

## MEMORANDUM

RE: Community Land Trust for Affordable Workforce Housing

The Comprehensive Housing Strategy Task Force Report issued in April, 2006, provides a comprehensive analysis of the extensive rental and homeownership housing needs in Washington, D.C. One of the many identified needs is affordable housing for working families and essential services personnel who are critical to the economy and functioning of the City.

The Task Force Report suggests many strategies to create affordable workforce housing, including tax and other financial incentives, inclusionary zoning, subsidies, streamlined permitting, easing of zoning restrictions and creation of land banks, also known as community land trusts. No doubt some or all of these strategies will have to be employed, but the significant amounts of available public land within the City make Washington, D.C. particularly suited to the use of the community land trust or CLT. This memorandum briefly summarizes the use of the CLT and issues arising from the implementation of a CLT.

- A CLT is a tool for providing homeownership to those who otherwise would be renters or forced to leave high-cost communities where they work.
- Local government donates land to one or more CLTs, typically run by a nonprofit organization that holds title to the land and manages ground leases of land trust property. A single CLT can serve a single neighborhood or an entire city. Alternatively, the local government itself can be the beneficiary of the trust.
- In a CLT structure, the land is separated from homes constructed on it, permitting title to a home and a long-term ground lease in the land on which the home is built to be transferred to a home buyer but keeping control and fee title to the land in the CLT.
- Continued affordability of homes on land trust property is assured by provisions in the long-term ground lease (typically 99 years or somewhat less depending on local laws) which places limits on resale of the home, such as requiring the home to be resold to very low, low or moderate income households and providing a resale formula limiting the maximum resale price. If ineligible family members inherit the home, the property must be sold to an eligible purchaser at the restricted price. The CLT will typically have a right of first refusal upon resale of a home.
- The CLT develops the resale formula to meet public purpose goals and local needs, which may vary by neighborhood or location. A typical formula might be an "appraisal-based formula" which sets a maximum price as the sum of what the seller paid for the home plus a certain percentage of appraised market value increase. The formula may be structured so that the CLT receives a percentage of the appreciation upon sale.

- Local government can also provide construction financing and down payment assistance.
- Benefits to homebuyers include an affordable purchase price, deductible interest on mortgage payments, return of equity on resale, ability to pass on ownership to eligible heirs and relief from rent increases and condo conversions.
- Significant policy issues to be addressed:
  - whether local government should own the land and/or manage the operations of the trust or partner ownership and/or operations with a nonprofit entity;
  - determining terms of eligibility for buyers to be served;
  - design of the resale formula (which will restrict resale prices for lower income homeowners);
  - mechanics of resale;
  - providing a funding source to prevent foreclosures in order to keep property within the CLT;
  - evaluating how or if local property taxes will apply to the CLT and homeowners under the ground lease structure (ownership of land by a governmental entity will affect applicability of property taxes); and
  - if land is taxable, determining whether taxes will be paid by the homeowner in one lump sum or by the CLT to be reimbursed monthly by the homeowner, which will impact the amount of debt the homeowner can afford.
- Requirements for a successful CLT include:
  - if government operates the trust, sufficient experienced agency personnel to oversee the management of the property and education of buyers; or
  - an experienced, proactive nonprofit to manage the CLT and educate and qualify buyers;
  - if a nonprofit is used, a close partnership with local government; and
  - active participation of the lending community willing to lend on the ground lease structure (some major lenders such as Fannie Mae and Freddie Mac may have limitations).