Affordability Locked In

Burlington, Vermont, home to Champlain Housing Trust. Credit: Jared and Corin (redjar on Flickr).

by Pat Conaty and Michael Lewis

Community land trusts – good news for households, communities, & taxpayers

With wages barely keeping up with inflation for the last 30 years, an increasingly large number of households face a common dilemma: they cannot afford to live in the communities in which they work. Teachers, nurses, and policemen face long commutes daily because the price of a door knob on Salt Spring Island, B.C. (or London, England for that matter) is well beyond their means. Affordable rentals are likewise in short supply. Shelter costs rise inexorably. Are there any alternative courses of action that realistically can stem the tide?

Three things push the cost of housing steadily upward: construction costs, mortgage interest, and the cost of land. Reducing construction costs is not that easy, barring the availability of some sweat equity to invest.

With respect to interest costs there are clear alternatives. Since the drop in mortgage rates ten years ago this has not been such a big problem. However, the 30-year average in mortgage rates is about 8%. Fee-based lending involves no interest charges. For example, the JAK Co-operative Bank in Sweden charges a blend of fees, so that the costs of a loan over 40 years would be comparable to about a 2.5% interest rate. That would make a big difference to what you would pay for a house in Canada. Assuming you put 10% down on a $361,000 house (the average price of a house in 2011), the difference between 8% and 2.5% would reduce your interest costs by a whopping $328,000. Going from compound interest to fee-based mortgages is a huge culture shift, for consumers and for financial institutions. But it offers enormous benefits to the economics of households. Credit unions seem the obvious institution to take up the challenge and take the lead in adapting this innovation to Canada. (See "Sweden's JAK Bank," *Making Waves,* Vol. 20, No. 3, pp. 51-57.)

Land is the last of the Big Three in terms of cost. How much of a difference would it make to long-term affordability if we had a way to remove the spiralling cost of land from the equation? Might we preserve affordability in a gentrifying neighbourhood, and regain control from absentee land owners? Could we enable average wage earners to live where they work? Would we help preserve over the long term government investments in affordable housing, rather than allowing both public subsidies and capital gains to accrue to whoever sells the house? These are tough questions.

Résumé : Abordabilité verrouillée

Le prix des logements a tellement monté dans plusieurs endroits que même les professionnels ne peuvent se permettre de vivre dans la communauté dans laquelle ils travaillent. Toutefois, alors que la crise s'accentue, la capacité et le souhait des gouvernements d'intervenir diminue.

Une grosse partie du problème est le coût des terrains. Le coût de bâtir une maison ne peut être réduit, à moins de pouvoir la construire soi-même. Le coût d'une hypothèque ne peut pas être réduit, à moins qu'il y ait des prêts à commission. Mais il y a quelque chose que nous pouvons faire pour limiter le coût des terrains – même pour l'enlever du prix d'une maison à tout jamais.

Un Community Land Trust (CLT) est une société sans but lucratif qui conserve les titres d'un ensemble de terrains donnés ou acquis, tout en permettant à des personnes ou des organisations d'acheter, de conserver, d'améliorer et de vendre des édifices sur ces terrains. La vente est sujette à une formule de revente qui garde les édifices abordables pour les ménages à l'intérieur d'une tranche de revenus donnée. Lorsqu'une maison est vendue, son prix est surtout déterminé par la condition de la maison et par le revenu médian du secteur, et non par la valeur marchande du terrain occupé par la maison. Si le gouvernement utilise une subvention (p. ex. un prêt d'accès à la propriété) pour rendre la maison abordable dans un marché de l'immobilier « chaud », des subventions plus élevées ne sont pas requises pour garder la même maison abordable cinq ou dix ans plus tard.

C'est une raison pour laquelle il y a maintenant plus de 250 CLT aux États-Unis. Les CLT favorisent les investissements gouvernementaux dans les logements abordables en s'assurant que les contribuables n'ont pas à augmenter les subventions de logement pour garder le pas avec le marché de l'immobilier.

BALTA Research: Community Land Trust Models for Affordable Housing in B.C.

This 2-part research project examined alternative land tenure and property models in a variety of jurisdictions. It assessed the applicability of these models in the social economy of British Columbia and recommended strategies for making that application a reality.

