

Scattered-Site Properties and Community Land Trusts

A Strategy for Expanding the Supply of Permanently Affordable Housing

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The declining affordability of decent housing is a problem all across the United States and beyond. For many low- and moderate-income households, the prospects for homeownership have almost disappeared. What has made housing an issue of national importance is the fact that after nearly a half century of increasing owner-occupancy, the percentage of households owning their own homes is no longer expanding, even as the supply of affordable rental options has also declined. This reduced access to affordable housing is once again becoming a serious societal problem, one with widespread economic consequences. The depth of the problem was succinctly described in a 2007 press release by the National Low Income Housing Coalition:

Nationwide, there are only 6.2 million homes renting at prices affordable to the 9 million extremely low income renter households -- a shortage of 2.8 million homes. Housing is considered affordable if it costs no more than 30% of household income. ...Not a single Congressional district has enough rental housing affordable and available to extremely low income families. Nationally, there are only 38 affordable and available rental homes for every 100 extremely low income renter households.

With a scarcity of affordable housing, households end up having to spend a precariously high percentage of their income for housing; 71% of extremely low income renters spent more than half of their incomes for their homes. Or they pay the price in other ways by working multiple jobs often at the expense of time for their children, doubling or tripling up creating overcrowding, or living in substandard housing that threatens their health. Under these conditions, those who have the fewest coping skills and weakest social networks are the ones who have the highest risk of becoming homeless.¹

In response to the worsening national crisis, the U.S. House of Representatives has passed a bill creating a National Housing Trust Fund. A similar bill is likely to be passed by the U.S. Senate sometime in 2008. Such a fund will certainly help to assist those who can least afford the cost of housing under existing market conditions. Depending on the eligibility criteria established, qualified households will benefit directly by conditional grants to use toward their down payment and/or closing costs, by the subsidy of mortgage interest rates or mortgage insurance premiums. State and local housing development agencies may also receive grants used for land acquisition and additional subsidies to developers to reduce construction costs for new housing units. These subsidies are necessary because of one very

crucial fact too often ignored or downplayed by economic analysts and policymakers, which is that land markets have been made inherently dysfunctional by very low effective rates of taxation.

Every parcel of land has some rental value in the marketplace. The difference between this market rental value and the annual revenue collected via the property tax represents an imputed income stream to the landowner. This income stream is capitalized by market forces into the price for land. In communities and regions blessed with strong business activity (and, therefore, a sound employment base) poverty may not be visible or reflected in homelessness; however, the demand for housing -- and for sites upon which to construct housing units -- always translates into highly speculative land markets that pull up the cost of building sites to levels where the construction of units affordable to many households is nearly impossible without substantial public subsidy. In many areas of the nation's cities, the land cost component now represents 50 percent or more of the cost to complete a new dwelling unit. Recession will bring land prices down quickly, but a deep and prolonged economic downturn will also most dramatically impact the very households already marginalized in our economy.

Public policy has thus far primarily relied on a combination of interest-rate subsidization, liberalization of income and creditworthiness requirements and direct grants to mitigate the problem of housing affordability. Local governments have also attempted to make low- and moderate- income housing profitable to developers by approving higher density construction in addition to the donation of publicly-held land. These approaches have achieved some notable successes; however, considerable argument has ensued over the cost incurred by the taxpayers; and, more importantly, these measures have been outpaced by the problem. The community land trust, on the other hand, offers a unique and potentially self-sustaining vehicle for mitigating the long-term problem of providing affordable housing.

Land trusts have a long and positive history in the preservation of open space and as administrative bodies for leasehold residential communities, such as those of Arden, Delaware and Fairhope, Alabama -- both of which were established early in the 20th century and continue to flourish to this day. These land trust efforts are, however, most often rural or (as with Fairhope) begin as a rural, self-contained community that over many decades may evolve into a significant hub within a regional

economy. Starting these communities required the acquisition of large tracts of land, a near-impossibility in today's era of high land prices. Another strategy is needed; namely, to take advantage of existing housing units and bring them into the community land trust under a scattered site strategy.

