The Effectiveness of Community Land Trusts:
An Affordable Homeownership Comparison

Lincoln Institute of Land Policy

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Abstract

The Community Land Trust ("CLT") concept shows promise as an affordable housing strategy that allocates resources wisely and creates sustainable affordability. Existing research has demonstrated that some CLTs do deliver on their promises of affordability for second owners and return of subsidies to the CLT program, among other goals. Despite these successes, more research is necessary to understand how widespread these successes are. Additionally, research is needed to determine how effective CLTs are compared to other affordable housing strategies. This research will add a fresh perspective to the academic literature by taking an empirical look at the Northern Communities Land Trust in Duluth, Minnesota, a heretofore unstudied CLT. It will examine the Community Land Trust model in the context of another affordable homeownership program to evaluate the relative efficiency with which they both use public subsidies. It will also consider some of the classic CLT questions such as equity sharing, perpetual affordability, and efficient use of subsidies. Through this research, a better understanding of the relative effectiveness of subsidies in creating and sustaining affordable housing will strengthen the analysis and evaluation of housing policies and guide affordable housing investment strategies.

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Introduction

Within the approaching decade, Community Land Trusts ("CLTs") will reach the fiftieth year since the Institute for Community Economics ("ICE") introduced this innovative method of "encourag[ing] affordable resident ownership of housing and local control of land and other resources" (ICE Website). This milestone, along with the increasing popularity of CLTs as an affordable housing strategy, invites an analysis and evaluation of this approach. Existing research provides empirical evidence that CLTs can deliver on their promises to provide lasting affordable housing and community control of land. What is not known is how effective CLTs are at using resources to create affordable housing, as compared to other type of homeownership programs. This research evaluates the efficiency of subsidies used in CLTs, with a particular emphasis on the value of holding onto the land and selling only the improvements as an affordability strategy. In this research we also provide an analysis of the CLT homes' affordability to future owners, and the equity available to CLT home sellers. Of particular interest is the way in which the CLTs' unique view of land ownership impacts their ability to retain and recapture subsidies, while still providing affordable housing to successive generations of homebuyers.

A better understanding of the relative effectiveness of subsidies in creating and sustaining affordable housing will strengthen the analysis and evaluation of housing policies and guide affordable housing investment strategies. This research has the potential to influence the development of land use policy by providing guidance, supported by evidence, to communities and housing advocates who seek to ensure maximum benefit from public and private resources. Support for government-sponsored affordable housing, evidence suggests, is experiencing a period of contraction in the United States, challenging policy makers to use public and non-profit funds wisely. Responsible stewardship of public resources requires an effort to measure the outcomes of the programs they support.

This analysis makes a contribution to the emerging understanding of the market as a factor in affordable housing programs. In CLT models, the market is the source of the appreciation that generates profit to the owner upon resale and returns capital to the trust. In this study, we look particularly at this element of CLTs as it relates to the sustainability of the trust and to enduring unit affordability. We attempt to clarify the economic relationships among subsidies, private profit for unit owners, and the return of funds to the CLT.

Research Questions & Conceptual Framework

In this research we address three broad areas of inquiry. First and foremost, we evaluate the efficiency with which a particular CLT program uses public and private subsidies, as compared to another homeownership program in the same jurisdiction. Relatively little is known about this

topic, since this line of inquiry has not yet been addressed in any CLT study to date. The question is, essentially, "Are CLTs a good investment for public and private agencies interested in promoting affordable housing, and how do CLTs compare to other possible programs in which funds might be invested?" To answer this question, our research will compare an established CLT program with another homeownership program in its jurisdiction, to see which approach provides the most effective use of subsidies[1].

The second and third areas of inquiry are interrelated, and concern the extent to which the CLT can allow individual homeowners to build personal equity while still preserving the affordability of the home for the next buyer.[2] The CLT model frames a classic affordable housing dilemma: how should programs balance the goal of creating lasting financial benefit for low-income homebuyers with the goal of reclaiming public subsidies to assist another buyer? An existing study on the Burlington, VT community land trust, conducted in 2003 by John Emmeus Davis and Amy Demetrowitz, indicates that CLTs can allow homeowners to build equity while still preserving affordability for the next owner. However, because the study was limited to one program, it is not known how well these findings apply across programs, and in varied markets. This research will seek to expand the data available to address questions related to homebuyer equity and the benefit to homeowners of using a CLT program. Specifically, it will evaluate the equity available to the homebuyer upon sale and the annual rate of return generated by the seller's ownership of the improvements. In other words, can CLT homeowners realize a reasonable financial benefit from the sale of their homes.

Our third and last research question addresses the CLT's claim of providing affordability to subsequent generations of homebuyers. The Burlington, VT study indicates that CLTs can be a viable strategy for providing affordable homeownership opportunities, and that this affordability can be passed on to successive buyers at the same level of income as the original buyer, or even to lower income buyers. In many rapidly growing areas of the country, the high cost of land due to market pressures is the most significant contributing factor to escalating housing prices, placing homeownership out of reach for many low-income families. This effect is exacerbated from year to year as land prices continue to rise.

