

Review of Regional Housing Partnership Community Land Trust General Workshop Questions

This is a review of the questions asked most commonly at the three community land trust (CLT) workshops the Regional Housing Partnership (RHP) hosted on February 22, 2023; March 2, 2023; and March 7, 2023. The Marlborough Community Land Trust (MCLT) presented the CLT information as part of its consultation with the RHP under the Regional Business Plan for a Regional Community Land Trust or Similar Model. MCLT selected and paraphrased the following most commonly asked questions. This is not an exhaustive list of all CLT Frequently Asked Questions, but only those presented at CLT RHP workshops. If a question was specific to MCLT operations, those were not included. The workshop slides are attached for further reference. Should additional questions remain unanswered, please feel free to contact Meghan Freeman at meghan@kcclt.org or Becca McQuillen at becca@kcclt.org.

Starting a CLT

Q. How long does it take to start a new CLT?

- A. Several factors impact the amount of time it takes to start a CLT, including: commitment of local government, access to affordable legal services, and knowledge of real estate development. MCLT was born out of about a year of community organizing, purchased its first property about 6 months after incorporation, and sold its first property to a homeowner about one year after incorporation.

Q. What is the role of the City or County in starting or supporting a CLT?

- A. It depends. There are some City-run CLTs. Most CLTs, regardless of affiliation with local government, make use of HUD subsidies distributed to or by the State, County, or City government. Having local jurisdictional policies favorable to CLT work is imperative for the long-term success of a CLT.

Q. Is it possible to have an umbrella CLT that could share costs with local groups putting properties in a CLT?

- A. Yes! There are various City, regional, and State-wide CLTs throughout the Country that operate in this manner. Through the RHP consulting, MCLT is researching how such a structure could work in the Kansas City region.

Q. Can this model work in a community with high land values (for example, few or no properties worth less than \$150K or \$200K)?

- A. Absolutely. In fact, it can be argued this model is needed more in communities with high land values to create more equitable access to many of the resources commonly associated with high land values. The model itself would work the exact same as it works in a community with lower land values. There would likely need to be a larger subsidy to decrease the sale price to an affordable level.

Q. Are there rural CLTs in Missouri and Kansas?

- A. MCLT is not aware of CLTs operating specifically in Missouri and Kansas; however, rural CLTs operate throughout the United States and other countries. Several state-wide and region-wide CLTs include property in rural communities (for example:, Central Vermont CLT, Elevation CLT) while some CLTs are specific to rural communities (for example: OPAL CLT, Northwest Montana CLT)

Funding

Q. Where does your funding come from?

- A. We currently operate with support from foundations and earned income.

Q. Where does the initial subsidy come from?

- A. The initial subsidy needed to bring a property to under market rate can be public HUD funding, volunteer work, in-kind donations, donated property, etc. Anything that can decrease the cost of the house to below market rate can be an “affordability subsidy.”

Q. Can CLTs become self-supporting?

- A. Yes, although not common, CLTs, if they have the appropriate streams of earned income, and a large inventory of properties, can become self-sustaining. One such example is One Roof Housing, CLT in Duluth, MN.

CLT Area

Q. Is the land in the land trust on larger contiguous sections of land or are they scattered-site parcels?

- A. CLT developments can be either scattered sites or contiguous, there is no requirement to be contiguous. Properties come into the CLT via acquisition, and there is not a predetermined CLT area like many are familiar with in a homeowners association. (unless the CLT owns all the land)

Q. How are the income restrictions determined? How is “affordability” determined?

- A. Typically, CLTs determine income qualifications by the HUD guidelines pertaining to that specific jurisdiction. Affordability is typically determined by HUD guidelines.

Ground Lease Questions (non-resale)

Q. Why is the Ground Lease 99 years?

- A. 99-year ground leases are common in various forms of real estate tenure. The length is intended to indicate that the CLT homeowner can use the land as their own for as long as they need it, and for all practical purposes, they can act as the owner. They have every right to use, maintain, allow on, exclude from, and enjoy the land as their own, but they are not the title owner. The length also shows the permanence of the subsidy, regardless of who the owner is.

