants to support the planning and incorporation of the CLT. For example, the City Council of Burlington approved a \$200,000 startup grant in 1984 for the Burlington Community Land Trust (now the Champlain Housing Trust). In 2003, Hennepin County made a \$25,000 grant to fund the research and planning that went into creating the City of Lakes CLT in Minneapolis. In 2006, the Town of Truckee entered into a \$45,000 contract for services with the Workforce Housing Association of Truckee–Tahoe to launch a community land trust program.

***Retooling Existing Programs***

Most cities turn to existing programs and resources to find support for fledgling CLTs. In some cases, this has meant adapting the CLT to existing regulations designed to meet the needs of traditional homeownership subsidy programs. In others, officials have carefully assessed the compatibility of existing housing and community development programs with the CLT model and made modifications where necessary. In Chicago, for example, the housing department made changes in its programs to ensure the new CLT had access to municipal resources. City staff also met with the Cook County tax assessor and secured a commitment to tax CLT homes on the basis of their permanently restricted resale value. Both Portland and Chapel Hill amended their homebuyer assistance programs to allow CLTs to retain public subsidies in CLT homes, requiring no repayment of this municipal investment.

**MODEL PRACTICE**  
**Coordination Among Municipal Programs**

If two government agencies intend to routinely support a CLT's projects, it makes sense to ensure that their grant and loan agreements, liens, and covenants are consistent with one another. The Community Housing Trust of Sarasota County, for example, worked with the County and City of Sarasota to develop a grant agreement for project development that was acceptable to both. In North Carolina, the Orange Community Housing and Land Trust developed a restrictive covenant that satisfies the administrative needs of both Orange County and the Town of Chapel Hill, allowing the CLT to layer funding from the two sources without regulatory conflicts.

**Sawmill Community Land Trust works to protect local residents from gentrification by bringing affordable housing to the heart of Albuquerque, New Mexico.**



### ***Committing Multiyear Operational Funds***

A few municipalities have gone far beyond a one-time startup grant to cover much of a CLT's costs during its first few years of operation. Sarasota County, for example, pledged annual operating grants of \$250,000 for the first four years to enable the Community Housing Trust of Sarasota County to build organizational capacity, develop a homeownership program, and launch its first projects. The City of Chicago (with a grant from the MacArthur Foundation) is covering the cost of staffing the new CLT and will pay for overhead and administrative costs during its first few years.

### ***Committing Project Funding and/or Municipal Property***

As an inducement for starting a CLT and a means of quickly establishing the CLT's credibility, some municipalities have made an early commitment to building the trust's portfolio. These commitments may come in the form of equity investments or low-interest loans for a CLT's projects, conveyance of publicly owned lands, or conveyance of publicly owned or publicly mandated housing units. In Delray Beach, for example, the Community Redevelopment Agency pledged to convey vacant parcels of land it owned to the CLT. Irvine plans to place most of the inclusionary housing units constructed in future years into the CLT's portfolio. The city's redevelopment agency also intends to donate land and provide funding for the CLT's project developments.

Similarly, community land trusts in Syracuse and Albuquerque were established in part because of the transfer of large parcels of city-owned land for redevelopment. More recently, the city council of Washington, DC, committed \$10 million in public funds to help subsidize the first 1,000 units of resale-restricted, owner-occupied housing developed by City First Homes, a District-wide CLT that plans to eventually create 10,000 units of affordable housing.