Phase 1, "Alternative Land Tenure and the Social Economy" by Karen Heisler, involved a literature review and an investigation of the range and scale of four models of shared-equity land tenure in use in the U.S.A, the United Kingdom, and Canada: Conservation Land Trusts, Community Land Trusts, Cooperative Land Banks, and Community/Municipal Land Banks. The legal, financial, operational, geographic, regulatory, and social features and dynamics of each model were examined, as well as the organizational structures employed and the ethos of its users. Finally, a judgment was made as to the transferability of each model to B.C. and Alberta.

Phase 1 concluded that land trusts could be important in B.C. and Alberta for developing community and regional responses to affordable housing and food security. Both provinces have a good record of applying land trusts to environmental conservation. However, to date little interest has been displayed in applying the model to affordable housing or agriculture. Nor has there been much enthusiasm for broadening the mandate of conservation-oriented land trusts to encompass social purposes.

Phase 2 of the research is currently underway. It concerns the expansion of land trusts in B.C. in particular. Attention is being devoted to the organizational details and operations of housing-related land trusts now active in the province, and the opportunities, barriers, and possible strategies for developing and scaling up land trusts for affordable housing. ■

The Community Land Trust (CLT) movement in the United States has been providing answers to them for over four decades. For the first 20 years, it stayed small. After 1990, having proven what can be achieved, CLTs have grown in size and number.[1] CLTs have several unique features.

- Nonprofit, tax-exempt corporations: It is the mission of CLTs to preserve affordability, promote sound maintenance, and prevent foreclosures on buildings located on the CLT's land. CLTs are very flexible. They can provide housing for rent or for purchase. They can be used for such "place-shaping" facilities as workspace, gardens, renewable energy, and amenities. They can acquire land through purchase, tax abatements, and public or private donation.
- Dual ownership and dynamic property rights: CLTs separate the ownership of the land from the ownership of the buildings on it. The land is retained forever in trust by the CLT for the surrounding community; that effectively and permanently removes the land from the market. By contrast, buildings on the CLT's land are sold to and owned by families, co-operative housing corporations, small businesses, or nonprofit organizations.
- Leased land and housing affordability: The trust's land is never sold to the inhabitants; it is leased. Each CLT develops a resale formula to keep the housing affordable over the long term. The aim is to differentiate the land which the CLT retains for community use in perpetuity from the stipulated equity share an owner-occupant can receive on the sale of the housing units. The CLT exercises this power through a pre-emptive right to buy when housing units are resold. Each CLT maintains a waiting list for housing and those leaving a CLT have a contractual obligation to sell back their housing to the CLT at a price set by the resale formula in the lease.
- Open and place-based membership: CLTs operate within a specific geographical area. In the U.S.A. it may be a rural town or rural county, an urban district, or an entire city.
- Tripartite governance: The board of a CLT is composed of three types of stakeholder. Normally a third of board members are elected representatives of the CLT's lessees. Another third are elected by residents of the wider community who are neither leaseholders nor tenants of CLT property. The final third are appointed to represent the local public interest, and may include public sector officials, non-profit service providers, and local funders.

The CLT concept is foreign to the usual way we think about private home ownership in North America. We think about getting a down payment, qualifying for a mortgage, buying a house and the land under it, settling down, and at some point selling again for a significantly higher price than what we originally paid. We own it and we plan to benefit from it – all of it, land included. Some of us have learned to anticipate the advantages that might derive from public investments in infrastructure, transport, and amenities in the vicinity of our abode. If we have the money and the smarts to locate in an area for which such public investments are slated we can expect to benefit from a bubble in the value of the land. We can flip it and make a wad of cash, what can rightly be termed "unearned equity."

But this way of doing things is leaving more and more of our fellow citizens behind. As the crisis of affordability grows, the capacity of governments to deal with it seems to diminish. Larger and larger taxpayer-funded subsidies are required to keep units of social housing affordable to poor and moderate income people.

CLTs are a strategy that removes land from the housing market without disconnecting residents from their interest in owning, maintaining, and improving buildings. Here is how one of the most advanced CLTs in North America has achieved this.