Q. What kind of insurance does the CLT require homeowners to have?

- A. CLTs and lenders require homeowners to maintain traditional homeowners insurance on CLT homes. The CLT maintains general commercial liability on all of its parcels.

Q. If the home is in an HOA and the dues have not been paid for many years and/ or there is a lien on the home who pays the lien or the unpaid dues?

- A. The Ground Lease prohibits unapproved liens to remain on the property. Any unapproved liens would be a violation of the ground lease. All liens will be paid at the time of sale, similar to how liens for unpaid dues or other debts are paid in a market rate house.

Because of the nature of the Ground Lease, the CLT would be aware of an unpaid HOA payment as soon as it accrues, and hopefully, the CLT can help the owner and the HOA could work to remedy the situation immediately.

Q. How does the land lease and separation of ownership affect financing? How does a lender look at remedies for default?

- A. CLT financing options have grown substantially thanks to banking regulations and legislation that has underwritten CLT sales into Federal Homeowners Administration (FHA) insured mortgages. Despite the legislation, FHA CLT loans are still difficult to close due to some resale formula compatibility with FHA requirements. Typically, CLTs make use of conventional loans, and lenders use the unrealized equity (ie the 20% below market value) as the 20% equity needed. Lenders like CLT loans because they have an extremely low rate of default due to the nature of the Ground Lease formula. If a

homeowner is late on a payment, the CLT is notified immediately and can step in to assist. Lenders have the ability to foreclose as with a non-CLT loan. Some lenders may require updates to the Ground Lease to allow for different remedies or request a specific timeline for proceedings.

Q. Who pays property taxes if the CLT owns the property?

- A. Under the Ground Lease, the CLT assigns the responsibility to pay property taxes to the homeowner as the sole party with access and use of the property. CLT homeowners throughout the country (including Kansas, but not Missouri) benefit from legislation that allows for decreased property tax assessment due to the resale restrictions placed on the CLT house. Some of MCLT's developments are in an urban renewal area to mitigate the property tax burden for homeowners, but these special taxing districts are not required for a CLT development.

Q. How are monthly maintenance fees collected and where are they held?

- A. Monthly maintenance fees of \$25.00 are collected through a monthly automatic payment. Maintenance fees fund an account held exclusively for maintenance and are earmarked for that homeowner. Each owner's maintenance fund may be used by only that homeowner under the terms of the Ground Lease.

Q. Can a homeowner have their monthly maintenance fees returned to them if they are not used?

- A. Yes

Resale Formula Questions

Q: How did MCLT decide on the 25% share of increased equity for the resale formula? Are there other options?

- A. A 25% share of equity is the most common equity share that MCLT has identified in CLTs across the country. There are CLTs that employ other percentage shares, and some that employ different percentage shares for different Ground Leases. For example, there are some that have higher shares for lower income homeowners, with the theory that those homeowners need to build more wealth to reach stability sooner.

Resale formulas need not be based on the market appraisal. There are three main types of resale formulas: market/appraisal-based, fixed rate, and index-based. CLTs can modify these resale formulas to best reflect the needs of the organization, the homeowners, and the community at large. For a brief review of the various types of resale formulas, see below:

RESALE FORMULA EXAMPLES

Goals

- Allow fair access to home ownership; preserve affordability to ensure fair access to homeownership for future homebuyers
- Give present and future homeowners fair return on their investment
- Encourage long-term and beneficial occupancy for community
- Incentivize sound maintenance

APPRAISAL BASED

Adjust resale price by adding to the base price a certain percentage of an increase in market value

Ex: 25% share

Appraised price:

\$100,000

Base Price: \$80,000

(\$20,000 aff. subsidy)

Resale Appraised Price:

