

Establishing a
Community Land Trust
in Corvallis, Oregon

Exploratory meeting: May 20, 2013



Meeting sponsored by the



working together to create a sustainable community

What are community land trusts?

Background

Community land trusts have been in existence for approximately thirty years, but have become particularly popular in the last ten, with over 200 communities currently utilizing this model. They were developed as a creative and community-oriented way to address affordable housing issues and social inequities, and operate with four purposes in mind: to 1) provide access to homeownership for low-income families; 2) preserve long-term affordable housing in the community; 3) increase community control of local resources; and 4) empower families by allowing them to participate in the governance of their community.

How it works

A nonprofit development corporation forms, and, in cooperation with both public and private actors, acquires and develops land and homes in the community. The homes are then sold to low-income families, usually defined as those at or below 80% of the area median income. The purchase is subsidized through a mixture of public and private funding, allowing families to purchase well below the market rate. The land, however, remains with the trust, and is leased to the family long-term. Buyers are given the same permanence and rights as traditional homeowners, with one exception—buyers agree that, if they sell the home, they will sell it to another low-income family and limit their profit, in order to pass along the benefit of the original subsidy to the next generation of homeowners. This rule, known as a restricted resale clause, along with the trust's ownership of the land, ensures that the property remains affordable long-term. The seller receives their equity back, plus a modest return on their investment, while the next family is also able to purchase below market rate, making the benefit of the initial purchase subsidies a long-

lasting investment. This model, known more broadly as shared equity homeownership, thus allows both a moderate accumulation of assets for low-income individuals as well as sustainable affordability, balancing both community and individual needs and creating long-term, sustainable affordability.

Community land trusts also support their homeowners through every step of the process, helping them navigate the mortgage process, avoid predatory lending, and stay in their home long-term. This is accomplished through pre-purchase education, post-purchase support, loan counseling, and early delinquency interventions. While half of regular low-income homeowners leave homeownership, voluntarily or involuntarily, within 5 years, 90% of CLT homeowners are able to make it past the critical 5 year mark, thanks to this support.

Governance

CLTs are entirely locally operated. The organizing nonprofit is membership-based, with all residents owning shares of the corporation. The governing board consists of one-third CLT residents, one-third local (non-CLT) citizens, and one-third local leaders, such as public officials, funders, or housing or social service providers; this model allows residents an active role in the governance of the association—a rarity in the realm of affordable housing.

Support

Community land trusts gain financial, administrative, and legal support from cities, nonprofit partners, federal and private grants, individual citizens, and a variety of other sources.

At a glance

Ten Key Features of the Classic Community Land Trust

1. **Nonprofit, tax-exempt corporation.** A community land trust is an independent, nonprofit corporation that is chartered in the state where it is located. Most CLTs are started from scratch, but some are grafted onto existing nonprofit corporations. Most CLTs target their activities and resources toward charitable goals such as providing housing for low-income people and redeveloping blighted neighborhoods, and are therefore eligible for 501(c)(3) designation.
2. **Dual ownership.** The CLT acquires multiple parcels of land throughout a targeted geographic area with the intention of retaining ownership permanently. The parcels do not need to be contiguous. Any buildings already located or later constructed on the land are sold to individual homeowners, condo owners, cooperative housing corporations, nonprofit developers of rental housing, or other nonprofit, governmental, or for-profit entities.
3. **Leased land.** CLTs provide for the exclusive use of their land by the owners of any buildings located thereon. Parcels of land are conveyed to individual homeowners (or the owners of other types of residential or commercial structures) through long-term ground leases.
4. **Perpetual affordability.** By design and by intent, the CLT is committed to preserving the affordability of housing and other structures on its land. The CLT retains an option to repurchase any structures located upon its land if their owners choose to sell. The resale price is set by a formula in the ground lease providing current owners a fair return on their investments and future buyers fair access to housing at an affordable price.
5. **Perpetual responsibility.** As the owner of the underlying land and of an option to repurchase any buildings located on that land, the CLT has an abiding interest in what happens to these structures and to the people who occupy them. The ground lease requires owner-occupancy and responsible use of the premises. If buildings become hazardous, the CLT has the right to force repairs. If property owners default on their mortgages, the CLT has the right to cure the default, forestalling foreclosure.
6. **Open, place-based membership.** The CLT operates within the boundaries of a targeted area. It is guided by, and accountable to, the people who call this locale their home. Any adult who resides on the CLT's land or within the area the CLT deems as its "community" can become a voting member. The community may comprise a single neighborhood, multiple neighborhoods, or even an entire town, city, or county.
7. **Community control.** Voting members who either live on the CLT's land or reside in the CLT's targeted area nominate and elect two-thirds of a CLT's board of directors.
8. **Tripartite governance.** The board of directors of the classic CLT has three parts, each with an equal number of seats. One-third represents the interests of people who lease land from the CLT; one-third represents the interests of residents of the surrounding community who do not lease CLT land; and one-third is made up of public officials, local funders, nonprofit providers of housing or social services, and other individuals presumed to speak for the public interest.
9. **Expansionist program.** CLTs are committed to an active acquisition and development program that is aimed at expanding their holdings of land and increasing the supply of affordable housing and other structures under their stewardship.
10. **Flexible development.** While land is always the key ingredient, the types of projects that CLTs pursue and the roles they play in developing the projects vary widely. Many CLTs do development with their own staff, while others delegate this responsibility to partners. Some focus on a single type and tenure of housing, while others develop housing of many types and tenures. Other CLTs focus more broadly on comprehensive community development.

