Taking Back the Land:

The Economic and Equitable Case for Community Land Trusts

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Introduction

On what grounds is government intervention justified? This is one of the key questions of economic policy analysis. There are multiple reasons for intervention, but deciding when to do so and how such efforts should be constructed is a difficult task. In this paper, we explore the viability of the community land trust model as a response to the politics of homeownership and the affordable housing market. We consider the status of the housing market first, as well as redistributive ethics, followed by a discussion on the positive and negative externalities of the model and of homeownership. We show the community land trust model to be an efficient and ethical way to address affordable housing and homeownership, and encourage municipal governments to consider subsidizing local models in their own jurisdictions. Such intervention in the market is justified by the current market failure of the housing market and by the need to address past inequities and discrimination; this model would also enable the increase of positive externalities related to housing transactions to the community while minimizing negative ones.

Because of the relative recentness of the community land trust's popularity, much of our research is derived from interest groups and similar sources with vested interests in promoting the success of the model. However, we have made an effort to ensure that the literature we review, while being commissioned by such parties, is credible in nature, often coming from academic researchers and similar experts. In researching the economics of homeownership and foreclosure, we were often able to turn to academic resources, though note that some of this was also commissioned by outside sources. The criticisms we discuss are divided between academic and popular sources; in particular, criticisms of the drive to homeownership were often touted in the popular press in the wake of the recession. We have done our best to present a measured approach while remaining true to the available literature and its evidences.

The politics of homeownership

Increasing homeownership in the United States has been a lofty goal for some time. The ability to own one's own home is often viewed as a mark of economic and personal stability, and has been pursued by policymakers as a quintessential part of a healthy economy and the "American dream" for decades. The housing bubble of the early 21st century, however, introduced new debate into this topic. From 1965 to 1995, the homeownership rate had remained fairly steady, despite federal investment in homeownership incentives; in the late 1990s, that rate started to substantially increase via private mortgage market efforts, providing low "teaser" rates and utilizing other methods of masking the true financial costs of undertaking homeownership (Jacobus and Abramowitz 2010). These created unsustainable growth through poor underwriting standards and an increase in high-risk borrowing, and the economic crisis of 2008 to the present revealed the unsustainability of this shaky foundation. As jobs were lost, foreclosures skyrocketed, and housing values plummeted, many realized the overreach of past policies. Apgar and Duda described it as a “race to the bottom” (Apgar and Duda 2005:4), where the overextension of credit led to harmful market effects and the transfer of costs to others beyond the lenders at fault, with disproportionate effects for the most vulnerable neighborhoods and populations. At the same time this was occurring, affordable housing was (and still is) incredibly hard to come by, whether renting or owning; in 2006, 40% of low-income households with a full-time worker were spending over 50% of their income on housing, reflecting a severe lack of affordable housing (Thaden 2010). Most affordable housing measures focus on rental properties, such as public housing or Section 8 vouchers; however, a model has emerged in the last few decades to combine affordability goals with homeownership: the community land trust.

About Community Land Trusts

Community Land Trusts, or CLTs, have been in existence in the United States for approximately 30 years, but their popularity has greatly increased in the last decade, with over 200 trusts in 42 states. The model was created as a creative and communal way to address affordable housing issues and inequities in neighborhoods, particularly in terms of overcoming personal wealth barriers. While some CLTs do provide affordable housing via rentals and co-ops, this paper will focus primarily on their homeownership initiatives—their main focus. Community land trusts seek to provide access to homeownership to those who would otherwise be incapable, increase community-based control of neighborhood resources, empower residents through civic involvement, and permanently preserve affordable housing for future generations. Homeownership is intended for those with incomes at less than 80% of the median income, and purchases are subsidized through a mixture of public and private funding. A nonprofit trust owns the land, and leases it to families who purchase the homes on that land for a 99-year period. The structure provides the same permanence as a conventional purchase and provides most of the same rights as traditional homeownership, with the exception of a resale clause. Restricted resale ensures that the housing remains affordable in perpetuity; the owner commits to sell the home back to the trust or to another approved low-income purchaser. At that time, the seller receives all equity back, plus a modest return. The owner agrees to pass on the same benefits they received, making the benefit of the initial purchase subsidies a long-lasting investment that can be transferred to future homeowners. 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 community needs with resident needs.