In traditional down payment assistance or silent second mortgage programs, when a unit is sold by a homeowner the subsidy is generally repaid by the homeowner and recaptured by the program. However, if the same house is to be re-purchased by another buyer, the program must now subsidize its appreciated value – if the land has appreciated significantly, the program might need to find a buyer with a higher income level, or provide a larger subsidy to finance the home. By removing the land value from the cost of housing, it is theorized that CLT units may remain affordable despite land appreciation. This idea leads to our final research question: Can CLTs,

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[1] Our originally methodology called for comparisons to multiple homeownership assistance programs, including down payment and silent second mortgage programs. However, this approach became infeasible due to limited data access for these programs. We recommend this line of inquiry as an important topic for further research, where data is accessible.

[2] See Bourassa (2006a, 415) for an argument why this might be necessary to convince low income African Americans to buy into the CLT program.

by removing land value from the cost of housing and limiting homebuyer equity, provide lasting affordability that other assistance methods, which must mitigate escalating land costs, cannot?

A Note on the Academic Literature

There is a dichotomy in the literature regarding CLTs. Articles announcing the formation of new community land trusts and celebrating their first achievements have appeared with relative frequency over the last ten years. As this concept has gained increasing popularity and credibility, more local CLT programs have been initiated; anecdotal stories of success in planning and affordable housing journals, as well as in newspapers, have flourished (e.g., Webster 2000, Finkle 20005). At the same time, academics have developed conceptual and theoretical arguments for the value of community land trusts in maintaining housing affordability for low income denizens (Geisler 1980, Soifer 1990, Pitcoff 2002). Using a Georgist (Henry George) argument that land value is not created by the individual property owner but rather from the collective activities of society, land owners should not be able to realize private profit from this socially created value. This provides a basis for limiting the equity owners may realize through landed property appreciation and for collective ownership (in the case through the not for profit CLT) of the land and its appreciated value.

Empirical research and literature evaluating the efficiency of CLTs, however, has remained scarce. The study of the Burlington, VT community land trust, conducted in 2003 by John Emmerus Davis and Amy Demetrowitz, remains the seminal work providing an empirical analysis of the CLT approach. The study evaluates the Burlington CLT on six criteria relating to the individual and community needs it was designed to serve. Findings relevant to this project were that BCLT homeowners have used this limited equity ownership as a means to market rate housing and that housing affordability was maintained (in many cases increased) through resales.

The latest round of research regarding CLTs, which was funded by the Lincoln Institute, is beginning to remedy this lack of empirical research. There were six papers produced as a result of this round of grant funding (including this paper), the findings of which were presented at the Lincoln Institute's Community Land Trust Research Seminar in September 2006. for those who wish to pursue the most recent academic work on CLTs. Briefly, Bourassa (2006b) contextualizes the CLT model and simulates the market conditions under which the land trust model would keep housing affordable. Angotti and Jagu (2006) analyze the value of CLTs in the multi-family market using a case study from NYC arguing that the outcomes are based in the broader social and political history within the neighborhood, particularly its appreciation of the various forms of social ownership. Gray and Miller-Cribbs describe a qualitative analysis of the development of a community land trust in North Carolina focusing on how they contribute to community and neighborhood change. Packnett (2006) evaluates the robustness of the CLT model through an unusual (corporate controlled) CLT in Minnesota. Her question is: does such ownership and control thwart the CLT's goal of maintaining low income ownership of the units. Finally, Perrotta and Nosker (2006) engage the thorny issue of how property taxes are currently and should be handled for CLTs. While much of this work is still in its formative stage, this research was meant to evaluate and increase the empirical evidence available by analyzing new

cases of CLTs around the US. When complete, this research will certainly add to our knowlledge concerning CLT operations in the US. The goal, of course, is to evaluate and improve the model to better provide affordable housing to low income denizens.

Methodology

Case Study Selection

The research methodology is a case study approach. This research will analyze primary data on homeownership units from the Northern Communities Land Trust in Duluth, Minnesota, and compare this information against primary data from another homeownership program in the same jurisdiction. In selecting our case study location, we considered several factors, particularly:

1. The extent of the program's inventory of owner-occupied units. While CLTs may hold rental properties or co-op housing as well as individually owned units, this research focuses on comparing the ability of the CLT model to provide low-income households with ownership opportunities. Hence, we looked for programs with a high number of homeownership properties.

2. The program's resale record. In order to gauge the effectiveness of the program to second and third generation owners, a significant number of units must have been resold at least once. Thus, we looked for established programs in which many units have changed hands.

3. The communities' other affordable housing programs. To compare the CLT model to other affordable housing programs effectively, such programs must be operating in the CLT area and must be strong enough to evaluate.

4. Willingness to participate. To conduct the proposed research effectively requires access to records and the ability to work directly with the CLT. We looked for organizations with an interest in this research and a willingness to participate.

5. Previously unevaluated programs. The researchers wished to add to the current literature by collecting and analyzing data from a program or programs which has not yet been the subject of academic study, thereby adding to the pool of research data available to CLT scholars and practitioners.

