Community land trust model: Opportunities and challenges of preserving affordable housing

by Desiree Hatcher

At least a dozen low-income apartment buildings exclusively for seniors in Detroit's midtown and downtown areas could convert to market rate apartments in the next ten years, forcing hundreds of seniors to find new homes. Many of the senior apartment buildings were filled in the 1980s when few people wanted to live downtown. Senior subsidies paid by the U.S. Department of Housing and Urban Development (HUD) comprise one way to keep a level of density in the central districts.[1]

Today, stories of young professionals unable to find affordable housing in these high-profile neighborhoods (known as the city's business, entertainment, and university districts) are offered as proof of downtown Detroit's comeback. The area's residential offerings, mostly apartments and condos in mid- and high-rises, have an occupancy rate above 96 percent. Major new downtown residential developments are under way, totaling over 1,300 new units. There is projected market demand for over 500 new residential units annually.[2]

Displacing subsidized apartments with market-rate apartments and condominiums can be interpreted as a sign of economic health. There is a strong incentive for building owners to capitalize on high demand for apartments in midtown and downtown. However, currently, there is no system in place to move seniors or preserve incentives for low-income housing.[3]

The traditional community land trust (CLT) model

Community land trusts are nonprofit, community-based organizations designed to ensure community stewardship of land. Community land trusts can be used for many types of development (including commercial and retail), but are primarily used to ensure long-term housing affordability.[4]

The CLT model is rooted in the 1960s civil rights movement. Activists established the first CLT – New Community Land Trust in Albany, Georgia – to provide land ownership opportunities to black farmers. The experiment eventually led to the founding of the Institute for Community Economics (ICE), which today is one of the key funders of CLTs across the U.S.[5]

In *Shared Equity Homeownership*, John Davis defines CLTs as "a dual ownership model…where the owner of the land is a nonprofit, community-based corporation, committed to acquiring multiple parcels of land throughout a targeted geographic area with the intention of retaining ownership of these parcels forever." Buildings on CLT land may include single-family homes, rental buildings, condos, co-ops, and mixed-use structures with commercial or office spaces. CLTs lease land to property owners through long-term ground leases, which typically run for 99 years. The sale of property on CLT land is governed by a resale formula outlined in the ground lease, which usually gives the CLT the first right of purchase. When the CLT resells the property, for a below-market price to a buyer who meets agreed-upon income-eligibility requirements, the deed to the building is conveyed to a new owner. The deed to the land remains with the CLT.[6]

According to Community-Wealth.org, community land trusts play a critical role in building community wealth for several key reasons:[7]

- They provide low- and moderate-income (LMI) people with the opportunity to build equity through homeownership and ensure these residents are not displaced due to land speculation and gentrification.
- Land trust housing also protects owners from downturns because people are not overextended; as a result, foreclosure rates for land trusts have been as much as 90 percent less than conventional home mortgages.
- Most commonly, at least one-third of a land trust's board comprises community residents, allowing for direct participation in decision-making and a degree of community control of local assets.
- In addition to the development of affordable housing, many land trusts are involved in a range of community-focused initiatives, including homeownership education programs, commercial development projects, and community greening efforts.

According to the National Community Land Trust Network, there are currently 258 nonprofit organizations located within the United States that are designated as community land trusts;[8] however, not all are actively involved in land trust activities. The next section of the article explores lessons and experiences from extant trusts throughout the Chicago Fed district that may inform future CLTs.

Navigating 'place specifics' and funding limits

Funding for acquisition of property is a challenge for CLTs. Funding scarcity was especially acute during the 2008 housing crisis, when federal housing subsidies significantly decreased. The impact of CLTs reviewed for this report hinged on a variety of factors including funding availability and local market attributes.