\$150,000

$\$50,000 \times .25 = \$12,500$

New sale price=

\$92,500

Share= \$12,500

FIXED RATE

Adjust price upward by applying a fixed rate of interest on the base price from year to year, typically 3% compounded annually

Ex: 3% rate

Base price \$80,000

Year one: \$82,400

Year two: \$84,872

Year three: \$87,418

Year four: \$90,041

Year five: \$92,742

New sale price= \$92,742

Share=\$12,742

INDEXED

Adjust the resale price above or below the purchase price by applying a single factor drawn from an index

Ex: AMI Index

AMI= \$100,000 @

purchase

AMI= \$115,000 @ sale

AMI increased 15% so

price of property

increases 15%

Buy at \$80,000; sell at

\$92,000

Share=\$12,000



Q: Does the CLT reimburse owners for improvements to the property? If so, how is that valued?

- A. Some CLTs elect to reimburse owners for certain pre-approved improvements or repairs. Others do not. Typically, if homeowners are seeking to make an improvement for which they can be reimbursed, they would need board approval. Board approval to be eligible for reimbursement is important because some improvements are for the preference of the homeowner, and may not be necessary or add value to the home (like putting in a pool), and would not be eligible for reimbursement. As with any homeowner, the amount expended on an improvement does not equate with the value of the improvement. Some CLTs allow for homeowners to be reimbursed for the value of their improvement at the time of sale. In these instances, the value (or shared value) of the improvement is reimbursed prior to the application of the resale formula. Issues such as deferred maintenance are treated differently, with more of a focus on shared costs at the time of the expense.

Q. Do homeowners actually build wealth in a CLT?

- A. Wealth-building in a CLT is modest. Homeowners have their principal mortgage payments returned to them at sale and enjoy a share of the appreciated value. They receive more wealth than renting, but do not have all of the wealth-building abilities (or the associated risk) of unrestricted, market-rate ownership.

Q: If a homeowner pays off his mortgage does the resale formula still apply?

A. Yes

Community Impact

Q. Are there any studies showing how CLT homes impact the value of surrounding homes?

A. According to an article in the *Journal of Housing Policy Debate* "...In the postrecession period...the introduction of CLTs in North Minneapolis was associated with a 10.9% increase in nearby sales prices..."¹ The article may be accessed through the link in the footnote below. [This free posting](#) from Rutgers University also discusses the article's findings.

Q. Will these artificially-lowered CLT home prices impact the "comps" (real estate comparables) of surrounding market-rate homes?

A. No. CLTs are leased-land houses and are only "comps" for other leased-land houses. Similar to how a mobile home or a condominium is not a "comp" for a single-family house, a CLT single family house is not comparable for a market-rate single family house.

Q. Do you have partnerships with organizations to provide the wrap around services such as the first time home buyer program?

A. Yes! We partner with various organizations depending on the goal of the development or the needs of the community.

Q. Is there evidence that CLTs can close the gap on Black home ownership?

A. CLTs are one program working to address the disparities in Black homeownership, but CLTs alone are unlikely to be able to close that gap. [A study in 2019](#) showed that the percentage of Black CLT homeowners surpasses the percentage of Black market rate homeowners, indicating the CLTs work well to create access to homeownership for Black households.

One area where CLTs are working to address the disparities in Black homeownership is changing restrictions on FHA insured loans, which serve most first-time homebuyers of color, and which are very difficult to use for CLTs.

Post-CLT Ownership

¹ Katharine Nelson, James DeFilippis, Richard Kruger, Olivia Williams, Joseph Pierce, Deborah Martin & Azadeh Hadizadeh Esfahani (2020) The Commodity Effects of Decommodification: Community Land Trusts and Neighborhood Property Values, *Housing Policy Debate*, 30:5, 823-842, DOI: [10.1080/10511482.2020.1768573](https://doi.org/10.1080/10511482.2020.1768573)

Q: Is there an issue of owners being able to move into the private market?

