



Frequent Asked Questions about Community Land Trusts

prepared by the Institute for Community Economics

The Community Land Trust Model:
Questions and Answers by the Institute for Community Economics

Are you:

- Threatened with displacement because you don't own your own home?
- A local public official looking for ways to address land and housing problems?
- Considering whether to join a local community land trust?
- A community land trust member with a few questions?
- A community land trust organizer who must field questions?
- Curious about the community land trust approach?

If you answered "yes" to any of these questions, this guide was written with you in mind. Included here is a sampling of common questions about community land trusts (CLTs) followed by brief answers. For more information or to request speakers or technical assistance, contact

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FIVE BASIC QUESTIONS

1. What is a community land trust?

A community land trust is a private non-profit corporation created to acquire and hold land for the benefit of a community and provide secure affordable access to land and housing for community residents. In particular, CLTs attempt to meet the needs of residents least served by the prevailing market. CLTs prohibit speculation and absentee ownership of land and housing, promote ecologically sound land-use practices, and preserve the long-term affordability of housing.

2. What makes a CLT distinctive?

Several things - here are five:

+ **Commitment to Local Control.** CLTs are initiated to provide greater local control over land and housing ownership. The CLT is a membership organization with members drawn from the land-trust leaseholders and the wider community. CLT members elect a governing board that includes leaseholders, nonresident members and others who represent the broader community interest.

+ **Dual Ownership.** The way in which the CLT protects the community's long-term interests is by continuing to own land while conveying the long-term use of the land to individuals, cooperatives or other entities. Leaseholders own their homes and other improvements. Terms of the arrangement between a CLT and an owner using the land are defined in a long-term lease. The land trust offers leaseholders security, an opportunity to transfer the lease to their heirs, and full rights of privacy.

+ **Protects Long-term Affordability of Housing.** CLTs protect affordability for future residents by controlling the sale of buildings and other improvements on their land. Specifically, the CLT retains an option to repurchase these improvements -- if residents choose to sell -- at a limited price. The CLT lease agreement includes a formula for calculating this price that offers resident-owners fair compensation for

their investment. (Their share does not include value from market appreciation of the CLT's investment in the land or buildings.) In this way the CLT preserves the community's investment of public and private resources (time, treasures and talent) that go into creating a CLT and making housing affordable.

+ An Ongoing Development Program. CLTs are not generally focused on a single project. CLTs are committed to an active acquisition and development program that attempts to meet diverse community needs.

+ Flexibility. CLTs can accommodate a range of specific programs while providing a focus for community organizing. A CLT can help create and preserve such critical local resources as affordable housing, family farms, neighborhood businesses and social services while establishing land-use controls that protect the long-term interests of the community. Although CLTs generally promote resident ownership and management, a CLT may also develop and preserve needed rental housing.

3. How are CLTs different from conservation land trusts?

They are similar in many ways. Both CLTs and conservation land trusts control land use for the benefit of people in the future as well as the present, but they tend to be concerned with different types and uses of land. Conservation trusts are primarily concerned with controlling rights to undeveloped land in order to preserve open space, ecologically fragile or unique environments, wilderness, or productive forest or agricultural land. CLTs, on the other hand, are primarily concerned with acquiring developed or developable land for specific community uses -- particularly residential use. These concerns are not mutually exclusive, and some land trusts combine these purposes, preserving some land in a natural state while leasing other land for development. All land trusts have an ethic of land stewardship; they try to see that land is not developed or used inappropriately.

4. How does a CLT help residents?

By providing access, affordability, assistance and security. CLTs use various kinds of subsidies to make housing and land use more affordable for people who cannot compete in the market. CLTs keep housing affordable for future generations by controlling the price owners receive when they sell their homes. CLTs might assist residents with home repair, rehabilitation and/or financing. The CLT's lease offers residents and their heirs long-term security.

5. Are CLTs supported by local governments?

Yes. Though some of the first CLTs were started in communities suffering from government neglect, it is now more common for CLTs to work in cooperation with local governments in meeting present and future community needs. Public officials are recognizing that CLTs can play an important role as stewards of community resources -- that property and funds allocated to a CLT can benefit not only present community members but future residents as well. Some CLTs have been established with strong initiative and support from local governments. A number of municipalities have allocated Community Development Block Grant and HOME funds, as well as other available resources, to CLT programs. Some have allocated city owned land. State housing financing agencies are increasingly interested in making financing available for housing on CLT land, and several state legislatures have acted to appropriate special funds to finance acquisitions by land trusts.

CLT MEMBERS & LEASEHOLDERS

6. How do people join a CLT?

Each CLT develops its own membership criteria. Most CLTs require an annual membership fee of a few dollars and expect members to attend at least an orientation session or a general meeting.