CLTs are developed as nonprofit corporations and are entirely locally operated. The organizing nonprofit is membership-based, with residents owning shares of the corporation. The governing board is volunteer-based, and usually consists of one-third CLT residents, one-third local (non-CLT) low-income 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 general realm of affordable housing governance. The CLT model is unique in its approach—giving its intended beneficiaries a voice in governance, partnering with both public and private actors, and seeking sustainability as well as dispensing real-time benefits. We will now consider how its unique characteristics, its goals, and its outcomes relate to our formerly-stated areas of exploration: market failures, redistribution, and the generation of positive and negative externalities.

Justifying interventions

Market failures

The bursting of the housing bubble and the subsequent recession of 2008 to the present uncovered significant problems with our housing market and federal homeownership policies, and the resultant effects on our housing market constitute market failure—the failure of the open market to achieve efficiency via the maximization of producer and consumer surplus. In the wake of the crash, we have seen a surplus of available homes, with a decrease and flattening of demand caused by job loss, bad credit, and other financial issues—essentially, budget constraints ensuring that homeownership is not a part of any consumption options for many consumers, particularly those at the lower end of the income range. Demand was artificially inflated previous to the recession via a plethora of federal homeownership incentives and dubious lending practices, which masked the true costs of purchase; supply and prices increased in response to this demand. After the crash, we were left with a large supply of houses far exceeding demand. While other markets can adjust more quickly, houses are permanent structures, here to stay—and supply will remain high until demand can increase once again. This mismatch of supply and demand drastically reduced consumer and producer surplus. Measures that can increase those surpluses once again would be deemed more efficient than the current status—for example, measures that enabled increases in demand to utilize more of the available supply. CLTs provide just such an option, increasing demand via subsidizing low-risk, affordable homeownership in a safe, sustainable way and introducing new actors into the purchasing market that would not be there otherwise.

Not only do CLTs have the potential to ameliorate current market failures, but also to avert future failures; the model is capable of preventing the same types of loans, delinquencies, and foreclosures that led to this crisis, as demonstrated by a study conducted by Emily Thaden for the Lincoln Institute of Land Policy. Comparing the results of 42 CLT communities with Mortgage Bankers Association statistics, MBA prime loans were discovered to be 4.3 times more likely to be seriously delinquent than CLT mortgages, and 5.9 times more likely to be in foreclosure. Where prime loans only had a delinquency cure rate of 6.6% (and subprime loans at 5.3%, CLTs helped cure 51% of mortgages that ever entered serious delinquency—an astonishing improvement over the market rate. Success rates were attributed to the trusts' provision of pre-purchase education, post-purchase support, high-risk loan prevention, and early delinquency detection and intervention—things not typically offered to your average family in the open market. Foreclosures have significant economic impacts on both borrower and lender, as well as the market. Immergluck and Smith estimate that the average cost of a single foreclosure to a lender is $58,792, with18 months of resolution time (Immergluck and Smith 2006a). At the same time, beyond emotional impact, foreclosures also result in loss of equity and bad credit for buyers (affecting future renting opportunities, potential jobs, and other credit-based endeavors). The incredibly high number of foreclosures in the U.S. (in March 2009, 2.8 million homes received foreclosure filings (Thaden 2010)) has had far-reaching effects. The resultant surplus of homes, hesitancy of lenders, and inability of consumers to afford their preferences represents a removal from equilibrium. CLTs', via their subsidies, benefit both consumers and producers by allowing demand to approach available supply, increasing surplus for both groups.