- A. Just as with all homebuying, the answer depends on the real estate market. The Lawrence, Kansas, Tenants to Homeowners CLT and the Burlington, Vermont, Champlain Housing Trust estimate 70% and 86% of CLT homeowners, respectively, use their CLT proceeds and experience to purchase an unrestricted home

Community Land Trust Workshop



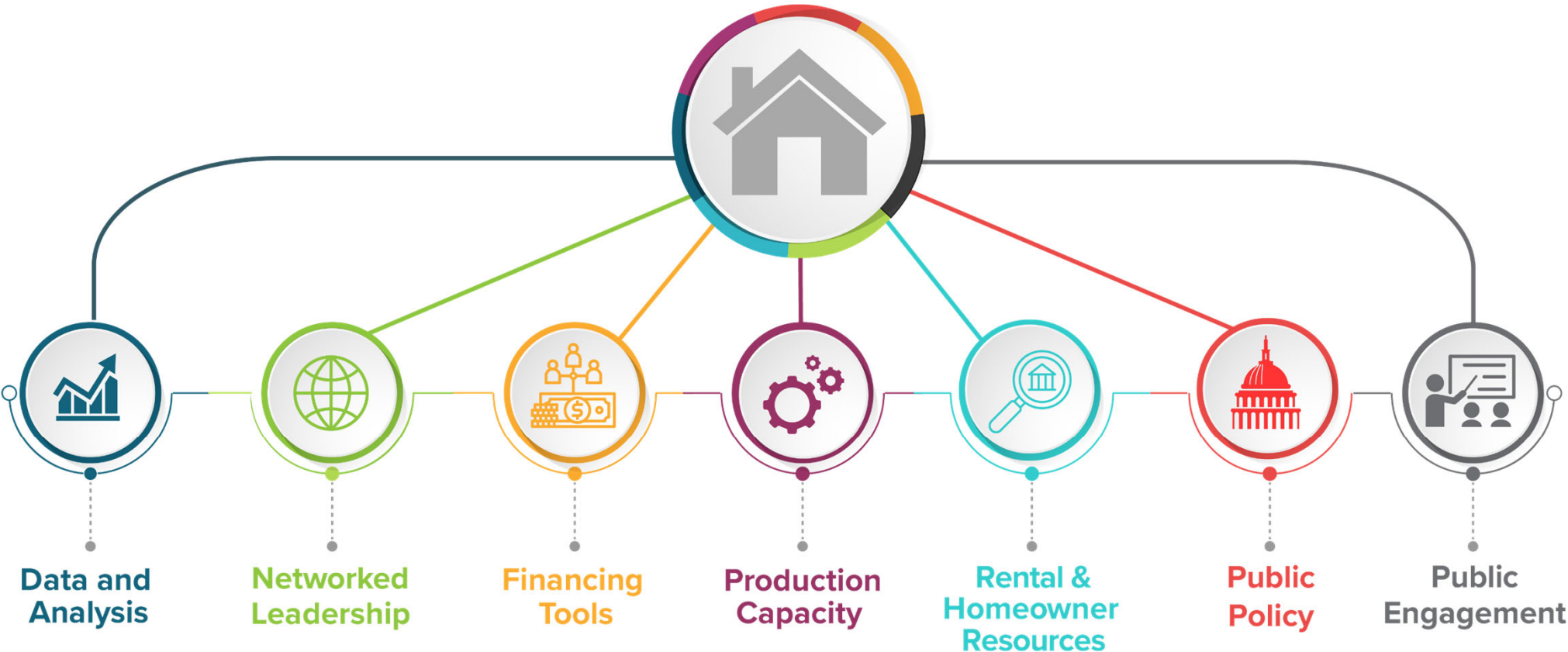
LISC
GREATER KANSAS CITY

MCLT
Marlborough Community Land Trust

MARC
MID-AMERICA REGIONAL COUNCIL

Hosted by the GKC
Regional Housing
Partnership (RHP)

RHP FRAMEWORK & STRATEGY



FINANCING TOOLS

Business plan for a regional community land trust framework or similar model



Community Land Trusts & Community Development

Meghan Freeman, Executive Director
Becca McQuillen, Director of Development
Marlborough Community Land Trust



What are CLTs and why do we need them?

