



Community Land Trusts

A Promising Tool for Expanding and Protecting Affordable Housing

By Michela Zonta June 2016

Center for American Progress



Community Land Trusts

A Promising Tool for Expanding and Protecting
Affordable Housing

By Michela Zonta June 2016

Contents

- 1 Introduction and summary**
- 3 What is shared equity?**
- 5 Community land trusts**
- 8 Benefits of CLTs**
- 11 Challenges and recommendations for expanding the capacity and scalability of CLTs**
- 16 Conclusion**
- 17 About the author**
- 18 Endnotes**

Introduction and summary

Seven years after its onset, communities across the country are still grappling with the aftermath of the foreclosure crisis: More than 6 million homeowners are still underwater,¹ and local governments are faced with the plague of vacant and abandoned properties and the loss of assets in many neighborhoods. Furthermore, difficulty qualifying for mortgage loans has contributed to an increased demand for rental units, which has resulted in escalating rents in a market already characterized by a shortage of affordable rental housing. Housing affordability is a pervasive problem among renters and owners. About 39 million households spend more than 30 percent of their income on housing expenses and nearly 18 million are severely burdened, paying more than 50 percent.²

Housing experts have argued about whether homeownership can be considered a viable goal in light of the recent financial collapse.³ Homeownership is not without risk. Even after the deleterious outcomes of the foreclosure crisis, however, most experts tend to agree that homeownership achieved through safe and responsible lending is still central to American families' ability to build wealth, especially among lower-income families and people of color.⁴ The foreclosure crisis, the shortage of affordable housing, and the credit crunch have brought new attention to one solution that could make sustainable homeownership possible for more families: shared equity homeownership. Shared equity homeownership is a housing choice in which the benefits of home price appreciation are shared between an individual low-income buyer assisted with a subsidy and a public entity providing the subsidy. This represents an alternative to rental housing and traditional homeownership that can help low- and moderate-income families safely bridge the gap between rental housing and traditional homeownership and its rewards.⁵ The Federal Housing Finance Agency, or FHFA—which regulates the activities of the government-sponsored enterprises Fannie Mae and Freddie Mac—has recently included shared equity models in its proposed duty-to-serve rule.⁶ The FHFA points to shared equity models as an important tool for increasing access to sustainable homeownership, decreasing the likelihood of foreclosure, building wealth, and preserving affordable homeownership.

The term “shared equity” refers to a range of models of resale-restricted, owner-occupied housing. In a shared equity homeownership model, the rights, responsibilities, risks, and rewards of ownership are shared by two entities: an income-eligible family who buys a home at a below-market price and a government or nonprofit entity. The latter serves as a steward of the land and protects the affordability, quality, and security of the home long after it is purchased, even in the case of housing market declines.⁷ Deed restrictions, community land trusts, and limited equity cooperatives are the most prevalent examples of shared equity homeownership models. Besides providing a safe opportunity for lower-income families to enter the homeownership market, shared equity models ensure long-term affordability and make homeownership more sustainable.⁸ Although they are best known for keeping homes affordable in hot markets, shared equity models can also serve as a suitable element in neighborhood revitalization and stabilization strategies.⁹

After discussing the notion of shared equity and the main characteristics of predominant shared equity models, this report describes one model type in detail: the community land trust, or CLT. CLTs have the potential to challenge the conventional housing market through their emphasis on the collective ownership of land in perpetuity. This report highlights the mechanisms through which community land trusts provide and protect long-term affordable housing for lower-income families. The report then discusses the CLT model’s potentials and benefits and evaluates the important barriers that affect the capacity and scalability of CLTs. Although CLTs are still evolving and cannot be considered the sole solution to the current shortage of affordable housing, this report shows that they can be part of the solution. This report concludes with policy recommendations that could help the CLT model gain more ground by addressing the important challenges of site acquisition, funding, and mortgage financing.

What is shared equity?

The term “shared equity” has been used interchangeably with other designations: nonspeculative homeownership, permanently affordable homeownership, third-sector housing, and nonmarket models of homeownership.¹⁰ Shared equity homeownership comprises a range of programs of resale-restricted, owner-occupied housing that are designed to provide initial and long-term affordability while promoting successful homeownership. In these programs, a nonprofit or government entity provides a subsidy to lower the purchase price of a housing unit for a low- or moderate-income buyer. In return for the subsidy, the homebuyer agrees to share any home price appreciation at the time of resale with the entity providing the subsidy.

Shared equity programs subsidize the housing stock by keeping it affordable for subsequent home purchasers. The initial subsidy reduces the purchase price of the housing unit to an affordable level. The subsidy is then retained in the home over time through resale restrictions that require the property to be sold for an affordable price to qualifying homebuyers, thus preserving the value of the public subsidy and ensuring that the homes remain affordable to future lower-income purchasers. Resale restrictions are enforced through deed covenants, ground leases, or shareholder agreements; these mechanisms limit the price homeowners set and the equity they receive when they sell the property. This process usually allows homeowners to recoup their original down payment plus at least part of the appreciation. Resale restrictions are typically monitored and enforced by a steward, which can be an arm of government, a community development corporation, or some other nonprofit organization.

By locking initial public subsidies into the properties and imposing limits on resale prices, shared equity programs do more than create a portfolio of homes that can be purchased by additional lower-income homebuyers in the future, even when the prices of other homes in the same community rise substantially. The programs also expand the number of people who are able to purchase homes with a fixed subsidy, eliminating the need to provide new subsidies each time a property is

sold.¹¹ This contrasts with other public programs that provide individual homebuyers grants and forgivable loans for down payments and closing costs, allowing homeowners to keep these subsidies and the entire equity of the property when they sell.¹² In those programs, properties are usually sold at market price, and affordability is lost unless the new buyer qualifies for assistance.