The Champlain Housing Trust

Vermont is a rural, mountainous state with very few large employers and the lowest wages in New England. Many residents commute 2-3 hours to work each day. The gap between average incomes and housing costs in Vermont is one of the highest in the United States: 47% of renters and 38% of homeowners pay more than 30% of their gross income on housing.[2]

Burlington is a small university town in the state and the home base of the Champlain Housing Trust (CHT) the largest CLT in the U.S.A. and the first to expand its landholdings through partnership with a municipality. The trust's origins lie in the mid-1980s, after the first Reagan administration ended federal government programs to fund affordable housing. An expanding downtown and rising enrollment at Burlington's three colleges pushed housing prices through the roof. The attempts of Burlington Mayor Bernie Sanders and his Progressive Coalition to achieve rent control failed. They turned to the Institute for Community Economics which had been developing and promoting the CLT concept since the early 1970s. Sanders and the Coalition established a Community and Economic Development Office at City Hall and in 1984 drew up a strategy to create two nonprofit organizations, the Burlington Community Land Trust and Lake Champlain Housing Development Corporation. The Land Trust was started with a $200,000 grant fro the city and later, a $1 million line of credit from the city employees' pension fund. Over time, the geographic territory, services, and funding sources grew to overlap and the two organizations merged to form the Champlain Housing Trust in 2006.[3]

At present, CHT has in its portfolio over 2,000 units of permanently affordable housing inside Burlington city limits and scattered across three adjacent counties. Approximately 60% of the units are resale-restricted, owner-occupied houses and condominiums; the other 40% are rental apartments. Since 2001 the organization's staff has grown from four to over 70.[4] CHT offers several components that in combination can serve to improve the quality and affordability of housing dramatically.

Two **Homeownership Centres**, one in Burlington and one in the rural town of St. Albans, integrate homebuyer education with debt and budgeting advice and home maintenance courses for first-time homebuyers. Over 300 people a year learn how to meet the criteria of conventional mortgage lenders and steer clear of predatory lenders and mortgage brokers. The advisory service helps households bring consumer credit and other debt problems under control.

Financing packages offer down payment grants funded by local, state, and federal government sources in addition to mortgages at interest rates almost 2% lower than the average. CHT has worked with local banks to develop financing packages with payment structures affordable to low-income households.

CHT mobilizes its **membership** to contribute to a pool of funds that is used to cover operating costs. Currently, there are 4,000 members in a region with a population of 100,000. Members include local businesses as well as individual citizens. Some join with a payment of $50 or less (the "carpenter" rate); others make a larger investment (the "community developer" rate is $250-$500 and the "visionary" rate is $1,000 and over). Many members regularly donate to further the Trust's work. These grassroots funds are used to leverage additional capital grants from the Vermont Housing and Conservation Board, the City of Burlington Housing Department, and the federal government. Support from the City and the State has been crucial in expanding the Trust's operations since 1999.

To complement its housing work, the CLT has developed a day centre for the elderly, a nursery facility, social enterprise and nonprofit offices, a shop front for the local credit union, an office for the community legal advice centre, and a multi-unit business incubator.

A Double Bottom Line: Taxpayer Savings – Household Benefits

American CLTs use a variety of methods to purchase real estate at less cost. The process involves considerable time and effort, but CLTs have been able steadily to acquire land for affordable housing and/or to acquire existing housing and make it more affordable over time. The combination of private donations and public subsidies enables CLTs to leverage and maintain subsidies at a cost to the public purse that is far lower than conventional approaches to the subsidization of low-income housing.

Let's look first at the CHT Homeland Grant program. It enables low-income households to buy properties on the open market. A grant of $22,000 (raised mainly from federal, state, and municipal sources), a low interest-rate mortgage, and a resale stipulation accomplishes two things. First, the quality of the housing affordable to low-income households increases significantly in the here and now. Second, the same housing remains affordable to low-income households in perpetuity. Table 1 shows how the program works for a family of four with an annual income of US$39,350, compared to similar household with a conventional mortgage.

Table 1: The CHT Homeland Grant Program

	Conventional Mortgage	CHT Option
Household Income	$39,350	$39,350
Mortgage Entitlement monthly @ 30% less CLT ground rent for lease	$714	$709
Mortgage Interest Rate	6.15%	4.25%
Maximum Mortgage	$117,197	$144,123
BCLT Homeland Grant	0	$22,000
Maximum House Price which the household can afford	$117,197	$166,123

Their monthly mortgage entitlements are similar. However the household that qualifies for the CHT option benefits both from a grant of $22,000 and the lower interest rate of 4.25%. This combination of grant and low-interest mortgage enables the household to afford a property that is $48,926 (42%) more expensive for virtually the same monthly payment.

This analysis shows how the CLT can stretch the impact of a public subsidy. Another study has revealed how this model can achieve dramatic savings for taxpayers. The costs of a CLT-funded unit of housing were compared with those of a traditional government subsidy program. Table 2 (see next page) shows how conventional and CLT subsidy performances compare when the same property is resold five times over 30 years.