A CLT is a type of shared equity homeownership entity that acquires and owns real estate in perpetuity in order to pursue some specific community-focused goal.

Classis CLTs are characterized by dually owned property. Land owned by the Community Land Trust. Home owned by buyer who earns below the Area Median Income.

CLTs are a controlled response to a real estate market that has been heavily focused on profit and has excluded low-income buyers.

Origins of CLTs

1968: New Communities, Inc. implements community-owned rural agricultural property with privately owned improvements to assist black farmers with wealth building land ownership.

1981: First Urban Community Land Trust started in Cincinnati, Ohio, to prevent gentrification and displacement

Today: 260 CLTs in the U.S. (County Health Rankings 2021)



Benefits of CLTs

- Increases access to home ownership and safe rentals.
- Increases personal wealth and community wealth.
- Stabilizes households and communities.
- Retains public funding.
- Provides opportunity for community control.



Increases Access to Homeownership and Safe Rentals

- Over the past two decades, access to homeownership is more difficult for all Americans. However, interest in homeownership remains strong (Joint Center for Housing Studies of Harvard University 2018).
- In turbulent housing markets, families that are younger, lower income, and people of color have particular difficulty accessing homeownership opportunities (Simmons 2014).
- Shared equity homeownership programs make homes affordable to lower income families by investing public resources to reduce the initial prices. They keep the prices affordable to all future homebuyers through resale restrictions.

Increases Personal and Community Wealth

Overall, housing equity makes up about 2/3 of all wealth for typical (median) household.

The median net worth of homeowners was \$231,000 in 2016 compared to \$5000 for renters (Federal Reserve Bank 2017).

Government and banking policies prevented BIPOC buyers from acquiring homes and reinforced the racial wealth gap (Thompson 2018).