Chet Jackson, executive director for First Community Land Trust in Chicago, indicated that when his trust was established in 2003, the original plan was to develop 12 new single-family homes in the West Humboldt Park area for first time home buyers earning 60 percent or less of the Chicago metropolitan area median income. Financing was primarily from the Illinois Housing Development Authority, with additional funding from HUD's HOME Investment Partnerships Program. However, a decrease in funding due to the housing crisis left the trust with only three units.[9]

Lakes Community Land Trust (LCLT), in Spirit Lake, Iowa, had a similar experience. Founded in 2006, the CLT was formed because local residents were being priced out of the market by nonlocals looking to purchase vacation homes near the county's seven lakes. LCLT President Luke Donnenwerth indicated that the intention was to increase its number of newly built housing units at a rate of one to two units per year. However, the nonprofit was only able to build six single-family homes before shifting its focus away from housing due to a lack of funds for development. The organization decided that the scale of its housing was not sufficient to justify continued operations, and is in the process of selling its two remaining properties and "putting housing on hold" until a funding source can be found.[10]

In contrast, some CLTs were able to find opportunity in funding that was made available as a result of the housing crisis. Access to funds from the Neighborhood Stabilization Program (NSP) allowed Coulee Community Land Trust (CCLT) to continue increasing its capacity through acquisition and rehabilitation of 11 foreclosures in the city of La Crosse, Wisconsin. CCLT also used funding from the Wisconsin Housing and Economic Development Authority (WHEDA) and private investments. Funds provided through NSP helped the trust accomplish in two years what was originally thought would take five years.[11]

The Madison Area Community Land Trust (MACLT) funded the development of its initial 30-unit condominium using CDBG funds and the profits from selling ten of the units at market rate.[12] The Trust then began using a buyer-initiated program to acquire homes. The home buyer finds a home of their choosing and starts the loan process. Upon approval by both the lender and the CLT, and pursuant to funding availability, the buyer purchases the home and MACLT purchases the land.

This method lessens the financial burden for the CLT. In addition, pursuant to funding availability, MACLT offers approved qualified buyers $45,000 toward the purchase of the home of their choice, decreasing the financial burden for the home buyer.[13] According to MACLT Manager Andy Miller, the trust currently holds 68 units; 11 have no affordability restrictions.[14]

Finding and maintaining financial partners

CLT loans can help banks in meeting CRA goals by providing affordable homeownership opportunities for LMI borrowers. Notably, CLT home buyers have had a lower foreclosure rate than mortgagors in general. A study conducted by a researcher from The Housing Fund and Vanderbilt University, and commissioned by the National Community Land Trust Network, found that conventional homeowners were ten times more likely to be in foreclosure proceedings than CLT homeowners at the end of 2010.[15] However, many lenders are not comfortable with idiosyncrasies associated with making these loans.

For CLTs, a major issue has been finding lenders able to originate shared equity loans. One reason why lenders have stayed away from CLT transactions was Fannie Mae's previous requirement for lenders to underwrite manually; its proprietary automated underwriting tool – Desktop Underwriter – could not until recently accommodate shared equity loans. Lending institutions were wary of the representations and warranties that manual underwriting entailed, noted Lisa DeBrock, director of the Homeownership Division at the Washington State Housing Finance Commission, which for years has purchased and pooled CLT loans in that state (along with Fannie Mae). In addition, manual underwriting increases the risk of human error, and that increases the possibility of lenders having to buy back and portfolio relatively unconventional loans. As a result, many CLTs work with only a handful of lending partners, or only one. Fortunately, Fannie Mae's Desktop Underwriter program was updated last August to handle CLT loans.[16]

Chet Jackson, executive director of First Community Land Trust in Chicago, indicated his trust began looking for lending partners as construction of housing units began. Originally, local banks were not comfortable with the financing component. Local lenders lacked familiarity with mortgage leasehold agreements and were concerned that they were only getting a mortgage for the improvements and not the land. The Chicago-based Trust initially had to go out of the state in order to find an institution willing to provide loans for its home buyers. After a year of conversations, Jackson was able to convince two local lenders to offer the needed leasehold financing.[17]