Deed restrictions, community land trusts, and limited equity cooperatives are the most prevalent examples of shared equity homeownership.¹³ Deed restrictions—and, to some extent, CLTs—have been adopted by a growing number of local governments, housing agencies, and nonprofit organizations, particularly as elements of inclusionary housing programs.¹⁴ These models are typically publicly funded through upfront direct subsidies, zoning incentives, or public and private donations.¹⁵ Because of its emphasis on the collective ownership of the land in perpetuity, the CLT represents a very promising tool to develop and protect affordable housing while challenging the conventional housing market. It is to the CLT model that this report now turns.

Prevalent shared equity models

Deed-restricted homes: Typically, deed-restricted housing involves resale-restricted homes that are developed through local mandates or initiatives, such as inclusionary zoning. Affordability is achieved through a restrictive covenant that is added to a property's deed or mortgage. Covenants specify that future home sales will be set at prices affordable to qualifying buyers, and they typically remain valid for 10 years to 99 years, most commonly 30 years. The duration can be renewable at the time of resale, allowing properties to be permanently affordable. These agreements need to be actively monitored by an entity with an interest in maintaining ongoing affordability, as with a community land trust. Deed restrictions are by far the most widespread form of shared equity.

Community land trusts: CLTs are nonprofit organizations that acquire and manage land upon which affordable homes can be developed. CLTs sell these homes to low- and moderate-income families at below-market rates but retain ownership of the land. Home buyers lease the land from CLTs for a nominal fee. In exchange for purchasing a CLT property at an affordable price, buyers agree to resell at a price that is affordable for future low-income owners. Resale price restrictions are enforced through a 99-year ground lease.

Limited equity cooperatives, or LECs: In LEC models, the real estate is owned collectively by a corporation of low- and moderate-income residents rather than the individual residents; individual residents own a share in the corporation. When LEC owners sell their shares, they transfer the right to live in the cooperative to new buyers. In an LEC, there are limits on the share price to ensure that it remains affordable to future low- and moderate-income buyers. The shareholder agreement, signed by all residents, further stipulates and specifies resale restrictions. LECs are used predominantly with apartments and other multifamily developments.

Community land trusts

A CLT is a nonprofit community-based organization that acquires land within a specified geographic area, removing it from the speculative real estate market by retaining ownership of the land in perpetuity. It then leases the land to homeowners or other entities that own the buildings developed on the land,¹⁶ including cooperative housing corporations; nonprofit developers of rental housing; and other nonprofit, governmental, or for-profit entities.

The CLT model emerged in the United States during the civil rights movement as an effort to create long-term economic and residential independence for African Americans in the rural South. New Communities Inc., the first CLT, was established in 1969 near Leesburg, Georgia. The few CLTs established in the next two decades emerged predominantly from the grassroots activities of local community organizers. Their inspiration was the Gramdan movement in India and kibbutz cooperatives in Israel, which built community on a small scale through neighborhood engagement and the ownership and stewardship of land.¹⁷

It was not until the 1990s, however, that the movement started to proliferate. In the past two decades, CLTs have gained broader attention as a model for providing permanent affordable housing to low-income homebuyers. Today, there are about 220 active community land trusts in the United States.¹⁸ New York, California, Massachusetts, and Washington feature the largest concentrations of CLTs.¹⁹ No CLTs exist yet, however, in Arkansas, Indiana, Nebraska, Oklahoma, or West Virginia. Limited data are currently available on CLTs, although it is estimated that between 10,000 and 15,000 homeownership units and close to 20,000 rental units are located upon CLT-held land.²⁰ Champlain Housing Trust in Burlington, Vermont, with 565 homeownership and 2,200 rental units, represents the largest CLT in the country.²¹

There is variation in the ways CLTs are established, structured, and governed. Sometimes CLTs are established as successors, affiliates, or components of other housing or community development corporations. Membership in the CLT is generally open to anyone who leases land from the CLT and to anyone

who resides within the geographic area that the CLT serves. The classic CLT is governed by a tripartite board of directors consisting of one-third leaseholders, one-third residents living in the organization's service area, and one-third public officials and other stakeholders. The tripartite composition of the board ensures the balanced governance of the organization and that all interests are heard, but no single interest is predominant.²²

CLTs acquire land through a variety of channels. They may receive a land donation from a government entity or private donor. Often, they purchase land at market price with funds given from public sources or donated or loaned from private sources, such as foundations, individual philanthropists, or financial institutions.²³ Less frequently, CLTs receive municipally mandated donations from private developers in the form of land or buildings in exchange for concessions²⁴ or density bonuses granted by local governments or in compliance with inclusionary zoning ordinances. In the past decade, CLTs have received the greatest project support from the Community Development Block Grant program and the HOME Investment Partnership Program, or HOME.