FIGURE 1

Median and average wealth, by race

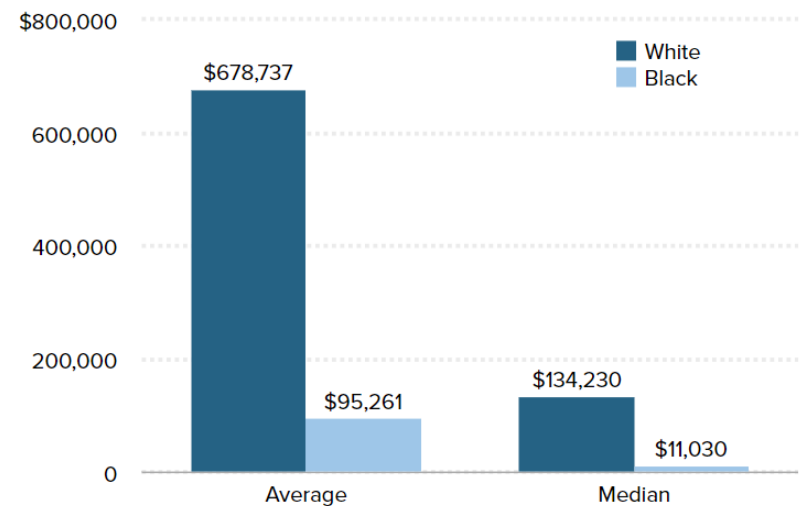


Chart Data

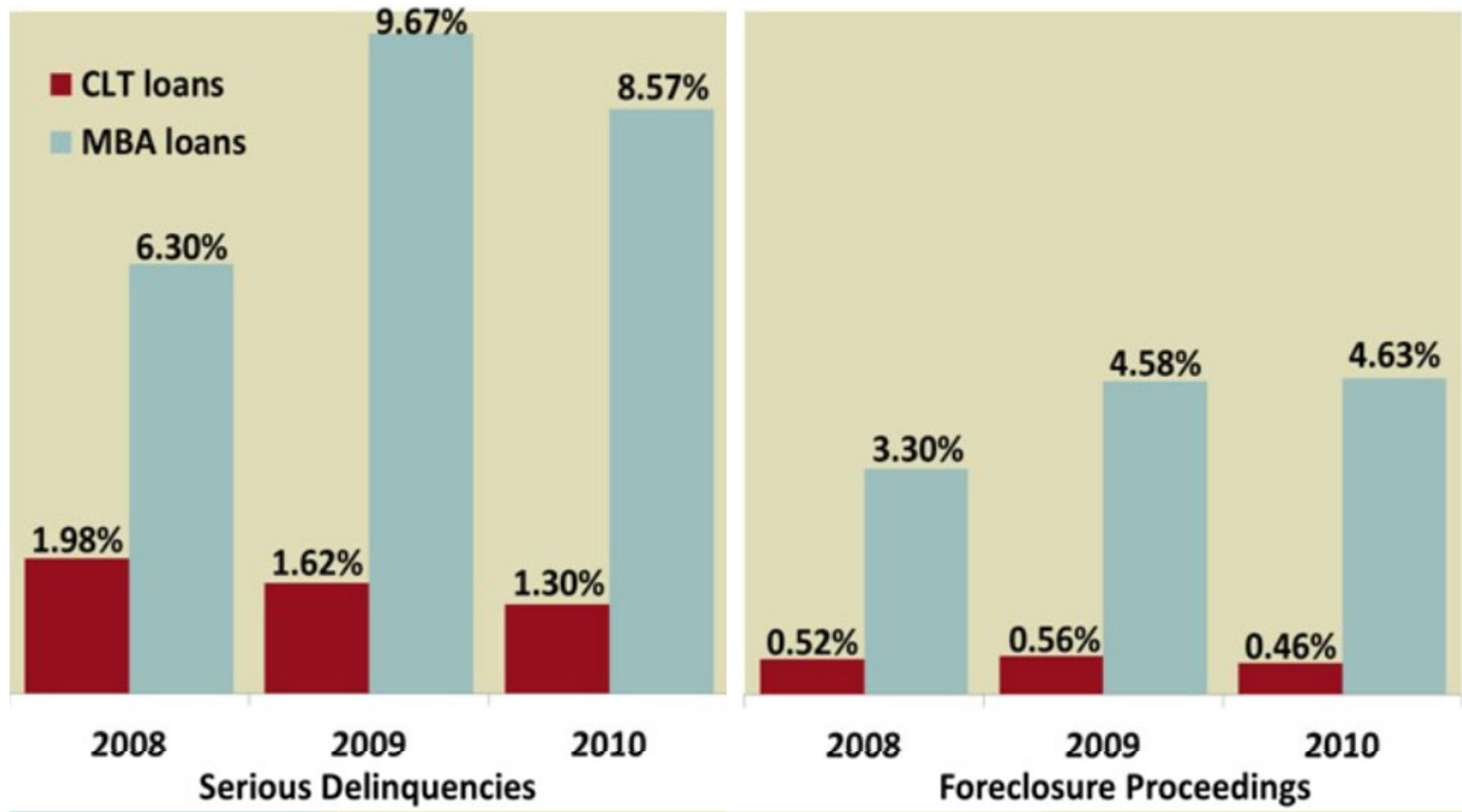
Source: Survey of Consumer Finance Combined Extract Data, 2013.