Equity

There is a serious wealth gap in America. The literature on economic and social inequality is quite extensive, and certainly deserves further consideration; within the constraints of this paper, we will attempt to give a brief overview of how these gaps relate to the goals of community land trusts. There is a long history of discrimination in the housing market and housing policies that is still disproportionately affecting minority and low-income households today. According to the Center for American Progress, the post-World War II homeownership boom disproportionately benefited white families at the expense of minorities. FHA and VA loans were subject to racially-discriminatory underwriting, and also discriminated against low-income families. At a time when federal housing policy was the most effective in increasing homeownership, it was also the most discriminatory, and that history is still affecting families today. Where that history collides with the type of predatory lending practices we saw a few years ago, an even greater gap emerges. Not only do low-income and minority families take longer to enter homeownership, but those who did succeed in purchasing homes were far more likely than their white and/or middle class counterparts to hold subprime loans in the run-up to the housing crisis, which held a one in five chance of delinquency. Approximately half of low-income homeowners will exit homeownership, voluntarily or involuntarily, within five years (Thaden 2010). (In contrast, over 90% of CLT low-income homeowners remain homeowners after five years of tenure (Temkin, Theodos, and Price 2010).) A recent study showed that, among borrowers with FICO scores of 720 or higher in the years immediately leading up to the recession, 13.5% of Latino borrowers and 12.8% of African-American borrowers received the type of high-cost loans most likely to end in foreclosure, whereas only 2.6% of white borrowers did (Aguilar and Vissa 2010). Foreclosures tended to cluster in low-income and/or minority neighborhoods, subsequently concentrating their negative externalities among the most vulnerable (Apgar and Duda 2005). These and other similar statistics help point out that the free market is not truly free. The irony of homeownership is that, while it is one of the chief vehicles available to the "common man" for building assets, it also requires assets to enter it. The Center for American Progress identified wealth (not income) as the single biggest barrier to most potential homeowners; an estimated 26% of renters could afford a monthly mortgage payment if given the chance, and are constrained only by lack of a significant down payment (Jacobus and Abromowitz 2010). In 2007, the net wealth gap between homeowners and renters was nearly $230,000 on average. While there are multiple factors that aid in explaining this difference, it remains that a significant gap exists between homeowners and renters, and that homeownership, once achieved, can be a vehicle for asset creation. This discussion resonates with the tenets of social construction theory: the privileged are privileged further, whereas the disadvantaged are disadvantaged further. This is a vicious cycle that must be broken. Community land trusts can help even out the wealth gap and give minorities and low-income families a renewed chance to access safe, affordable homeownership, and the significant asset creation opportunities that come along with it, along with a variety of social benefits.

Externalities

In examining any economic plan, we must not only account for private costs and benefits for the parties concerned, but also the social costs and benefits. In this section of the paper, we will explore what positive and negative externalities are generated by the community land trust model, both directly and indirectly. We will examine the benefits of CLTs in communities, the effects of homeownership, and the consequences of foreclosure—a common outcome of low-income homeownership in the open market. Before beginning, we acknowledge, along with several of the authors cited, that judging causal externalities is not a perfect science—for example, the touted benefits of homeownership can arise from other correlated variables that differ between homeowners and renters (i.e., income level or length of tenure in neighborhoods). However, while we encourage judiciousness in considering the following evidence, we also note that the majority of these authors both acknowledged these limitations and either sought to introduce appropriate controls or establish appropriate causal links between multiple correlated variables.

Positive externalities

Community land trusts not only provide affordable housing; they also seek to promote many communal benefits. Many trusts develop community facilities, preserve communal open space, and promote economic opportunities in the neighborhood in conjunction with other community groups, such as encouraging the development of local small businesses. Projects are undertaken with community support and cooperation, and the development of social capital by these trusts is of immense value to their communities. Additionally, the governing opportunities presented by its tripartite board and membership-based structure reflect significant empowerment opportunity for both communities and residents.

Homeownership itself has many positive benefits extending into the community at large, including greater neighborhood stabilization, better civic participation, and better educational outcomes for dependent children. Since a major goal of community land trusts is providing equitable homeownership opportunities, a discussion of homeownership's positive externalities is vital. DiPasquale and Glaeser (1998) found that the length of tenure in a neighborhood often conferred by homeownership gave incentives for individuals to improve their community, investing more in social capital and local amenities. The incentive lay in how community quality translated into either home values (for potential sellers) or to quality of life (for those planning on remaining in the neighborhood). Homeowners were 10% more likely to know their U.S. representative's name, 15% more likely to vote in local elections, and 6% more likely to assist in solving local problems, controlling for basic demographic factors. Coulson and Li (2011) describe the additional benefits of better neighborhood maintenance; improved child welfare, with higher high school graduation rates and test scores; and higher civic participation, with more local organization and community involvement, electoral knowledge, and voting participation. The authors estimated that these benefits translated into a marginal benefit of $1,000 for the community, per conversion of renter into homeowner.