Once the land is acquired, it is used for the development of affordable housing. Alternatively, CLTs may acquire land with existing viable housing or with housing in need of renovation. In some cases, CLTs develop or redevelop affordable homes; in other cases, they work with development partners. CLTs also may develop rental housing, commercial buildings, agriculture, and community facilities on CLT land to further enhance their target areas.²⁵

The CLT and a qualifying low- or moderate-income homeowner typically agree to the terms of a long-term ground lease—usually 99 years—through which the CLT leases the land underneath the home for a nominal fee.²⁶ The ground lease delineates the rights and responsibilities of both parties and specifies a resale formula intended to protect housing affordability in perpetuity by balancing the interests of present homeowners with the goals of the CLT to provide affordable housing for future homeowners.²⁷ The resale formula typically specifies a resale price that preserves the same level of affordability as the initial property price did, gives sellers a fair return on their investment, and grants buyers fair access to an affordable home.²⁸

Resale formulas

There are two options available to CLT homeowners who want to move: sell the home directly to an income-qualified buyer or sell it back to the CLT. If the house has retained or increased its value, the CLT homeowners recoup all of their initial equity—the down payment plus the mortgage paid—as well as a portion of the appreciated value of the home. The sale price for the house is determined using a resale formula that is outlined in the ground lease. That formula varies from one CLT to another, but there are three common ones:²⁹

- 1. Appraisal-based formula:** This formula ties the affordable resale price to the change in the market value of the property. The seller receives the original price plus a specified percentage of any increase in the appraised value. The increase in market value is measured by market appraisals at the time of initial purchase and the time of resale. The most common percentage is 25 percent.
- 2. Indexed formula:** With this formula, the resale price is no more than the initial affordable purchase price plus an adjustment based on the annual change in either the area median income published by the U.S. Department of Housing and Urban Development, or HUD, or the consumer price index.³⁰
- 3. Fixed-rate formula:** With this formula, the homeowner's initial affordable price is increased over time by a fixed annual percentage of either simple or compound interest. The most common interest rates are between 1 percent and 2 percent per year.³¹

As with other shared equity models, stewardship is a central component of CLTs. As stewards of the land, CLTs actively monitor and enforce the ground lease. CLTs also play an important role in promoting sustainable homeownership by providing pre- and post-purchase education; approving first mortgages, refinance loans, or home equity lines of credit; assisting with major home repairs; monitoring compliance with use, occupancy, maintenance, and resale restrictions; and intervening to prevent foreclosure. As a result—and not surprisingly—CLTs typically experience low foreclosure rates.³² A 2011 study of 96 CLTs indicated that at the height of the foreclosure crisis in 2009, homeowners living in CLTs were 10 times less likely to be in foreclosure proceedings and 6.6 times less likely to be at least 90 days delinquent, compared with homeowners in the conventional market.³³

Benefits of CLTs

CLTs provide several benefits to individual homeowners and their neighborhoods. In many respects, these benefits, including those described below, are very similar to those offered by other shared equity homeownership models and other nonprofit community development organizations. The emphasis on the collective ownership of the land in perpetuity is perhaps the feature that makes CLTs stand out as a promising tool to challenge the conventional housing market. Their mission to retain land is especially important in neighborhoods where out-of-state investors who purchase property may not be interested in maintaining the homes' affordability.³⁴ In addition, CLT residents' direct engagement in decision-making provides an important opportunity for lower-income individuals to actively control housing quality and security, not only for their families but also for subsequent generations of CLT residents.

Benefits for individual families

CLT homes are usually more affordable than market-rate homes. Those who buy CLT homes make on average between 60 percent and 65 percent of the area median income and may not be able to afford purchasing their homes in the private market.³⁵ CLT homeownership promotes wealth building and economic mobility for these families. It serves as a springboard for lower-income families to eventually enter the conventional housing market, realize the financial benefits of homeownership with a lower risk of losing their home to foreclosure, and accumulate wealth in the long run.³⁶

Although CLTs are best known for providing permanently affordable owner-occupied housing, several CLTs also provide rental opportunities.³⁷ This is particularly common in larger cities characterized by an abundance of multifamily buildings and by a mix of cold and hot markets.³⁸ Examples of CLTs that include rental units are Dudley Neighbors Inc. in Boston,³⁹ Sawmill Community Land Trust in

Albuquerque, New Mexico;⁴⁰ T.R.U.S.T. South LA in Los Angeles;⁴¹ and Cooper Square in New York.⁴² According to a 2011 survey conducted by the National CLT Network, roughly two-thirds of residential properties in CLT portfolios are rentals.⁴³ The ground lease arrangement with CLTs gives tenants the added security that rent increases will be limited.

Neighborhood benefits

CLTs can be an effective tool in neighborhood stabilization strategies. Economically depressed communities are plagued with abandoned land and decaying buildings that discourage investment in community improvement. In these markets, CLTs can contribute to fewer foreclosures, better upkeep, and stable occupancy. They can help reconnect vacant properties to the market. As in other shared equity models, a CLT's stewardship protects homeowners and neighborhoods by stabilizing owners, ensuring that properties are not abandoned or turned into absentee rentals, providing basic maintenance and rehabilitation, and replacing vacant buildings or lots with functional homes. Cities across the country have been shifting foreclosed and vacant properties into CLTs before they can negatively affect their neighborhoods.⁴⁴ Pioneers in this shift include advocates and leaders in Massachusetts, Colorado, and Minnesota.⁴⁵

CLTs can also prevent displacement in gentrifying neighborhoods. Gentrification puts pressure on many low-income residents of rapidly appreciating, often high-opportunity urban neighborhoods. In many cities, the land cost represents more than 50 percent of the cost to complete a dwelling unit.⁴⁶ In these markets, the construction of affordable units is nearly impossible; lower-income families are faced with displacement as redevelopment and the increase in private rents price them out of their communities. CLTs, either alone or as an element of inclusionary housing programs, represent an effective tool to prevent this displacement. By attaching the single initial subsidy to the land, CLTs provide a stock of affordable housing that remains intact regardless of what happens in the surrounding neighborhood. This can preserve the mixed-income character of neighborhoods that experience rapid home price increases.⁴⁷