7. How are CLT homeowner/leaseholders selected?

Each local CLT develops its selection criteria based on local needs and resources available. When possible, occupants of buildings acquired by a CLT are given the opportunity to stay as homeowner/leaseholders or renters. Applicants for vacant units are normally judged on the basis of need, commitment to the CLT, and ability to make the necessary payments and handle other responsibilities of homeownership.

8. How much control do I give up by not owning the land beneath my house?

Leaseholders -- homeowners, farm owners, or business owners -- retain most of the rights and responsibilities that go with ownership. CLT control is generally limited to areas where the CLT has a long-term interest. For example, it is vital to the CLT to preserve affordability of housing units. Most leases also prohibit absentee ownership of housing because it is generally not in the community interest. Also, CLTs want to protect the condition of the land and buildings which would be left at the end of the lease term.

9. What kind of support does a CLT provide for first-time homeowners?

A CLT does not leave new homeowners to sink or swim on their own. The ability to provide support depends on the resources available to each local CLT. Some CLTs provide homeowner training and assistance. CLTs serving cooperatives have assisted with back-up management services, such as financial management, arbitration, and resident training and selection. Some CLTs have developed home repair loan funds and have made special arrangements for leaseholders who face unexpected financial problems.

FINANCING

10. How does a CLT acquire property?

CLTs buy or receive gifts of property. If properly constituted, a CLT is a nonprofit, tax-exempt organization, which can use a variety of tools to lower the cost of acquiring property. CLTs sometimes receive donated property or donations to buy property, but an active CLT must be able to buy property and pay for the rehabilitation or construction of housing -- and it must be able to borrow money to do so. CLTs have received loans from socially responsible investors -- directly or through intermediaries such as community loan funds and ICE's Revolving Loan Fund -- to finance acquisition and construction. Normally they can arrange long-term financing from other sources.

11. Will banks and other financial institutions make loans for homes on leased land?

Yes. There are dozens of banks, housing finance agencies and other mortgage lenders who lend to CLTs. When first approached, lenders may be concerned that a CLT will inhibit their ability to foreclose in the event of a default and make it difficult to remarket the property in a timely manner. CLTs have been able to negotiate mortgage agreements that address the legitimate concerns of lenders and also protect the CLT's long-term interest in the property by allowing the CLT to step in and cure a default, when necessary, to prevent the property from being sold on the open market.

12. How does a CLT make homeownership affordable?

CLTs have no magic method of creating the initial affordability in housing. The greatest advantage of a CLT is its ability to preserve affordability for future generations. Nonetheless, a CLT can use a variety of tools to make housing affordable. CLTs have arranged financing for people who cannot qualify for home mortgages from conventional sources. Other CLTs have worked to minimize the hurdle of large downpayments for first-time homebuyers by creating a downpayment loan pool.

Residents generally must be able to handle monthly mortgage payments and other costs (including reasonable lease fees for use of the land).

SELLING A HOME AND EQUITY

13. What happens if a leaseholder wants to move away from the CLT?

After giving the CLT adequate notice, a leaseholder may sell the improvements to an eligible buyer, transfer the lease, and move away. Since CLTs commonly retain an option to buy all improvements on CLT land, a leaseholder who wishes to leave may sell his/her house to the CLT. The CLT will, in turn, sell this house and lease the land to a new leaseholder.

14. How is the resale price of a home determined?

Each CLT has a formula that will determine the maximum amount to be paid when a homeowner sells his or her home. The formula may take into account the value of improvements made by the homeowner, and it may allow the price to be adjusted for inflation. Generally, the aim is to give the homeowner a fair return while limiting the price to insure the home will be affordable for the next low-income owner.

15. Why bother with resale formulas? Why doesn't the CLT simply allow leaseholders to sell their houses on the open market for whatever price they can get?

A resale formula keeps housing affordable for future leaseholders. If land is removed from the marketplace, but not the buildings that are on the land, then the speculative value that would have been accrued to the land is merely transferred to buildings on the land. Furthermore, if housing is in short supply, then residential structures become the object of intense speculative activity. The real estate market pushes prices higher, making access to land and housing more difficult for persons of modest means.

Also, in many cases, the owner has benefited from various kinds of public or community subsidies made available with the understanding that the value of these subsidies would remain in the property. By allowing only a fair return on owner investment, the CLT locks subsidies in for the benefit of future residents of the community.

MULTI-FAMILY BUILDINGS

16. How does a CLT deal with multi-family buildings located on CLT land?

In one of four ways: co-op, condominium, single owner-occupant, or rental. Most CLTs try to help all residents of a building organize so they can own the building together as in a cooperative or condominium. Until this can be organized -- or if the residents do not choose ownership -- the CLT itself may own the building and lease the units to occupants. In some cases a CLT may sell a multi-family building to one of the occupants, with an agreement that the other units will then be rented to low-income people on a permanently affordable basis.