Negative externalities

Community land trusts also have ameliorating effects for certain negative externalities, and as foreclosures disproportionately affect the communities CLTs seek to serve, a discussion of their negative effects in particular is appropriate at this point. A significant benefit of community land trusts, as described previously, is the education and effort that goes into preventing foreclosures and creating sustainable homeownership opportunities. When homeownership fails and foreclosure occurs, there are significant negative impacts for not only borrower and lender, but also for local neighborhoods and municipalities. Declining local property values, increasing crime rates, social and physical disorder, and lost tax revenue are but a few of the negative externalities generated by foreclosures.

Immergluck and Smith, in their 2006 Chicago study, estimated that every conventional foreclosure resulted in a decline of 0.9% in neighboring homes' values. The 3,750 foreclosures in Chicago in 1997-1998 thus resulted in an estimated property value loss of $598 million, or $159,000 per foreclosure, with potential to range up to $371,000 each. While other correlated variables, such as lower neighborhood incomes and higher crime rates, also affected property values, the foreclosure effect still remained after controlling for these. In another Immergluck and Smith study (2006b), foreclosures were also found to have significant effects on neighborhood violent crime, where a 1% increase in foreclosures resulted in violent crime increases of 2.33%. Consistent with broken-windows theory, physical disorder is a large part of this effect: the vacancies and abandonment created by mass foreclosures create an arena for crime to increase—an arena not always seen in higher-income neighborhoods, where properties tend to be resold more quickly; thus another way in which negative externalities are concentrated with the poor.

There are also significant municipal costs associated with foreclosures. The process not only involves more than a dozen agencies, but can also exceed $30,000 per property (Apgar and Duda 2005). The most obvious costs are lost tax and utility revenues—not only affecting a city's bottom line, but also its available resources to deal with the other social and economic costs foreclosures represent. Increased police usage, court cases, demolition, cleanup, and other related costs all take a toll; city fees are not enough to recapture losses. Foreclosures also contribute, as mentioned earlier, to social disorder and represent damage to the quality of life of neighborhood citizens via increased crime, declining property values, and decreasing sales for local business.. These effects have disproportionate effects on minority and low-income neighborhoods, further increasing wealth gaps and continuing the cycle of advantage and disadvantage. CLTs' ability to prevent foreclosures and spare citizens, neighborhoods, and cities these social and economic costs are yet another reason to consider their implementation.

Critiques

We now turn to some of its critiques. In a controversial piece for *TIME*, Barbara Kiviat (2010) put forward a number of arguments dismantling homeownership as a goal. For years, she argues, we all believed in the benefits of homeownership—civic participation, better neighborhoods, children doing well in school—and the government spent more billions per year on subsidies and tax breaks to help families achieve that dream. However, the crash prompted serious reconsideration of these national ambitions. She argues that the drive for homeownership had many negative effects, including segregating neighborhoods, gutting cities, encouraging too much income be put into housing, making it difficult to find new jobs, and, ultimately, deceiving ourselves into thinking it was the sole answer to solving all our problems, without having to explore the real issues underlying community stability, education, and other areas "benefited" by homeownership. These are substantial claims, and ones we will use to frame the arguments against CLTs before offering our own counter-critique.

Similar to Kiviat's contentions about gutting cities and segregating neighborhoods, Deborah Kenn (1995), writing years earlier for Boston University, found one of the chief problems of nonprofit housing endeavors to be a continuance of racial and economic segregation. "By infusing scarce government housing dollars into central cities and revitalizing neighborhoods which are predominantly low-income, the not-for-profit housing development sector condemns families with low incomes to life in the ghetto, albeit a rehabilitated ghetto" (Kenn 1995:70). Our segregation today results from the intentionally discriminatory housing policies of the past, including homeownership policies that encouraged "white flight" from the cities to the suburbs and the destruction of certain neighborhoods, concentrating poverty in specific areas. Her concern is that creating a new homeownership model for low-income individuals will create "second class" housing and further such concentrations, enabling perpetual segregation under the guise of homeownership; additionally, the limitation of resale profits place a restriction on low-income families not present for middle- or upper-income families. Temkin, Theodos, and Price (2010), writing for the Urban Institute, also expressed this concern, seeing the tension between long-term affordability and providing any returns to owners in the interim. Finally, James Carr (1998) argues that pursuing housing as a “right” can, in a perverse way, ignore the structural causes of poverty, allowing policymakers to overlook the real issues underlying families’ situations by offering a broad panacea. Rather, policymakers should look to eradicate the forces creating poverty and enable low-income families to access private-market housing on their own terms, rather than seeking separate solutions.