CLTs can also be a tool to support smart growth and mixed-use land development. This is particularly important for the ongoing affordability of homes near public transportation, transit-oriented developments,⁴⁸ job centers, or other amenities. Buildings on CLT land may include mixed-use structures with commercial

or office spaces.⁴⁹ In addition, CLTs could be used to support the development of scattered sites for affordable housing in suburban areas, especially those characterized by job opportunities that are currently out of reach for many lower-income families. Some CLTs already have scattered site acquisition strategies and could serve as models for other CLTs, especially those that could expand their activities to the suburbs of high-cost metropolitan areas. Rocky Mountain CLT in Colorado, for example, focuses on scattered site development because it allows residents greater flexibility and choice in their home selection.⁵⁰

Challenges and recommendations for expanding the capacity and scalability of CLTs

Opportunities exist for CLTs to be part of the solution to the housing crisis at a time when affordable housing is in short supply for homeowners and renters, neighborhoods nationwide are losing assets due to foreclosures and the reduction of housing subsidies, and tight credit prevents families from achieving sustainable homeownership. Several challenges, however, prevent CLTs from playing a stronger role both in the production and protection of long-term affordable housing and in neighborhood stabilization.

CLTs' limited capacity is one of the model's biggest challenges, despite its benefits and potential. Although their numbers have increased considerably since their inception in 1969, CLTs still represent a very small segment of the community development sector, and CLT homes make up a negligible portion of the national housing stock. In addition, CLTs tend to be very small local nonprofits organizations with a neighborhood focus. Their grassroots character may curb their ability to operate at broader geographic scale.

The costs and availability of buildable sites and the availability of funding severely challenge the scalability of this model. In many parts of the country, land prices are very high, and CLTs have a hard time acquiring land. Land acquisition is even more difficult because many of the subsidies that CLTs have traditionally used to develop and steward affordable housing units have been curtailed. Funding from the Community Development Block Grant program and HOME, for instance, has declined dramatically in recent years.⁵¹

Another key challenge to expanding CLT programs is the difficulty of accessing conventional loans for first mortgages on homes purchased through a CLT. Lenders are often concerned about the greater administrative burden and the

smaller profits generated by making loans on homes in CLTs. Most residential lenders are unfamiliar with the ground lease mechanism and often worry that their ability to foreclose on a property may be compromised because they would not be able to resell it free and clear.⁵²

Access to the secondary market and to mortgages insured by the Federal Housing Administration, or FHA, represents another important barrier. Investors in the secondary mortgage market generally prefer assets that can be easily liquidated. Therefore, a ground lease that limits the sale price and the allowed buyers represents an obstacle for CLT mortgages' access to the secondary market, unless the lease can be modified. Fannie Mae has developed mechanisms to address some of its lending partners' concerns, especially those related to administrative burdens and the ground lease restrictions.⁵³ For instance, Fannie Mae's Desktop Underwriter can now underwrite CLT transactions; in the past, it was done manually.⁵⁴ Fannie Mae also addressed the concern related to ground lease restrictions with a ground lease rider that modifies or eliminates specific restrictions for as long as the financial institution has an interest in the leasehold; it does not, however, permanently change the lease to which it is attached. Modifications through riders are applicable only for the life of the loan in question.

CLT homebuyers currently do not have access to FHA-insured mortgages, because some of the conditions on which such insurance is available conflict with the basic CLT mission of preserving the affordability of owner-occupied units.⁵⁵

Recommendations

Given their potential and benefits, CLTs must continue to contribute to the production and protection of long-term affordable housing and serve as an effective tool in neighborhood stabilization strategies. As they continue to evolve and build capacity, however, they need to address the important challenges of site acquisition, funding, and mortgage financing.

Acquisition of sites

CLTs should take advantage of existing housing units and bring them into the CLTs. In weak markets and older urban neighborhoods where values are low, CLTs may be able to acquire properties with a smaller initial subsidy or donations and rehabilitate

some of the properties. Because it might not be financially viable for CLTs to sell the properties acquired in weak market conditions, CLTs may consider redeveloping some of these properties as rentals and then turning them into homeownership opportunities if the market heats up, perhaps through a lease-purchase mechanism.⁵⁶ Foreclosed and vacant homes in many neighborhoods nationwide represent an opportunity for CLTs. CLTs, as other local nonprofit organizations, should be given serious consideration for the disposition of real estate-owned properties,⁵⁷ the donation of surplus municipal real estate, and the acquisition of distressed assets that are periodically auctioned in these areas. Sometimes distressed assets are clustered together: This represents a potential advantage for CLTs in that it would save on costs related to rehabilitation, maintenance, and infrastructure. Most importantly, these properties are often located close to downtowns and neighborhoods that have seen increased housing demand due to their proximity to transit. Preserving affordability may be critical for future development in the broader communities in which CLTs are located. City First Homes, for example, is already doing this in Washington, D.C., a market characterized by a severe shortage of affordable housing and rampant gentrification.⁵⁸

At the same time, CLTs should be encouraged to expand their service areas and adopt scattered site strategies, especially in job-rich suburban areas and in neighborhoods close to public transportation.⁵⁹ Local municipalities could support the integration of CLTs into local inclusionary housing programs and smart growth strategies and encourage partnerships with other local nonprofit organizations. Through these partnerships, CLTs would be in a better position to increase their capacity and diversify their holdings to include rental housing and mixed-use development,⁶⁰ especially in high-opportunity areas where the demand for affordable housing is stronger. This could also help save existing rental housing units, maximize the overall number of affordable units throughout a metropolitan area,⁶¹ and enhance a CLT's revenue stream. In addition, this could give lower-income families a broader choice of neighborhoods and increase their opportunities for economic mobility.

