



The Housing Fund

Community Land Trust Model - Feasibility and Business Planning

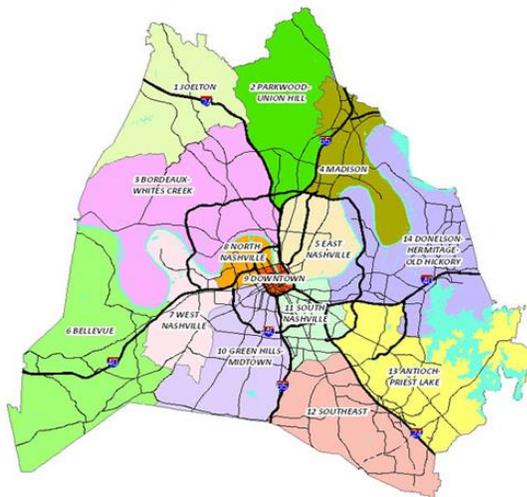
Nashville, TN

January 2018

Overview of the Nashville Community Land Trust Model

As referenced in *NashvilleNext*, Nashville’s housing market has been relatively stable largely because supply has kept up with changing demand. As Nashville evolved from compact and walkable neighborhoods supported by street car systems to more auto-centric large lot development patterns (suburban sprawl), private and nonprofit/government developers built housing to meet that demand. More recently however, supply is struggling to keep up with demand as preferences for housing type and location have shifted away from large lot development and congested transportation networks, back to smaller lot development in neighborhoods with quick and convenient access to jobs, services, and transit.

Since 1997, urban areas saw increases in land value—matching national and local demand trends for communities that tend to be more walkable, providing access to transit, employment, and other community amenities. From 1997 to 2001, increases in land value were concentrated to the southeast, reflecting the conversion of greenfield or vacant land to (primarily) one- and two-family subdivisions. From 2009 to 2013, increases in land value were focused in and near downtown Nashville, reflecting increasing demand for existing urban neighborhoods due to their location and access to jobs, services, and transit.



By 2040, Nashville will need a total of 352,600 housing units. This would require building an additional 113,000 new homes, or about 3,800 housing units per year. This new stock of homes should meet current and future demand by adding diversity to Nashville’s housing supply, unlike in past years where the majority of new homes were single family. From 2005 to 2010, an average of 3,553 homes were built in Davidson County. Most of these were permits for single family homes. One-quarter were multifamily building permits for five or more units.

In December, the City of Nashville added the Community Land Trust (CLT) model to its toolkit to support community affordability. While municipal support comes in a variety of forms, the Mayor’s Office believes a community land trust “is just that type of innovative initiative that will preserve and protect land for affordable housing, while helping to build and maintain safe and affordable housing units.” A CLT is formed to hold title to land, while preserving, preventing and protecting long-term affordability for housing and other community assets. A land trust typically receives public or private donations of land or uses government subsidies to purchase land on which housing can be built and local business owners can afford to sustain operations. Therefore, housing is more attainable to low- and moderate-income families, because the CLT retains ownership of the land and provide long-term ground leases to homebuyers and business owners.

The CLT is a strategy designed as a coordinated, cross-sector response that rapidly results in a large portion of the existing market-rate housing in the core residential areas being “converted to or replaced by income-restricted housing.” The advantage of the CLT concept is permanency, which unlike most housing assistance programs that use public dollars and charitable donations to bring homeownership or rental housing within reach of lower-income families, the CLT does not allow the affordability of the properties located the land trust community to lapse after 5 years, 15 years, or 30 years; it does not allow these communities of inclusion to erode.

The length of the lease (most frequently, 99 years) and the percentage earned by the homeowner vary. Ultimately, by separating the ownership of land and housing, this innovative approach prevents market factors from causing prices to rise significantly, and hence guarantees that housing will remain affordable for future generations. Today, there are nearly 250 community land trusts across the United States.

The community land trust can play a critical role in building community wealth for several key reasons:

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

The bulwark against displacement that is put in place by a CLT is designed to last, preventing the future loss of affordably priced homes and preserving social and economic diversity, even in neighborhoods beset by a rising tide of gentrification.

Sometimes a CLT comes into being as a start-from-scratch nonprofit corporation with a membership and a board drawn mostly from the empowered community the new organization was established to serve. Other CLTs are implemented as a newly created program of a local government, an existing nonprofit, or a consortium of nonprofits, acting on behalf of one or more place-based communities.