In the example, a $50,000 public subsidy, when protected by the land trust and the CLT resale formula, preserves a CLT home's affordability over 30 years even if the home is resold every seven years to a new family. In contrast, under the conventional affordable housing subsidy program, the public subsidy is repaid each time the home resells and the seller is allowed to claim all the capital gains. As a result, a greater public subsidy is required after every sale just to keep the housing affordable. With an annual house price inflation rate of 6%, raising the house's sale price to $375,000 for the second low income owner, the government would have to invest 60% more, for a total of $80,000, to keep the house affordable. The public subsidy just keeps going up after every sale: $132,000 in Year 14, $216,000 in Year 21, and $342,000 in Year 28.

Table 2: Subsidy Performance over time – Conventional Homebuyer Loan v. CLT[5]

Initial Sale	Homebuyer Loan[*]	CLT Model[*]
Initial market value	$250,000[**]	$250,000[**]
Grant (public subsidy)	$50,000	$50,000
Initial sale price	$250,000	$200,000
Resale in Year 7		
Sale price	$375,000[***]	$245,000[***]
Repay first mortgage	($174,051)	($174,051)
Repay public subsidy	($50,000)	0
Sales cost (6%)	($22,500)	($14,700)
Proceeds from sale	**$128,449**	**$56,249**
Affordable price to next buyer	$245,000	$245,000
Recaptured subsidy	$50,000	0
Additional subsidy required	**$80,000**	**0**
Total subsidy for next buyer	$130,000	0
Resale in Year 14		
Sale price	$565,000	$303,000
Additional subsidy required	**$132,000**	**0**
Resale in Year 21		
Sale price	$850,000	$372,000
Additional subsidy required	**$216,000**	**0**
Resale in Year 28		
Sale price	$1,278,000	$458,000
Additional subsidy required	**$342,000**	**0**
Total subsidy invested over 30 years for 5 families	**$820,000**	**$50,000**

[*] The Homebuyer Loan is repaid without interest upon resale of the house. It enables the buyer to afford the home, but does not reduce the actual price of the home. The CLT subsidy stipulates that the resale price may not exceed the initial 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 an area where the family in the target income range can afford $200,000.
[***] Assumes 6% annual inflation in home price, 3% annual income inflation, and stable interest rates.

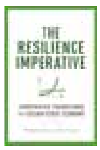
It does not take a rocket scientist to figure out which system is more beneficial and efficient. The CLT model costs taxpayers $50,000. To achieve the same affordability objective, the conventional subsidy approach costs the taxpayer $820,000. The results demonstrate how important it is to take the land permanently out of the market and to impose permanent controls over the resale price of the housing in order to assure long-term affordability. It also shows what CLTs alone can accomplish, namely, the capture of any public subsidy or land gift within the land trust balance sheet, thus preserving for perpetual community benefit a public or social investment in land.

The affordable housing crisis in the U.S. has accelerated the development of CLTs. They are increasing in number whenever and wherever real estate markets are very hot.[6] (See sidebar, "Irvine Community Land Trust," next page.) Through the Homeownership Initiative, the Vermont Housing and Conservation Board has supported the development of five more CLTs throughout the state, each operating in an area with a population of about 100,000. Across the U.S. there are now over 250 CLTs. Interest from local government, especially in the wake of the credit crunch, is growing. Linking land, affordability, and a trust model of tenure is a revolution in the making. i4

References

[1] There are now approximately 250 community land trusts in the USA, and fledgling movements in England, Australia, and Belgium.
[2] Maura Collins, "Between a Rock and a Hard Place: Housing and Wages in Vermont" (Vermont Housing Finance Agency, April 2011), accessed 25 October 2011 <http://www.vhfa.org/documents/housing-wages-2011.pdf>.
[3] Diane Diacon, Richard Clarke, and Silvia Guimarães, *Redefining the Commons – Locking in Value through Community Land Trusts* (Coalville, Leicestershire: Building and Social Housing Foundation, 2005).
[4] "Staff," *Champlain Housing Trust*, accessed 25 October 2011 <http://www.champlainhousingtrust.org>.
[5] John Emmeus Davis and Rick Jacobus, *The City-CLT Partnership: Municipal Support for Community Land Trusts* (Cambridge, Mass.: Lincoln Institute of Land Policy, June 2008), pp. 8-9, accessed 25 October 2011 <http://www.ihtmv.org/PDF/City-CLTPolicyReport.pdf>.
[6] CLTs have also demonstrated their effectiveness in preventing foreclosures in cold real estate markets. See Rebecca Baran-Rees, *et al*, "Community Land Trusts: an analysis of CLTs in three housing markets" (Cornell University, May 2011), p. 15 ff., accessed 9 November 2011 <http://government.cce.cornell.edu/doc/pdf/BaranRees_CLT.pdf>.