Funding

It is critical to identify, safeguard, and enhance sources of CLT project funding at all levels of government. Restoring funding for affordable housing and community development programs in the budget to prerecession levels is a vital step to ensure that CLTs, like other shared equity and affordable housing programs, continue

to receive critical federal support. But it is also important to think about how to make existing dollars go further. For example, HUD could increase the affordability period in programs such as HOME, which currently requires minimum affordability periods of five years to 15 years for homeownership projects, depending on the amount of HOME funds invested in the units.⁶²

In addition, states should adopt lasting affordability in their qualified allocation plans for the Low-Income Housing Tax Credit program, giving CLTs a greater opportunity to be considered for this type of funding.⁶³ States should also be encouraged to contribute to CLT capacity management through funding and technical assistance. Partnerships with local governments, mortgage servicers, and employers could increase access to additional sources of funding and land acquisition opportunities. In addition, merging small CLTs could be an effective strategy for increasing their capacity to compete for Community Development Block Grant program funding and gain direct access to federal and local subsidies.

Mortgage financing

To increase access to mortgage financing for buyers of CLT homes, it is important that lenders receive education concerning the CLT model and the fact that mortgages for CLT homes have access to the secondary market. The FHFA rightfully points to shared equity models as an important tool for increasing access to sustainable homeownership, decreasing the likelihood of foreclosure, building wealth, and preserving affordable homeownership.⁶⁴ The support for shared equity homeownership by government-sponsored enterprises can enhance its effectiveness in meeting the needs of underserved markets. As the FHFA finalizes the proposed duty-to-serve rule, it should prioritize building support for shared equity models. First, the FHFA should keep enterprise support for shared equity models as a regulatory activity. Volume and resources are two of the factors mentioned in the proposed duty-to-serve rule that the FHFA will use to evaluate the enterprises' underserved market plans. Because CLTs and other shared equity models might not have an immediate impact on volume and resources, the agency must acknowledge the powerful long-term impact of shared equity models in its evaluation process. The enterprises should not be discouraged from nor penalized for proposing activities that support shared equity, which can have a significant impact on affordable housing over time. The enterprises can take various steps to meet their regulatory obligation. For example, automated underwriting for shared equity loans should be improved and adopted by Fannie Mae—which has already made automated underwriting available for some shared equity mortgages—and Freddie Mac.

FHA-insured mortgages

Access to FHA-insured mortgages for CLT homebuyers should be given more consideration in HUD's policy agenda. In particular, regulations regarding FHA-insured loans for homes that are purchased through CLTs should be revised and expanded to better align with the mission of CLTs. The FHA could model its regulations after what Fannie Mae has done with the adoption of a ground lease rider. This would assist lower-income buyers who are not qualified for conventional loans. In addition, such a step by the FHA could represent promising movement toward the much-needed standardization of guidelines for mortgage financing in long-term affordability programs. The absence of standardized guidelines in the industry too often deters lenders from entering not only the CLT arena but also other deed-restricted housing as well.

Conclusion

Community land trusts, like other shared equity models, can help lower-income families safely bridge the gap between rental housing and traditional homeownership and its rewards. They also have the potential to challenge the conventional housing market and enhance neighborhood stability through the collective ownership of land in perpetuity. This model is still evolving and has not yet achieved the critical mass that would allow it to have a broader impact on the housing market. It is not the sole solution to the housing affordability crisis, but opportunities exist for it to be part of the solution by creating and protecting a portfolio of homes that are affordable for current and future generations of lower-income families.

About the author

Michela Zonta is a Senior Policy Analyst for the Housing and Consumer Finance Policy team at the Center for American Progress. She has extensive research, teaching, and consulting experience in housing and community development. She has published work on the government-sponsored enterprises, mortgage-lending practices of ethnic-owned banks in immigrant communities, jobs-housing imbalance in minority communities, residential segregation, and poverty and housing affordability.

Acknowledgments

The author thanks Emily Thaden for her thorough and helpful feedback on early versions of this report. The author also thanks Alan Mallach and Ellen Seidman for their helpful comments.