Mobility, or lack thereof, is also of special concern in a recession economy when jobs are scarce and/or concentrated in specific areas or fields. In 2010, 11 million homeowners were “underwater” on their mortgages, effectively preventing any relocation (Kiviat 2010). The high transaction costs of buying and selling also serve as a deterrent. James Surowiecki (2008) noted in the *New Yorker* that while homeownership encourages local commitment—a social good—it does economic harm to both businesses and laborers where people are unable to pursue new opportunities. Finally, personal economics must also be considered. Li and Yang (2010), in a report for the Federal Reserve Bank of Philadelphia, argue that two major arguments for homeownership—savings (wealth accumulation) and investment—are no longer valid. For many, homes became a form of forced illiquid savings; however, the prevalence of high borrowing, low down payments, and home equity loans has undermined this purpose. Meanwhile, volatility in local housing markets undermine investment gains. The idea of taking out such a large loan for investment purposes works in a favorable market, but where markets fluctuate, it fails. This also relates to mobility—owners are dependent upon upswings in the market to make significant life choices, or face selling at a loss—something most are unwilling, or unable, to do.

Counter-critiques

Having discussed these concerns, we now offer our response. First, we discuss the idea of creating a second-rate housing market and perpetuating segregation. One of the main impetuses of Kenn’s argument is that the housing crisis involves everyone—and thus, solutions also need to involve everyone. As we have discussed, CLTs are highly community-based, and their governance structures give real power and voice to their residents, as well as to low-income neighbors and local organizations. Kenn (who, it should be noted, does acknowledge some of the successes of CLTs) does see potential in the model to overcome the aforementioned problems, as long as they maintain their locally-based structures and offer democratic control. Addressing her concerns, one of the primary purposes of CLTs is not only to provide affordable housing, but to combat racial and income-based inequities and restore community control. The empowerment of residents, via membership in the nonprofit and seats on the governing board, helps ensure some level of autonomy and restorative justice. We certainly recognize these concerns; however, because of the central tenets of empowerment and local community development and the proven track record of enabling citizens to store up real equity (and even eventually move elsewhere, if they so choose), we believe the model is still viable and can overcome these issues. Additionally, as CLTs spring up in all sorts of environs—urban, rural, and suburban areas alike—they do not necessarily represent the “ghettoization” these authors fear. In fact, they may represent opportunities for individuals to disperse and integrate with new communities. Carr’s concern regarding the potential for ignoring the structural side of inequities is of concern; however, land trusts developed out of the idea that the land belongs to everyone, and that inequities in past housing practices created today’s wealth and ownership gaps—their existence is an acknowledgment of these issues, and an attempt to rectify these injustices.

What of wealth accumulation? If the goal of CLTs were wealth “creation,” per se, this may be of more concern. However, their goals are better characterized as reducing wealth inequities and restoring justice. They also represent a community investment in long-term affordability for everyone—benefits not just for one, but for all generations of homeowners. However, to address the criticism directly, while the limitation of profits may reduce accumulation to some degree, the other protections of the CLT model ultimately increases new homeowners’ ability to keep their home in the long term, making up for any investment shortfall. Their rate of return is also far greater than if they had continued to rent for those years, where all equity would be lost and no rate of return given—and even without monetary return, social benefits remain. The Urban Institute, in studying the relationship between affordability and returns, found that required real income increases for continued affordability were at less than 1.1% per year, while rates of return ranged anywhere from 6.5% to 60%—favorable outcomes for both goals (Temkin, Theodos, and Price 2010). This also addresses savings and investment concerns—the promise of CLTs to deliver a modest return and build equity make these a good investment for both initial *and* future buyers. Building equity brings us back to mobility. CLTs do not prevent families from relocating for all the same reasons other homeowners do—in fact, we theorize that it would be far easier for them, with less risk of financial loss and a guaranteed buyer. The ability to purchase homes at below-market prices reduces the risk of negative equity, and receiving the benefits of homeownership with less risk of such loss is one of the chief factors making CLTs a sustainable option for low-income families (Temkin, Theodos, and Price 2010).