Source: Davis (2007)

Why community land trusts?

Sustainability

Through shared equity homeownership, affordable housing is preserved for generations. A one-time purchase subsidy has long-term benefits in this model: through agreeing to limit their profits when it comes time to sell, families share the benefits they have received with future homeownership families, balancing individual and community needs. The community land trust thus demonstrates long-term sustainability. Through their comprehensive education model for buyers, they are also able to protect against foreclosures—in fact, in a recent study, regular open market mortgages were 5.9 times more likely to be in foreclosure than CLT resident mortgages, and while regular mortgages only have a delinquency cure rate of 6.6% (restoring the homeowner to regular payments and avoiding foreclosure), CLTs manage to cure an average of 51% of any of their mortgages that entered delinquency. These types of interventions also contribute to the sustainability of the model.

Equity

There is a long history of discrimination in housing. Minority and low-income families have often suffered from unfair practices, from the exclusion of minority families from the mortgage market in the post-World War II housing boom to the targeted use of subprime loans for low-income families in the years leading up to 2008. Community land trusts, through their commitment to fair lending, loan assistance, affordability, and non-discrimination, are a way to begin to correct for past and present injustices. Homeownership is the chief vehicle of asset creation in the United

States today, and by excluding families through unfair practices, we have continued to grow the wealth gap between rich and poor and between white families and minority families. The current net worth gap between homeowners and renters is approximately \$230,000—while many factors influence this number, the role of homeownership in economic outcomes is undeniable.

AFFORDABILITY, SUSTAINABILITY, OR BOTH?

In a recent study, researchers found that the local income increases needed for residents to continue to be able to afford CLT homes were at less than 1.1% per year, while the rate of return for CLT homeowners ranged anywhere from 6.5% to 60%—a balance of sustainability for communities and asset creation for individuals.

What is also undeniable is the fact that, to enter homeownership, you need assets. Thus, exclusion from homeownership and its opportunities creates a vicious cycle—while homeownership is one of the best ways to build family assets, it also requires

assets to enter into the market. This returns us to the long-term history of discrimination: acknowledging the role that parents' and grandparents' wealth plays in current wealth. Past generations' experiences shape present realities, and our history of exclusion and discrimination have held long-term consequences. Where wealth, not income, is the biggest barrier to homeownership (many renters could afford a mortgage easily without the significant upfront investment), we have to address both the experiences of past generations, as well as today's realities. We have an opportunity to break that vicious cycle today by allowing these families a chance to access the economic and social benefits homeownership provides.

Social benefits

Beyond building assets, why homeownership? Homeownership is not a cure for all social ills, as we



Why community land trusts, *continued*

have sometimes treated it in our federal policies. However, it does have documented positive social benefits for families, stemming from the sense of permanence and stability it provides.

Homeowners are more likely to volunteer in local organizations, vote, know the names of their elected representatives, help solve community problems, and have their children graduate high school, among other benefits. The knowledge that they will be in this community long-term spurs investment in the local community—the kind of social investment that moves a community from good to great. CLT homeownership is a way to share more broadly the benefits that many of us take for granted.

Empowerment

Every resident is made a shareholder in the nonprofit corporation upon purchasing a home, and 1/3 of board positions are reserved for CLT residents. This unique power structure, rare among affordable housing models, returns a sense of agency and responsibility to individual citizens. It highlights an important distinction between policy being done “to” an individual versus policy done *with* that individual—a true partnership upholding the dignity and voice of every individual.

Economic health

CLTs are committed to the health of their communities, and are often involved in creating community facilities, preserving open space, and promoting local business. They

are also able to take on some of the administrative burdens of developing and administering affordable housing solutions, acting in partnership with the city. Through the documented success of their education model, they are also able to prevent the high economic and social costs of mass foreclosures that we have seen firsthand in the last five years—thousands of dollars in direct costs to neighborhoods and cities, as well as increased social disorder, heightened crime rates, declining property values, and the loss of local business. They are also able to help the housing market readjust more quickly to current realities by filling vacant homes

with ready buyers, thanks to partnerships with cities, developers, and other local organizations.