Endnotes

- 1 Svenja Gudell, "Q4 2015 Negative Equity: When Abnormal is the New Normal," Zillow, March 8, 2016, available at <http://www.zillow.com/research/q4-2015-negative-equity-11906>. See also Michela Zonta and Sarah Edelman, "The Uneven Housing Recovery" (Washington: Center for American Progress, 2015), available at <https://www.americanprogress.org/issues/housing/report/2015/11/02/123537/the-uneven-housing-recovery>.
- 2 Calculated from Bureau of the Census, *2014 American Community Survey 1-Year Summary File* (U.S. Department of Commerce, 2015), available at http://www2.census.gov/programs-surveys/acs/summary_file/2014/data (last accessed February 2016). The data also indicate that 48 percent of renters and 23 percent of owners pay more than 30 percent of their income for housing. In addition, the Joint Center for Housing Studies reports that more than 82 percent of homeowners with incomes less than \$15,000 (equivalent to full-time pay at the federal minimum wage) spent more than 30 percent of their income on housing costs in 2013. See Joint Center for Housing Studies of Harvard University, "The State of the Nation's Housing 2015" (2015), available at http://www.jchs.harvard.edu/research/state_nations_housing.
- 3 See, for instance, The Editorial Board, "Homeownership and Wealth Creation," *The New York Times*, November 29, 2014, available at <http://www.nytimes.com/2014/11/30/opinion/sunday/homeownership-and-wealth-creation.html>.
- 4 Christopher E. Herbert, Daniel T. McCue, and Rocío Sanchez-Moyano, "Is Homeownership Still an Effective Means of Building Wealth for Low-income and Minority Households? (Was It Ever?)," Working Paper HBTL-06 (Joint Center on Housing Studies, 2013), available at <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/hbtl-06.pdf>.
- 5 Jim Gray, "Shared Equity Gains Acceptance in Affordable Multifamily Development," *Commercial Mortgage Insight*, May 2008, available at <http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/article-gray.pdf>. A 2010 study of seven U.S. shared equity housing programs shows that when owners moved, 68 percent to 78 percent entered market-rate homeownership. See Kenneth Temkin, Brett Theodos, and David Price, "Balancing Affordability and Opportunity: An Evaluation of Affordable Homeownership Programs With Long-Term Affordability Controls" (Washington: The Urban Institute, 2010), available at <http://www.frbsf.org/community-development/files/6b-temkin-theodos-price-paper.pdf>.
- 6 Federal Housing Finance Agency, "Enterprise Duty to Serve Underserved Markets; Proposed Rule," *Federal Register* 80 (243) (2015), available at <https://www.gpo.gov/fdsys/pkg/FR-2015-12-18/pdf/2015-31811.pdf>.
- 7 John Emmeus Davis, "Shared-Equity Homeownership." In Andrew T. Carswell, ed., *The Encyclopedia of Housing*, 2nd ed. (Los Angeles: Sage Publications, 2012).
- 8 Emily Thaden, Andrew Greer, and Susan Saegert, "Shared Equity Homeownership: A Welcomed Tenure Alternative Among Lower Income Households," *Housing Studies* 28 (8) (2013): 1175–1196.
- 9 Federal Reserve Bank of Richmond, "Community Land Trusts: An Alternative Approach to Affordable Homeownership and Neighborhood Revitalization," *Marketwise Community* 3 (1) (2012), available at https://www.richmondfed.org/publications/community_development/marketwise_community/2012/vol03_issue01.
- 10 John Emmeus Davis, "Shared Equity Homeownership: The Changing Landscape of Resale-Restricted, Owner-Occupied Housing" (Montclair, NJ: National Housing Institute, 2006), available at http://www.nhi.org/research/522/shared_equity_homeownership.
- 11 It is estimated that over a period of 50 years, shared equity homeownership could help three to five times as many homeowners. See Jeffrey Lubell, "Housing More People More Effectively Through a Dynamic Housing Policy" (Cambridge, MA: Abt Associates, 2014), available at http://bipartisanpolicy.org/wp-content/uploads/2014/12/BPC_AbtAssociates_Housing_Paper.pdf.
- 12 Temkin and others, "Balancing Affordability and Opportunity." See also Nico Calavita and Alan Mallach, "Inclusionary Housing, Incentives, and Land Value Recapture," *Land Lines* 21 (1) (2009), available at <http://inclusionaryhousing.ca/wp-content/uploads/sites/2/2010/01/Mallach-Incentives-Recapture-2009.pdf>.
- 13 The notion of shared equity homeownership also includes other products that are designed to mainly improve the affordability of the initial buyer. Shared appreciation schemes typify these products. In these models, a loan is provided to the buyer who then repays the subsidy—in the case of publicly funded models—or the investment—in the case of privately funded models—upon selling the home, along with some portion of appreciation. Shared appreciation products usually keep pace with the housing market and are not designed to preserve affordability, unless the share of home price appreciation is used to provide a larger loan to the next buyer. This is the case of some publicly funded shared appreciation products such as silent second mortgages. These accrue no or very limited interest, and borrowers do not have to make any payments until they sell their homes. Silent second mortgages reduce the amount of the first mortgage loan that a family needs to take out, lowering monthly payments and making the home affordable. When the family sells the home, it pays back the silent mortgage plus a portion of the home price appreciation. The amount returned reflects increases in home prices, which helps to preserve the buying power of the subsidy if the amount returned is used to help a subsequent lower-income buyer.
- 14 Rick Jacobus and David Abromowitz, "A Path to Homeownership: Building a More Sustainable Strategy for Expanding Homeownership," *Journal of Affordable Housing* 19 (3 & 4) (2010): 313–344.
- 15 Robert Hickey, Lisa Sturtevant, and Emily Thaden, "Achieving Lasting Affordability Through Inclusionary Housing," Working Paper WP14RH1 (Lincoln Institute of Land Policy, 2014), available at https://www.lincolninst.edu/pubs/2428_Achieving-Lasting-Affordability-through-Inclusionary-Housing.
- 16 Some CLTs, when developing multiunit rental housing or leasing out commercial space, retain ownership not only of the underlying land but of the building as well. Furthermore, some CLTs do not own the land on which limited-equity condominiums sit but retain ownership only of a durable right to repurchase these condominiums for an affordable, formula-determined price.
- 17 John Emmeus Davis, "Origins and Evolution of the Community Land Trust in the United States" (2014), available at <https://dl.dropboxusercontent.com/u/4088576/clt-roots/eBooks/Origins-Evolution-CLT.pdf>.