Economic Policy Institute

Stabilizes Households and Communities

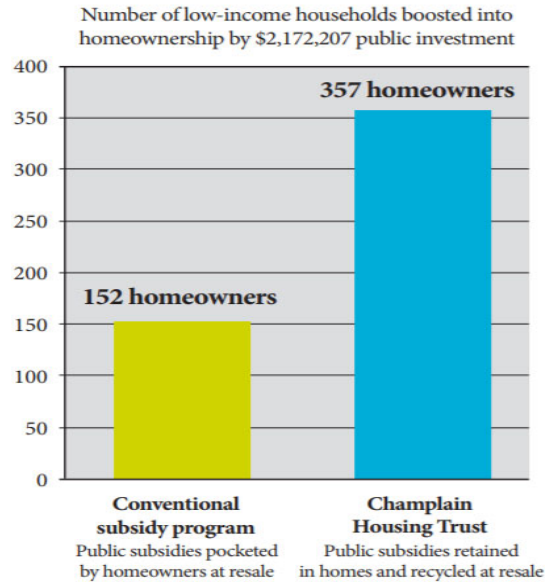
- From 1995-2017 the average annual move rate in the shared equity sample is 2.6%. By comparison, 14% of households nationwide moved on average each year. 74% of shared equity homeowners stayed in the same house for at least six years (Wang 2019).
- Secure housing is central to families' physical and mental health, educational opportunities for children, employment options for parents, commercial investment and safety in a neighborhood.
- CLT homes create a thriving community. Poor children that grow up in thriving neighborhoods are more likely to be economically stable as adults than poor children that grow up in economically depressed neighborhoods.

Stabilizes Households and Communities



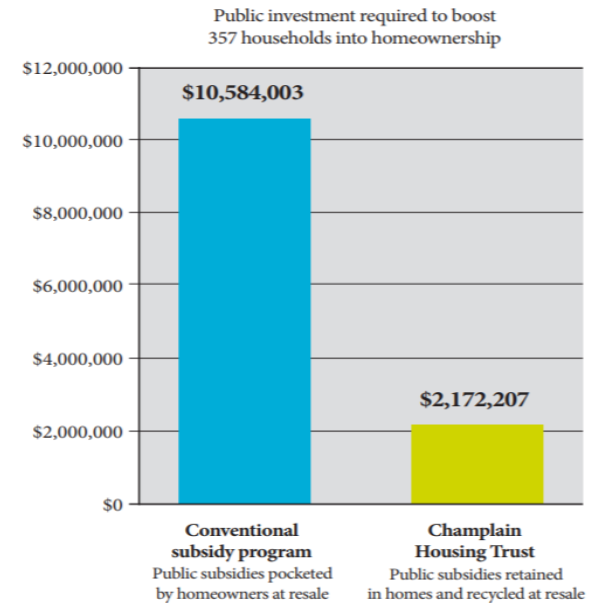
Retains Public Funding

Figure 3.5a
More families served in a shared-equity homeownership program






Source: John Emmeus Davis and Alice Stokes, *Lands in Trust, Homes that Last*. (Burlington, Vermont: Champlain Housing Trust, 2009).

Figure 3.5b
More subsidies needed in conventional homeownership programs






Source: John Emmeus Davis and Alice Stokes, *Lands in Trust, Homes that Last*. (Burlington, Vermont: Champlain Housing Trust, 2009).

Community Control

-  Governed by Board of Directors 30% CLT homeowners, 30% neighborhood residents, 30% affordable housing community experts.
-  CLT provides financial backstop to prevent loan defaults, reviews homebuyer loan products to prevent predatory lending and sets aside funds for ongoing home maintenance.
-  Balances individual asset accumulation with other community goals of stabilization, revitalization, affordability and home quality.

Typical CLT buyers

-  First-time buyer with limited funds for down payment, has a good job history and credit to qualify for a mortgage. Able to be pre-approved by bank offering CLT loans.
-  Buyer ready to purchase but can't find anything of good quality in their price range.
-  Buyer willing to complete MCLT application, Homebuyer Education Class and CLT orientation prior to closing.