17. How are CLTs different from limited-equity cooperatives?

Both types of organization attempt to protect the long-term affordability of housing. However, they deal with the ownership of land in different ways; they control transfer costs differently; and the organizations are controlled by different types of membership. The membership of a housing co-op is generally limited to those who live in the housing. Jointly, the residents own and control their own housing and, often, the land on which it is located. CLT leaseholders also own and control their own homes, but the land belongs to the CLT, which is controlled by a membership not limited to the

leaseholders. CLT membership is open to residents of the larger community who have no personal financial stake in CLT properties. The housing co-op limits equity internally, through its bylaws and through leases for individual units within the co-op.

A limited-equity co-op may itself be a leaseholder on CLT land. A number of CLTs have helped residents of multi-family buildings purchase their building as a cooperative with the CLT owning the land. The CLT can strengthen co-ops by providing a structure for mutual support. Also, the lease agreement prevents co-op members from amending their bylaws to remove limitations on the sale of their co-op shares, and in this way, the CLT provides greater assurance that the co-op's housing will remain affordable for low-income people.

ORGANIZING ISSUES

18. How does a CLT define its "community"? How large a community should a CLT serve?

CLTs usually decide upon a geographic area from which most members will be drawn. This may be a region, a county, or a neighborhood. Three considerations commonly guide organizers of a CLT when they define the CLT's "community": (1) Does something already bind the people of a certain area together -- a common land or housing problem; a shared sense of common boundaries, marking one area as distinct from another in the minds of local residents? (2) Is there a "critical mass" for organizing a CLT -- enough people, available land, and/or housing opportunities to accomplish its goals? (3) On the other hand, is the area small enough to encourage grassroots participation in the CLT's activities? There is no single way to define a "community". Different CLTs will serve communities that differ in size -- a sparsely populated rural county may have only one CLT, a large city may have several.

19. How are CLTs established and by whom?

There is no single "right" way. CLTs have been established in response to different local situations by a variety of groups: neighborhood associations, religious coalitions, community development corporations, local governments, and groups of concerned citizens. Regardless of the kind of group, organizing a CLT involves a concerted effort to familiarize the community with the CLT concept and to develop grassroots support and participation.

20. How do CLTs relate to other housing and community development organizations?

Most CLTs work to support and complement existing efforts in a community. If a CLT is established in a community where other organizations are already engaged in activities such as organizing local residents, building or rehabilitating housing, training new homeowners, organizing community gardens, promoting employment opportunities, and so on, a CLT can support and enhance those efforts in a specialized way. For example, if another non-profit organization is actively developing affordable housing, a CLT can cooperate with it. The non-profit developer perhaps builds or rehabilitates housing on CLT land, while the CLT concentrates on acquiring and holding land, organizing grassroots support, and working with prospective leaseholder/homeowners.

A FEW MORE QUESTIONS

21. Isn't a mixed ownership arrangement of this sort -- with buildings owned by one party and the land by another -- pretty rare?

Not as rare as you may think. The separation of land and buildings and the leasing of land to the owner of the buildings is an old, established and widely-used mechanism. Many substantial commercial buildings are on leased land, perhaps the most famous of these being Rockefeller Center in New York City. There are large areas where people own homes on leased land: Baltimore, Maryland; Davis County,

California; and many other regions. It is now becoming more common for developers to establish residential projects on leased land.

22. Do CLTs pay property taxes?

Yes. Residents pay taxes on their homes if they own them and the CLT pays property taxes on landholdings. CLTs can qualify for exemption from federal and state taxes, but they usually pay local real estate taxes on the land they own. It is politically important for the CLT to pay for its share of services enjoyed by the neighborhood. The cost of these taxes is covered by lease fees paid to the CLT by those using the land. (In some cases CLTs and their residents may request an assessment based on the resale value of the home as determined by the CLT's resale formula rather than the market value of the property.)

23. Does the CLT ever sell its land?

Very rarely. Once the CLT has acquired a parcel of land, its intent is to hold it indefinitely -- never again allowing the land to be bought and sold as a commodity. Most CLTs structure their bylaws to require the consent of all affected leaseholders and a supermajority of the board and membership for the corporation ever to sell any of its land. There have been situations, however, when CLTs have found it prudent to sell a parcel of land -- exchanging land that is not appropriate for the CLT's purposes for land that is, or selling off some land to avoid losing the rest.

24. What happens to the CLT's land and lease arrangements if the CLT is dissolved?

If a CLT is dissolved and ownership of the land is transferred, the new owner is obligated to honor the long-term lease agreements between the CLT and its leaseholders. Should the land ever be offered to a non-charitable buyer, the resident has the right of first refusal to buy the land.

25. What happens if disputes arise between leaseholders, or between a leaseholder and the CLT?

The parties will try to negotiate before litigating. The lease agreement usually establishes an arbitration procedure for settling disputes or grievances. Typically each party may appoint an arbitrator. The first two arbitrators select a third. The three-person arbitration panel then meets to consider the case and to render a judgment. The decisions and awards of this panel are usually binding on all parties.