Having considered these arguments, we still find homeownership for low-income and minority families a worthy goal to pursue, and CLTs—with their protections, citizen empowerment, and community perspective—one of the best vehicles to do so. As Vissa and Aguilar point out, it is not homeownership that let us down in the crash, but predatory lending and greed. However, we do concur that homeownership as an overarching goal cannot be endorsed in the same way the government has done for so many decades. It is not the penultimate American experience, panacea for all social ills, that we have believed it to be. What homeownership does offer are many substantial positive social and economic benefits that are worthy of pursuit, as well as potential to reduce inequities. The CLT model is not one of growth or greed, but one that seeks to provide these social and economic benefits directly to new homeowners, rather than reserving the majority of the benefits for mortgage lenders or bank boards. (In 2001, it was estimated that only half of the benefits of federally-backed mortgages actually reached borrowers as benefits; the rest were accrued by lending shareholders and banks as sheer profit (Kiviat 2010).)

Recommendations

In describing the state of the market, current inequities, and the externalities of homeownership and foreclosures, we have sought to make an argument for the community land trust as a quality investment for cities nationwide. To conclude our discussion, we will draw upon the best practices and recommendations offered by the current literature to assess what can be done.

According to a report by the Center for American Progress, the $8,000 first-time homebuyer tax credit cost nearly $15 billion in 2009 alone; however, the National Association of Realtors estimated that 85% of the 1.9 million who claimed the credit would have purchased their home regardless. Such policies are unsustainable in such large numbers. We need smaller, more targeted investments, which community land trusts can provide. A one-time purchase subsidy of $10,000 could increase current renters qualifying for homeownership by 12%, affecting nearly 5 million lower-income families; turning our focus toward the ownership *gap*, rather than the ownership rate, is a far more sustainable option (Jacobus and Abromowitz 2010). A significant difference exists between policies that promote increasing homeownership rates (which ultimately led to unethical, unsustainable approaches) and those that promote the more sustainable goal of closing inequity gaps. Assistance should ensure that benefits apply to buyers, not just sellers, address wealth barriers, and preserve affordability. Good stewardship practices—such as purchasing education and support, high-risk loan prevention, and delinquency intervention—also have a significant impact on creating sustainable homeownership, and should be strongly encouraged (Thaden 2009, Apgar and Duda 2005). Thaden, in noting that two-thirds of these trusts receive no federal funding for these activities, theorizes that these effects could become even greater with public investment. She also points out the plethora of vacant homes in our communities as an opportunity for expansion—if CLTs could obtain additional funding and support to acquire and convert these properties, they could contribute to even greater neighborhood stabilization (reducing the negative externalities of abandoned homes), as well as grow the number of homes available. The Lincoln Institute also offers a variety of valid suggestions for how cities can support their local CLTs. Trusts address two major needs for cities: the long-term preservation of city investments (via the shared equity model), and the long-term stewardship of housing; an administrative role for which most municipalities are unprepared. In return, cities can offer planning, administrative, and financial support; donate land; aid in acquiring housing from private developers; revise tax practices for resale-restricted homes; and assist in navigating regulations, fees, and zoning, among other activities. While it is hard for cities to give up control after large public investments, the health of this model is dependent upon community participation and citizen empowerment, and entrusting CLTs with administration and governance will ensure long-term acceptance, empowerment, and sustainability.

"These programs structure public funding as investments rather than a grant to first-time homebuyers, making it possible for many more families to benefit from the same level of public investment" (Jacobus and Abromowitz 3). The evidence presented of the effects of foreclosures on neighborhood quality and municipal budgets, the civic benefits of homeownership to local communities, and the communal benefits of the land trusts themselves all make a strong case for municipal and federal investment in this model. With the additional social benefits of creating a more equitable wealth distribution, enabling housing stability for families, and promoting positive social benefits and personal empowerment for vulnerable citizens, we pronounce the community land trust an ideal policy model for inclusion in the future of affordable housing, and we encourage cities nationwide to participate in their expansion.

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