Maryann Dennis, executive director of Iowa City Community Land Trust (ICCLT), indicated that her organization worked with Fannie Mae to approve their ground lease so that local lenders would be able to sell loans (originated) in the secondary market. However, during the 2008 housing crisis, Dennis was informed that Fannie Mae (which was placed in conservatorship by its regulator, the Federal Housing Finance Agency, in the same year) would no longer buy their loans. Though lending partners were willing to continue originating and underwriting CLT loans, these loans now had to be maintained on the banks' books. As a result, the down payment requirement increased from 1 percent to 20 percent, effectively rendering them out of reach to the target market of buyers, whose incomes must be under 80 percent of the area median. ICCLT did not have the capacity to provide financing for new buyers. The organization began working toward dismantling the trust by offering current homeowners the opportunity to buy the land, then terminating the ground lease. If the term of affordability had expired, the homeowner was offered the land at 60 percent of the assessed value. If the term of affordability had not expired, the homeowner was offered the land for 25 percent of the assessed value. Out of 17 original units, four are currently left on the organization's books.[18]

Alternatives to "traditional" community land trust models

Inclusionary zoning

The Chicago Community Land Trust (Chicago CLT), according to Interim Director Irma Morales, is not a true community land trust. The Chicago CLT never owns land or improvements; instead, it records a restrictive deed which limits resale of units to income-qualified buyers earning no more than 120 percent of HUD area median income (AMI), making its housing units potentially unaffordable for lower-income buyers.[19] The Chicago CLT relies on private development to generate units. The city of Chicago has inclusionary zoning requirements that, in general, require projects of ten or more units that receive certain types of zoning changes must dedicate 10 percent of project units as affordable or donate $100,000 to the city's affordable Housing Opportunity Fund. Projects receiving financial assistance from the city are to designate 20 percent of units as affordable. Associating units with the trust via the affordability covenants is one way that developers can satisfy these inclusionary requirements.[20] The Chicago CLT is a nonprofit corporation, with a board of directors appointed by the mayor and approved by the Chicago City Council. It is administered and staffed by the Chicago Department of Planning and Development. Once the trust "acquires" 200 homes, one-third of the board will consist of Chicago CLT homeowners.[21] Currently, there are 74 housing units associated with CCLT via restricted deeds.[22] In addition, the Chicago CLT and First Community CLT have agreements with the Cook County Assessor's Office whereby homes are assessed based on the affordability price rather than on the market value.[23, 24] CCLT uses a formula to calculate the "Affordable Price" based on the 100 percent AMI. Buyers of a CCLT unit cannot earn more than 120 percent AMI and their housing ratio (including PITI, Mortgage Insurance, Tenants Insurance, Condo Association, and CCLT Covenant fees) cannot exceed 38 percent of the household monthly income.[25]

Crowdfunding

Recently, a local nonprofit founded the first CLT in the city of Detroit. In October of 2015, the Storehouse of Hope, in an effort to help families facing foreclosure, launched a GoFundMe campaign, which exceeded expectations and received over $108,000.[26] The Wayne County tax foreclosure auction, the largest in North America, included 25,000 homes up for sale; of these, an estimated 8,000 were occupied.[27] This campaign led to the purchase of 15 Detroit homes, which have been placed into the CLT. The 15 families, many senior citizens, and single parent households, were not forced out of their homes, but given an opportunity to become members and participants in the newly founded Storehouse of Hope Community Land Trust (SOHCLT).[28]

Conclusion

Decreased funding and limited lending partners have prevented some of the region's CLTs from reaching a scale that impacts significantly the affordable housing needs of the community they serve, but CLTs nonetheless represent an effective and replicable intervention. A variety of innovations engineered by CLTs have demonstrated ways to reduce the cost of acquiring trust properties; these include buyer-initiated dual purchase programs, inclusionary zoning, and crowdfunding. In addition, recent updates to Fannie Mae's Desktop Underwriter may alleviate concerns for lenders, and thereby increase the number of CLT lending partners. As previously noted, CLTs offer many opportunities, including: protection from displacement due to gentrification; grassroots participation in decision-making and community control of local assets; and preservation of affordable housing in perpetuity. In areas where the most vulnerable are at risk of being displaced due to variables such as stagnant wages, rising housing expenses and expiring subsidies, CLTs may offer the best opportunity for stabilizing these communities.

Notes

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Biography

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