Among the nation’s 280 CLTs, there are numerous variations in the manner in which they are organized and structured, but they are similar in what they do:

- Acquire multiple parcels of land that are scattered throughout a designated service area, some of which are vacant at the time of acquisition and some of which have residential or commercial buildings already affixed to the land;

- Hold onto the land forever, removing it permanently from the speculative market;
- Develop (or partner in developing) a portfolio of affordably priced homes, either through the rehabilitation of existing housing or the construction of new housing;
- Sell off any residential (or commercial) buildings on their land, conveying title to individual homeowners, neighborhood businesses, or nonprofit or for-profit partners;
- Execute a long-term ground lease with the owners of any buildings on their land, a two-party contract that protects the right of the buildings' owners to occupy the land, while allowing the CLT to regulate uses, improvements, financing, and resale of the buildings; and
- Serve as the watchful steward for affordably priced homes (and other buildings) long after they are developed, ensuring they stay affordable, they are kept in good repair, and their occupants get the support they need to “stay put” in good economic times and bad.

Assessing Capacity for the Community Land Trust Portfolio

In order to assess the capacity needed to operate a CLT program, the following questions must to be addressed:

1. How many units of permanently affordable housing should be added each year in order to assemble a portfolio large enough to make a difference in mitigating displacement, while making steady progress toward the day when this portfolio might cover most of the costs of stewardship out of its own revenues?
2. What mix of housing by tenure and type should a program include in its portfolio?
3. What strategies should be employed in building this portfolio?
4. How much equity would a CLT program need over a five-year period to assemble this portfolio of permanently affordable housing?
5. How much staffing would a CLT program need in order to perform its essential functions – and what sort of operating subsidies would be required to cover the cost of performing these essential functions?

The longer the delay in launching a CLT program, the more it will cost to acquire land, to provide affordably priced housing, and to serve a population whose household incomes are roughly half the average those for Nashville as a whole.

With sufficient *project subsidies* and *operating subsidies*, a CLT could be readied for launch in 2018 with the goal of assembling a diverse portfolio of 150 units of permanently affordable housing by the end of 2022. A smaller geographic area gives the CLT an opportunity to be more intentional about its approach if resources are limited. Additionally, when concentrated within a specific area and composed entirely of scattered-site, single-family houses, and duplexes, this “model” portfolio would provide a flexible balance of tenures and types of housing. Half of the portfolio would be sold as resale-restricted owner-occupied housing, priced to be affordable to existing households in the specific area earning between 60% and 80% of Area Median Income (AMI); and half would be operated as rent-restricted tenant-occupied housing, serving existing households earning between 60% and 80% of the AMI.

Recommended Strategies for Assembling a Portfolio

A CLT concentrating exclusively on a specific area would need to be flexible, varied, and opportunistic. As identified in other cities, five different strategies should be pursued if a portfolio of 150 units of permanently affordable housing is to be assembled by the end of 2022.

Strategy #1: Donated and/or acquisition of undeveloped land. The program receives and/or acquires land for development. The program initiates and supervises the development of residential or commercial structures on the land. These improvements are owned by the CLT until the end of the construction period. They are then sold off to individual homeowners, commercial investors, or to a nonprofit or for-profit corporation.

Strategy #2: Acquisition, rehabilitation, and resale. The program should acquire existing single-family houses and rehabilitate as needed, bringing all of them up to code while adding improvements for energy efficiency. After severing title to the land and buildings, ownership of the rehabilitated houses would be sold to a lower-income household able to qualify for a mortgage from a private lender, subject to provisions embedded in the ground lease to protect the affordability, quality, and security of these homes.

Strategy #3: Acquisition, demolition, and replacement at higher density. The program should acquire existing single-family houses that are deemed, after inspection, to be too dilapidated and costly to rehabilitate. After acquiring the property, the building would be demolished and replaced by housing constructed on the same site. Depending on the size of the site, replacement housing would add a maximum of two units for every one demolished. Replacement housing would either be sold under the dual-ownership arrangement or sold with a deed covenant under a condominium regime.

Strategy #4: Provision of scattered-site rental and lease-to-purchase housing. The program should offer for rent (or rent-to-purchase) a large percentage of the houses and duplexes that are brought into its portfolio. This recommendation recognizes the three-fold reality that a high percentage of the current residents are renters, many of these households have incomes that are too low to meet standard mortgage requirements for purchasing a home, and the immigration status of many households would make them ineligible for a conventional mortgage.