The community land trust can make effective use of a scattered-site strategy to remove the cost of purchasing land for the homebuyer, acting as a co-purchaser of real estate with homebuyers who qualify for assistance under whatever program requirements are established in partnership with lending institutions, state or municipal housing finance agencies and participants in the secondary market for residential mortgage loans. The trust would take title to the land itself, and the homebuyer would purchase the home. The homebuyer would then be charged an annual ground rent by the trust in accordance with a predetermined formula (i.e., the homebuyer would be charged an annual ground rent based on what is determined to be affordable, but no greater than the full current market ground rental value of the location).

For example, if the selling price of the real estate is \$200,000 and an independent appraiser values the house at \$120,000 and the land at \$80,000, the homebuyer would need to obtain permanent mortgage financing based only on the \$120,000 purchase price of the house. The land trust would purchase the underlying land for \$80,000.

The cash required from the homebuyer for the minimum acceptable down payment plus closing costs associated with the transaction would be substantially less than had the homebuyers acquired title to both house and land. The monthly payment of ground rent to the land trust would be factored into the homebuyer's ability to qualify for the mortgage financing based on income.

Success of the community land trust as a not-for-profit entity will depend on the availability of a revolving fund to facilitate the land purchases. Potential sources of funding include both government agencies and private foundations committed to housing affordability objectives (and, potentially, grants made from the new National Housing Trust Fund). Additionally, the land itself could be used as collateral for borrowing from regional financial institutions that might be induced to approve grants to the trust and/or provide below-market rate financing as part of their commitment to community lending.

Municipalities might also consider a general surtax on assessed land values as a mechanism for providing funds to the land trust. As a not-for-profit entity, the trust's landholdings might be exempted from the property tax so that ground rents charged to homebuyers could be utilized for expansion of the land trust's co-purchase activities.

The ground rent charged to the homebuyer could be paid directly to the trust or indirectly by arrangement with the mortgage servicer as part of the total monthly housing payment.

What is unique about the scattered-site strategy is its potential to eventually become self-sustaining. No restrictions should be imposed on the resale of homes purchased with community land trust assistance. At the time of resale, the distribution of proceeds between the homeowner and the trust would be apportioned based on reappraisal of the real estate. Any increase in land value will be returned to the trust. The value of any improvements made to the house itself will be reflected in the appraisal and distributed to the homeowner. Based on the selling homeowner's current income, this household may still be eligible for assistance under the trust's program but is free to look for a new property based on the neighborhood where they most want to live rather than only in those neighborhoods or communities where a fixed-site trust has homes or building lots available.

Another direct benefit of the program is that trust involvement would be transparent to the market; only the parties directly involved in the transaction need be aware that the homebuyers do not own the land. No special zoning or density variances are required by government, and the properties will be scattered within existing communities rather than concentrated as is now the case with most subsidized housing.

A region might eventually experience the creation of a number of such trusts, each designed to serve a particular segment of the population and able to secure financial support from different sources (e.g., labor unions, pension funds, religious organizations, corporations, etc.). Administration of the scattered site program by the land trust can be expected to be much less demanding than most other housing programs because of the partnership with mortgage servicers. Employers concerned about the expense of transferring individuals into areas with high housing prices would find it very cost effective to

contribute to the trust in lieu of providing repeated relocation grants and other forms of compensation adjustments to employees, to say nothing of the tax benefits of contributing to a not-for-profit organization. This is becoming increasingly important in areas where the cost of housing has driven up wages for hourly workers beyond what employers can pay and still remain competitive in the global marketplace.

The scattered site program as described here will not address the problem of housing for those who are the truly poor or live in areas where land values and housing prices are already very low. A deteriorated housing stock is, in those instances, closely related to a general absence of employment opportunities even at modest levels of income. However, with fewer demands on government to subsidize the housing needs of lower middle income households, perhaps government can concentrate its attentions on revitalization of depressed areas and to providing residents of such communities with desperately needed public services. What the scattered site strategy does offer is a promising addition to the inventory of options available to those who are committed to expanding the opportunities for affordable housing to those who have been priced out of the market.

¹ From a press release by the National Low Income Housing Coalition, following testimony by Sheila Crowley, President, before the Financial Services Committee of the U.S. House of Representatives, 19 July, 2007.