A HISTORY OF DISCRIMINATION

Yesterday: after World War II, the mortgage industry underwent a significant transformation, resulting in longer repayment terms and lower down payments that allowed many young families to enter homeownership for the first time. However, the criteria for these loans valued segregation and essentially prohibited minority families from accessing new loans by labeling their neighborhoods “high risk.” As new money and development flowed into segregated white suburbs, minority families were either effectively prohibited from entering homeownership, or, for those who were already homeowners, barred from profiting from the rising property values in other neighborhoods.

Today: pre-2008, low-income families were disproportionately targeted to receive unsustainable subprime loans, which ultimately held a one in five chance of foreclosure, while Latino and African-American borrowers of good credit were approximately five times more likely to receive an unstable high-cost loan than their white counterparts.



A local example Portland's *Proud Ground*

History

Portland has had a fully functional community land trust since 1998. Sabin Community Development Corporation successfully sold ten homes in their first year. In 1999, the city followed their lead and established Proud Ground, the largest community land trust in the Northwest. Since 1999, Proud Ground has sold homes to more than 160 individuals and families. In 2011, 57% of purchasers were minority families; the vast majority of all purchases are by first-time homebuyers.

Governance

Proud Ground utilizes the standard tripartite governance model—one-third of governing board positions are reserved for CLT residents and one-third are reserved for neighboring citizens who are not CLT residents, empowering the community to come together and govern its own resources. This model is unique among affordable housing measures, where low-income families are often at the mercy of the decisions of others, with no agency in their own lives.

Requirements

Potential buyers must not have been a homeowner in the last three years, and household income must be at or below 80% of the area median. For a family of 4, this translates to approximately \$55,000 per year. Buyers must have good credit, with current debt repayments not exceeding more than 10% of monthly income. Steady employment is also necessary, and a family should either have an income of at least \$24,000 per year or at least \$20,000 in savings. They are also encouraged to have at least \$2,000-3,000 in the bank for future home repairs and other homeownership-related necessities, as well as emergencies.

Costs

The average cost of a Proud Ground home is \$130,000—approximately \$60,000-100,000 less than market rate. Down payments are usually \$500-\$1,000. Buyers work with a short list of approved lenders to create a workable fixed-rate mortgage and circumvent any predatory lending practices. Homeowners, thanks to Proud Ground's partnership with the city, pay approximately 15-30% less in property taxes than would a regular homeowner, taking the reduced sale price into account.

Homeowner rights

Proud Ground homeowners can still leave their home to their children or partner—the resale agreement is then assumed by their heir, in the case of an eventual sale. Homeowners can sell their home to any income-qualified family—they agree to limit appreciation, however, to keep it affordable. The home and land can be improved—remodeling and landscaping are perfectly acceptable. When it comes time to sell, the homeowner receives back not just the equity gained from their mortgage payments, but also from any value-adding improvements they've undertaken during their time there. Most homeowners are able to go on to purchase homes on the open market after owning a Proud Ground home.

Building a CLT from the Ground Up: A Startup Checklist

Key Decisions Before Incorporation

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

Essential Tasks Before Incorporation

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

Formative Tasks After Incorporation

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

Recommended reading

National Community Land Trust Network. (<http://www.cltnetwork.org/>).

Davis, John Emmeus, and Rick Jacobus. 2008. “The City-CLT Partnership: Municipal Support for Community Land Trusts.” A report prepared for the Lincoln Institute of Land Policy (https://www.lincolninst.edu/pubs/dl/1395_712_City-CLT-Policy-Report.pdf).*

Temkin, Kenneth, Brett Theodos, and David Price. 2010. “Balancing Affordability and Opportunity: An Evaluation of Affordable Homeownership Programs with Long-term Affordability Controls.” A report prepared for the Urban Institute (<http://www.urban.org/uploadedpdf/412244-balancing-affordability.pdf>).

Thaden, Emily. 2010. “Outperforming the Market: Making Sense of the Low Rates of Delinquencies and Foreclosures in Community Land Trusts.” Lincoln Institute of Land Policy; working paper (https://www.lincolninst.edu/pubs/dl/1857_1164_Thaden%20Final.pdf).

For additional resources, as well as a complete bibliography of the sources that contributed to this handout, please contact Shannon Campbell at shannon.campbell87@gmail.com.

* The tables “Ten Key Features of the Classic Community Land Trust” and “Building a CLT from the Ground Up” were both drawn from Davis and Jacobus’ 2008 publication.