- 18 Personal communication with Emily Thaden, director of research and national policy, Grounded Solutions Network, April 21, 2016.
- 19 As of June 2016, there were 21 CLTs in California, 21 in New York, 18 in Massachusetts, and 17 in the state of Washington. National Community Land Trust Network, "Program Directory," available at <http://cltnetwork.org/directory> (last accessed May 2016).
- 20 Personal communication with Emily Thaden, April 21, 2016.
- 21 Champlain Housing Trust, "About Us," available at <http://www.getahome.org/about-us> (last accessed May 2016).
- 22 The 2015 Member Report of the National Community Land Trust Network, however, indicates that only a minority of nongovernmental entities actually have a classic CLT tripartite board structure in which one-third of the board must be dues-paying community members who are not residents of properties in the CLT. Most CLTs in the network meet a less stringent definition of a tripartite board. See Emily Thaden and Jason Webb, "National Community Land Trust Network 2015 Member Report" (Portland, OR: National Community Land Trust Network, 2015), available at <http://cltnetwork.org/wp-content/uploads/2015/11/2015-Member-Report-final-11-30-15.pdf>.
- 23 CLTs can also acquire land for a below-market price through a mechanism known as a bargain sale, where the seller accepts cash for a portion of the land's value and claims a tax deduction for the remainder of the land's value.
- 24 Municipalities sometimes support development of CLT homes by reducing or waiving application and impact fees, relaxing zoning requirements for parking or lot coverage, and/or offering other regulatory concessions.
- 25 Miriam Axel-Lute, "CLTs Go Commercial," *Shelterforce*, July 25, 2011, available at http://www.shelterforce.org/article/2299/clts_go_commercial. See also Greg Rosenberg and Jeffrey Yuen, "Beyond Housing: Urban Agriculture and Commercial Development by Community Land Trusts." Working Paper WP12GR1 (Lincoln Institute of Land Policy, 2012), available at https://www.lincolnst.edu/pubs/dl/2227_1559_Rosenberg_WP-13GR1.pdf.
- 26 Often, CLTs also use deed restrictions, as in the case of condominiums, for which ground leases cannot be legally used. Personal communication with Emily Thaden, April 21, 2016.
- 27 It is in the homeowner's interest to benefit from the use of their home as a real estate investment.
- 28 When CLT homeowners default, the CLT is generally given 60 days to cure the default on the homeowner's behalf. If the CLT does not cure and the lender proceeds to foreclosure, the CLT is then given an opportunity to purchase the foreclosed building. Because the CLT retains ownership of the underlying land, it is in a strong bargaining position with respect to both the homeowner and the lender. The CLT has a pre-emptive option to purchase any homes that are located upon its land. The CLT may purchase the home and resell it to another income-eligible buyer. Alternatively, the CLT may waive its option to purchase and allow the homeowner to sell the home directly to another income-eligible qualified buyer. In either event, the CLT homeowner is obliged to sell the home for no more than the maximum price determined by a resale formula stipulated in the homeowner's ground lease.
- 29 Julie Brunner and the National Community Land Trust Network, "The Balancing Act: Resale Formula Options for Long-Term Affordable Homeownership Programs" (Oakland, CA: Cornerstone Partnership, 2015), available at <http://www.affordableownership.org/wp-content/uploads/2015/03/The-Balancing-Act-Resale-Formula-Options.pdf>.
- 30 Sometimes the maximum resale price is calculated by estimating the cost for taxes and insurance and subtracting that from an affordable share (for example, 30 percent) of the target family's income (with the target family defined, for example, as one with an income that is 80 percent of area median income).
- 31 Brunner, "The Balancing Act."
- 32 In addition to monthly affordable housing costs, this is due to the assistance and pre- and post-purchase financial counseling provided by CLTs to buyers and owners, the fact that CLT homes are protected from market price fluctuations, and the steward's contractual right to approve or reject any home equity lines of credit or refinance loans—the predominant source of subprime loans to lower-income families during the subprime crisis.
- 33 Emily Thaden, "Stable Home Ownership in a Turbulent Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts." Working Paper WP11ET1 (Lincoln Institute of Land Policy, 2011), available at https://www.lincolnst.edu/pubs/dl/1936_1257_Thaden%20Final.pdf.
- 34 For a discussion of investor ownership, see Sarah Treuhaft, Kalima Rose, and Karen Black, "When Investors Buy Up the Neighborhood: Preventing Investor Ownership From Causing Neighborhood Decline" (Oakland, CA: PolicyLink, 2010), available at <http://www.nwaf.org/content/uploads/oldsite/FileCabinet/DocumentCatalogFiles/Other/PolicyLink%20When%20Investors.pdf>.
- 35 Personal communication with Emily Thaden, April 21, 2016.
- 36 Temkin and others, "Balancing Affordability and Opportunity."
- 37 See, for instance, Maxwell Ciardullo and Emily Thaden, "Community Land Trusts Have Renters Too," *Shelterforce*, October 15, 2013, available at http://shelterforce.org/article/3464/community_land_trusts_have_renters_too.
- 38 Miriam Axel-Lute and Dana Hawkins-Simons, "Community Land Trusts Grown From Grassroots: Neighborhood Organizers Become Housing Developers," *Land Lines*, July 2015, available at https://www.lincolnst.edu/pubs/3567_Community-Land-Trusts-Grown-from-Grassroots-Neighborhood-Organizers-Become-Housing-Developers.
- 39 Dudley Street Neighborhood Initiative, available at <http://www.dsni.org> (last accessed May 2016).
- 40 Sawmill Community Land Trust, available at <http://www.sawmillclt.org> (last accessed May 2016).
- 41 T.R.U.S.T. South LA, available at <http://trustsouthla.org> (last accessed May 2016).
- 42 Tom Angotti, "Community Land Trusts and Low-Income Multifamily Rental Housing: The Case of Cooper Square, New York City." Working Paper WP07TA1 (Lincoln Institute of Land Policy, 2007), available at http://www.lincolnst.edu/pubs/1272_Community-Land-Trusts-and-Low-Income-Multifamily-Rental-Housing.