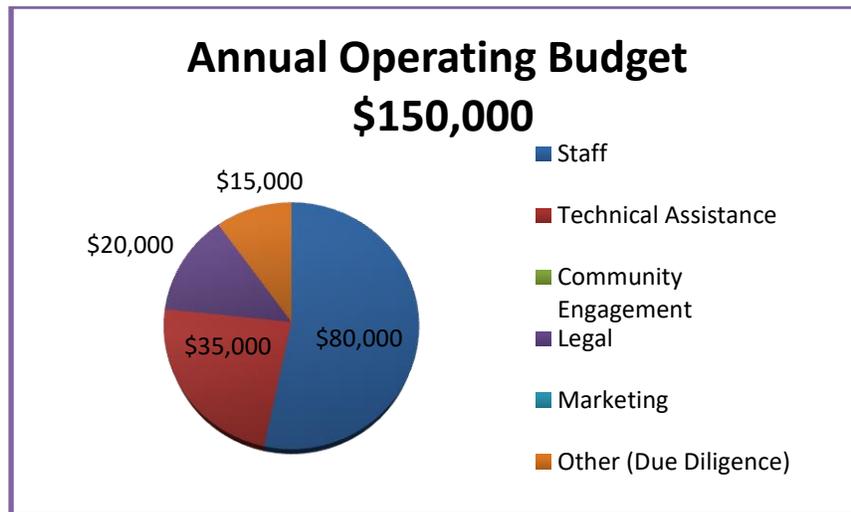
Strategy #5: Stewardship of resale-restricted, owner-occupied housing in multi-unit projects built by other developers. The CLT would be prepared to take advantage of opportunities to provide stewardship services for public agencies, for-profit developers, and nonprofit developers. Offered on a fee-for-service basis, the CLT would permanently protect the affordability, quality, and security of resale-restricted homes either financed with public subsidies or mandated by a city's inclusionary housing ordinance.

Five-Year Programmatic Support

The CLT would require project subsidies for the acquisition of land and the development of housing, as well as, operating subsidies to ensure adequate staffing of the program during its first five years, 2018-2022.

Research indicates that a low-end estimate of the cumulative total of *project subsidies* needed to subsidize a portfolio of 150 units, combining homeownership and rentals in a scattered-site, low-density portfolio of single-family houses, and duplexes would be **\$13.5 million**. If no fee-for-service stewardship units were added to the portfolio, however, forcing the CLT to subsidize and develop those units itself, an additional \$2 million in equity would be required.

Additionally, a low-end estimate of the cumulative *operating subsidies* needed by the CLT with a staff and adequate support services, to keep pace with the portfolio's growth would be **\$150,000 annually**.

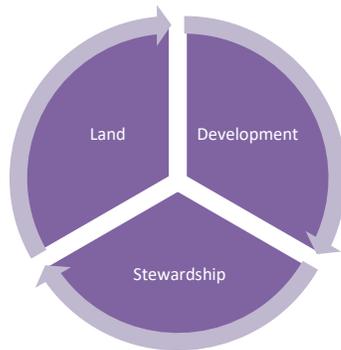


However, the major assumption underlying this estimate is that the CLT would be able to secure outside resources for the land trust communities. Should this assumption prove unrealistic at a time when investment and donor support is down, homeownership vouchers are already in scarce supply, and federal cutbacks are likely, the CLT would need additional operating support to serve low-income households.

If half of the units in the CLT's portfolio are unable to receive project-based or tenant-based fee-income, for example, the amount required to subsidize the program's operations during the first five years would soar to \$350,000.

Climate Influences for Launching the CLT

Many believe the CLT would be best served by taking advantage of an organizational infrastructure that already exists to perform the essential functions of a CLT:



Land – City-owned land and properties; private donations.

Development – For-profit and non-profit developers.

Stewardship – Overseeing production; pricing units; marketing; buyer education; business education; documenting buyer eligibility; executing legal documents, monitoring compliance, managing resales; enforcing restrictions.

While The Housing Fund (THF) has relevant experience and expertise with the shared-equity homeownership model, the nonprofit developers have expressed an interest in supporting a CLT model when adequate funding is available to subsidize the program's projects and operations.

Many decisions remain to be made, including whether the leadership of these organizations would choose to participate in a collaborative manner; whether these organizations (or others) would have the backing of leaders and residents for operating a CLT program within their community; and how the essential functions of the CLT would be coordinated among multiple nonprofit developers.

THF will designate a board member to serve as chair of an advisory committee comprised of representatives from the community, local government and the nonprofit organizations. A partnership agreement will be established with city government specifying the working relationship between the entities, planning for the future disposition of land and buildings held by THF, and describing any professional services each entity might perform for the other.