PAT CONATY is a research fellow at the New Economics Foundation, London, England, and a collaborator in the BC-Alberta Social Economy Research Alliance (BALTA). Contact him at pat.commonfutures@phonecoop.coop. MICHAEL LEWIS is editor of *i4*, Executive Director of the Canadian Centre for Community Renewal (CCCR), a founding member of the Canadian CED Network (CCEDNet), and lead investigator for BALTA. Contact him at ccelewis@xplornet.com.



This text is an excerpt from *The Resilience Imperative: Co-operative Transitions to a Steady-State Economy*, by Michael Lewis and Pat Conaty (forthcoming, New Society Books, 2012). It explains how we can power down our economies to a more local and sustainable level and thereby meet the challenges of climate change and rising energy prices. *Click here to pre-order!*

B.C.-Alberta Social Economy Research Alliance

"Affordability Locked In" is part of the i4 special series "Housing We Can Afford," concerning the role of the social economy in resolving the growing shortage of affordable housing. The series is sponsored by the BC-Alberta Social Economy Research Alliance.

i4 is an ejournal about Inspiring, Innovating, Inciting, and Inventing ways of life and work that permit humanity and the planet to thrive in this century of unprecedented challenges. i4 is a publication of the Canadian Centre for Community Renewal.

Irvine Community Land Trust

In 1975, the City of Irvine, California launched a pioneering "inclusionary-housing" program. Of all newly-built housing, 15% had to be affordable to low- or moderate-income households for up to 30 years. Developers could pay a fee in-lieu of providing the housing. By this means Irvine had produced 3,155 units of affordable housing by 2005. Unfortunately, by that time 1,000 of those units already were selling at market-rate prices, and more would soon follow. Whereas the median housing price in town was about US$800,000, the area median income (AMI) of households was about $60,000.

At the same time, the city found itself in possession of a property windfall. Six years before, a 4,700-acre military base adjacent to the city had closed. The city had elected to turn it into a giant urban park and surround it with a mixed-income, mixed-use community.

With both a problem and an opportunity in its lap, city council convened a housing task force. It proposed the development of 9,700 new affordable-housing units in the city by 2025. Properties could be houses, apartments or condominiums, for sale or rent. Under the terms of a ground lease, they would remain under the stewardship of a municipally-sponsored community land trust that was to ensure that they remained permanently affordable.

Irvine Community Land Trust (ICLT) was incorporated in March 2006. It was not to act as a developer. That would be the job of private and nonprofit corporations. ICLT would help gather and leverage resources, while finding and screening buyers for the homeownership units and monitoring those units over time. To support the Trust, the City projected $143 million in redevelopment funds set aside from the park project and another $125 million in in-lieu fees.

Sales work this way. ICLT applicants must pre-qualify with a prime mortgage lender and have 5% of the total purchase price available at time of purchase. Most units are limited to households earning less than 120% of the AMI; many are limited to those earning less than 80%. People who have been living and working in Orange County for a year prior to application get priority.

Applicants must also agree to the resale formula:

- Initial Purchase Price
- + Increase in price based on the change in AMI (about 2.6% lately)
- + the Value of approved capital improvements
- = Maximum Resale Price

When a homeowner wishes to sell, the ICLT has the right to purchase the home at the resale formula price (or the appraised market value if this is lower). If the Trust does not exercise this option, the homeowner still must sell the home to a qualified buyer for no more than the resale formula price.

One of ICLT's biggest partners is the nonprofit developer Jamboree Housing Corporation, which aims to supply over half of those 9,700 units. Jamboree has just completed Doria Apartment Homes (see photo, below), a joint venture to which ICLT contributed $1.6 million. Doria's first 60 units were made available to households earning 30-60% AMI. Ten units were reserved for recipients of mental health services. It was fully rented within 30 days of opening, and has a long waiting list. ■

Photography: Juan Tallo. Courtesy of Jamboree Housing Corporation, URL: http://www.jamboreehousing.com

As the crisis of affordability grows, the capacity of governments to deal with it seems to diminish. CLTs are a strategy that removes land from the housing market without disconnecting residents from their interest in owning, maintaining, and improving buildings.