The CLT Homeownership Process Begins



MCLT

- Tax exempt non-profit organization acquires property to create affordable home.
- Renovates or builds new home.
- Sells home at subsidized price to eligible low-income, first time home buyers.
- Retains title to the land

The CLT Homeownership Process Continues



ELIGIBLE BUYERS

- Receive MCLT Board approval
- Receive Deed to house
- Agree to 99 year Ground Lease requirements
- Use land as their own
- Pay real estate taxes
- Enjoy full support of MCLT



WHEN SELLING

- Owners sell house pursuant to Ground Lease resale formula
- Owners keep portion of appreciation; majority of appreciated value stays with house



NEW ELIGIBLE BUYER

- New safe, clean affordable home no additional subsidies needed



Sample CLT Resale Formula

1. A family of three with an income of \$40,000.00 per year apply and receive board approval to purchase a MCLT house
2. The MCLT house has a market appraised price of \$100,000
3. The MCLT subsidized home price is \$80,000, reflecting a \$20,000 affordability subsidy
4. The Ground Lease allows for MCLT lessees retains 25% of increase in market value
5. The Eligible Buyers buy the house and live there for seven years
6. After seven years the house has a market appraised price of \$150,000, giving it a market increase in value of \$50,000.00
7. Seller's share of this increase in value is \$12,500.00
($\$50,000 \times 0.25 = \$12,500.00$)
8. New sales price is original subsidized price
($\$80,000 + \text{Seller's share } (\$12,500.00) = \$92,500.00$)
9. Seller receives \$12,500 plus all retired mortgage installments and down payment. A new eligible buyer (80% or below of the AMI) can access homeownership and build wealth subject to the same restrictions
10. Cycle repeats



The CLT Homebuying Process



Marlborough Community Land Trust

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Marlborough Community Land Trust

HUD 2022 Income Limits

FY 2022 Income Limit Category	Persons in Family							
	1	2	3	4	5	6	7	8
Very Low (50%) Income Limits (\$)	33,900	38,750	43,600	48,400	52,300	56,150	60,050	63,900
Click for More Detail								
Extremely Low Income Limits (\$)*	20,350	23,250	26,150	29,050	32,470	37,190	41,910	46,630
Click for More Detail								
Low (80%) Income Limits (\$)	54,250	62,000	69,750	77,450	83,650	89,850	96,050	102,250
Click for More Detail								

Ground Lease Governs the Shared Equity

ARTICLE 7: The Home

- 7.1 HOMEOWNER OWNS THE HOUSE AND ALL OTHER IMPROVEMENTS ON THE LEASED LAND
- 7.2 HOMEOWNER PURCHASES HOME WHEN SIGNING LEASE
- 7.3 CONSTRUCTION CARRIED OUT BY HOMEOWNER MUST COMPLY WITH CERTAIN REQUIREMENTS
- 7.4 HOMEOWNER MAY NOT ALLOW STATUTORY LIENS TO REMAIN AGAINST LEASED LAND OR HOME
- 7.5 HOMEOWNER IS RESPONSIBLE FOR SERVICES, MAINTENANCE AND REPAIRS
- 7.6 A REPAIR RESERVE FUND IS ESTABLISHED TO SUPPORT FUTURE REPAIRS
[This section must either be completed in accordance with the CLT's repair reserve policy, or omitted entirely. See Commentary on this Section 7.6.]
- 7.7 WHEN LEASE ENDS, OWNERSHIP REVERTS TO CLT, WHICH SHALL REIMBURSE HOMEOWNER

ARTICLE 8: Financing

- 8.1 HOMEOWNER CANNOT MORTGAGE THE HOME WITHOUT CLT'S PERMISSION
- 8.2 BY SIGNING LEASE, CLT GIVES PERMISSION FOR ORIGINAL MORTGAGE
- 8.3 HOMEOWNER MUST GET SPECIFIC PERMISSION FOR REFINANCING OR OTHER SUBSEQUENT MORTGAGES.



Sources of Funds for Property Acquisition and Rehab

- — Abandoned Property Act Lawsuits.
- — Land Bank lots.
- — CDBG, HOME, HUD funds.
- — Line of Credit from Financial Institution.
- — Foundations and Community fundraising.

BEFORE AND AFTER



BEFORE AND AFTER



What Questions Do You Have?



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