- 43 Thaden, "Stable Home Ownership in a Turbulent Economy."
- 44 Anne J. Martin and Alexis Smith, "Creating a Community Land Trust to Acquire Foreclosed Properties: Stabilizing Neighborhoods and Creating Permanently Affordable Housing" (Berkeley, CA: University of California, Center for Community Innovation, 2009), available at <http://communityinnovation.berkeley.edu/reports/CLT.pdf>.
- 45 Anthony Flint, "Two Strategies to Confront the Crisis: Value Capture in Inclusionary Zoning and Converting Foreclosed Properties to Community Land Trusts." In Christopher Niedt and Marc Silver, eds., *Forging a New Housing Policy: Opportunity in the Wake of Crisis* (Hempstead, NY: National Center for Suburban Studies at Hofstra University, 2009), available at http://www.hofstra.edu/pdf/Academics/css/nccss_housing_crisis.pdf.
- 46 Edward J. Dodson, "Scattered-Site Properties and Community Land Trusts: A Strategy for Expanding the Supply of Permanently Affordable Housing" (Cherry Hill, NJ: School of Cooperative Individualism, 2008), available at <http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/article-dodson.pdf>.
- 47 Rick Jacobus and Jeffrey Lubell, "Preservation of Affordable Homeownership: A Continuum of Strategies" (Washington: Center for Housing Policies, 2007), available at <http://cltnetwork.org/wp-content/uploads/2014/01/2007-Preservation-of-Affordable-Homeownership.pdf>.
- 48 See, for instance, Atlanta Land Trust Collaborative, "About Us," available at <http://www.atlantaltc.org/about-us>. See also Robert Hickey, "The Role of Community Land Trusts in Fostering Equitable, Transit-Oriented Development: Case Studies From Atlanta, Denver, and the Twin Cities." Working Paper WP13RH1 (Lincoln Institute of Land Policy, 2013), available at https://www.lincolninstitute.edu/pubs/dl/2243_1579_Hickey_WP13RH1.pdf.
- 49 Rosenberg and Yuen, "Beyond Housing."
- 50 Kirsten Akens, "A Road Home: At Rocky Mountain Community Land Trust, Low-Income Families Find a Bridge to Property Ownership," *Colorado Springs Independent*, December 31, 2014, available at <http://www.csindy.com/coloradosprings/at-rocky-mountain-community-land-trust-low-income-families-find-a-bridge-to-property-ownership/Content?oid=2983631>.
- 51 Isaac Shapiro and others, "Funding for Housing, Health, and Social Services Block Grants Has Fallen Markedly Over Time" (Washington: Center on Budget and Policy Priorities, 2016), available at <http://www.cbpp.org/sites/default/files/atoms/files/11-19-15bud.pdf>.
- 52 Sarah Ilene Stein, "Wake Up Fannie, I Think I Got Something to Say to You: Financing Community Land Trust Homebuyers Without Stripping Affordability Provisions," *Emory Law Journal* 60 (1) (2010): 209–249.
- 53 Fannie Mae, "Selling Guide," available at <https://www.fanniemae.com/content/guide/selling/b5/5.1/04.html> (last accessed May 2016).
- 54 Fannie Mae, "Community Land Trusts" (2015), available at https://www.fanniemae.com/content/fact_sheet/community-land-trust.pdf.
- 55 Generally, FHA regulations require that properties with FHA-insured mortgages must be free of restrictions. FHA strongly opposes the survival of any program restrictions and considers them a risk to FHA's ability to recoup its investment in the event of foreclosure. See Edwin Stromberg and Brian Stromberg, "The Federal Housing Administration and Long-Term Affordable Homeownership Programs," *Cityscape: A Journal of Policy Development and Research* 15 (2) (2013): 247–257.
- 56 Sarah Edelman, Michela Zonta, and Julia Gordon, "Lease Purchase Failed Before: Can It Work Now?" (Washington: Center for American Progress, 2015), available at <https://www.americanprogress.org/issues/housing/report/2015/04/29/112014/lease-purchase-failed-before-can-it-work-now/>.
- 57 These properties are owned by lenders after unsuccessful sales at foreclosure auctions.
- 58 City First Homes, "Impact," available at <http://cfhomes.org/about-us/impact> (last accessed May 2016).
- 59 Some CLTs, like OPAL CLT in Washington state, Rocky Mountain CLT in Colorado, and Madison Area CLT in Wisconsin, have properties scattered throughout a broad geographic area and different neighborhoods. The 2013 study by Thaden and others indicates that study participants placed great value on access to better neighborhoods and recommended that shared equity programs include scattered site properties in their portfolio that blend with other types of tenure. See Thaden and others, "Shared Equity Homeownership."
- 60 Stephen R. Miller, "Community Land Trusts: Why Now Is the Time to Integrate This Housing Activists' Tool Into Local Government Affordable Housing Policies," *Zoning and Planning Law Report* 36 (9) (2013): 1–20.
- 61 Angotti, "Community Land Trusts and Low-Income Multifamily Rental Housing." See also William Apgar, "Rethinking Rental Housing: Expanding the Ability of Rental Housing to Serve as a Pathway to Economic and Social Opportunity." Working Paper WO4-11 (Joint Center for Housing Studies, 2004), available at <http://www.jchs.harvard.edu/sites/jchs.harvard.edu/files/w04-11.pdf>.
- 62 Code of Federal Regulations, *Title 24, Housing and Urban Development* (National Archives and Records Administration, 2012), p. 593, available at <https://www.gpo.gov/fdsys/pkg/CFR-2012-title24-vol1/pdf/CFR-2012-title24-vol1.pdf>.
- 63 Marla Nelson and Elizabeth Sorce, "Supporting Permanently Affordable Housing in the Low-Income Housing Tax Credit Program: An Analysis of State Qualified Allocation Plans" (National Community Land Trust Network and the University of New Orleans, 2013), available at http://www.uno.edu/cola/planning-and-urban-studies/docs/NelsonSorceNCLTN_LIHTC_Final2013.pdf.
- 64 Federal Housing Finance Agency, "Enterprise Duty to Serve Underserved Markets."

Our Mission

The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans, through bold, progressive ideas, as well as strong leadership and concerted action. Our aim is not just to change the conversation, but to change the country.

Our Values

As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

Our Approach

We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