Our research turned up relatively few programs that met these criteria. Given that many of the nation's CLTs are only recently formed, they do not have the inventory – particularly the resale inventory – necessary for the proposed research.   Additionally, many programs did not have

aggregate program data readily available, making initial analysis of their program's suitability difficult.

The original intent of this research was to conduct a comparative case study approach, looking at two Community Land Trusts and their competitor programs. After reviewing numerous programs for which data was available, this proposal initially selected Thistle Community Housing in Boulder County, CO, and Northern Communities Land Trust in Duluth, MN as the case selections for our study. However, due to the time constraints imposed by hosting the National CLT Conference in July 2006, Thistle Community Housing was regrettably unable to participate in the study. However, the Northern Communities Land Trust has provided an excellent pool of data for analyzing the questions outlined in the introduction. It also provides an interesting contrast to other CLT's because of its geography – there are fewer mid-western CLTs – and because of its relatively affordable local housing prices (many of the established CLTs operate in particularly high-priced markets). Below is a brief overview of the Northern Communities CLT, as well as the Duluth metropolitan area and the selected comparison homeownership program.

City of Duluth, MN – Northern Communities Land Trust

Community: The City of Duluth, pop. 85,734[3], is located at the westernmost tip of Lake Superior, halfway between Minneapolis/St. Paul and the Canadian border.   Home to the University of Minnesota-Duluth and possessing a major harbor and miles of scenic coastline on Lake Superior, Duluth is a Midwestern center for tourism, healthcare, education and shipping.   Despite these assets, Duluth still remains affordable: as of 2000, the median value of an owner-occupied home was $81,600[4], and the majority of the homes sold through the land trust range between $50,000 to $150,000 in value. The housing stock held by the CLT is elderly, with a median age of 1925, which necessitates substantial rehabilitation on many of the homes. For more demographic information on the Duluth Metropolitan Area, please see Appendix A.

Land Trust: Northern Communities Land Trust ("NCLT") has been providing affordable housing in the City of Duluth since 1990.   Though the program struggled throughout the nineties, with only five sales between 1995 and 1999, since 2000 the program has rapidly expanded. To date, they have assisted 130 low-income households with the purchase of a home, and currently hold 118 units in their inventory.   Their program serves households at 80 percent of the median income or less, though many of their owners are of substantially lower income.

Comparison Program: The Duluth Housing and Redevelopment Authority currently administers the Minnesota Urban and Rural Homesteading program ("MURL"), which assists low income individuals who cannot attain bank financing to purchase a home. This program purchases dilapidated homes, conducts substantial rehabilitation, and then sells the homes to low-income homebuyers. It is primarily funded by Home Investment Partnership funds, the Minnesota

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[3] Census Bureau 2003 estimate for the City of Duluth from http://quickfacts.census.gov/qfd/states/27/2717000.html.
[4] From Census Bureau Quickfacts at http://quickfacts.census.gov/qfd/states/27/2717000.html.

Housing Finance Agency, lead-based paint abatement funds, and energy efficiency grants from Minnesota Power. Loans are made for a thirty year term, with 0 percent interest. Households pay 25 percent of their gross income for mortgage, taxes, and insurance. Owners have the option to either sell to another income eligible buyer, or they may obtain conventional bank financing and buy out the loan, if they are able to do so, and have the income restriction released.   The program began in 1999, and to date has had 16 households participate. Fourteen households are currently active participants, while the remaining 2 have bought out their homes with regular bank mortgages.

Data Collection

The data necessary for this study was available in Northern Communities' individual homebuyers' files, but had never been complied into a comprehensive database. In conjunction with Northern Communities staff, the researchers collected the following information for each of the 130 CLT households assisted by Northern Communities:

1. Household information: household size and composition, income, % of median income, race, and previous housing history.

2. Housing information: types of homes purchased through the program (single family, duplex, or townhome), size of home, year built, appraised land value, appraised improvement value, and rehabilitation costs (if any).

3. Financing Information: Purchase price, mortgage amount, down payment amount, closing costs, interest rates, and subsidy amounts and sources.

In addition, Northern Communities has 12 homes which have resold during the past six years, including one that has resold twice, making a total of 13 resales throughout the program's history. For these homes, the researchers also collected resale information, including:

1. The appreciated value of the land and improvements upon resale of the unit;

2. The amount of equity retained by the homeowner;

3. The amount of subsidy recaptured by the CLT; and

4. The purchase price for the next buyer.

Data for the MURL program was provided directly by the Housing and Redevelopment Authority of Duluth. Though the depth of information provided is minimal due to confidentiality concerns and staff time constraints, it provides adequate data for this study regarding subsidy amounts and households served.

Data Analysis

To address the first research question, that of the relative effectiveness of subsidies, we compare subsidy per household in CLT program versus subsidy per household in the MURL program. Aside from looking at these statistics, we also address what income levels the programs serve, and the funding sources from which they draw. Additionally, we examine the CLT policy of retaining land ownership and its impacts on the subsidy required to assist household to become homeowners. In essence we ask: how much more subsidy would be required if the CLT simply used subsidies to fund the more conventional purchase of both land and home?

The second research question, that of homebuyer equity and financial benefit, is addressed by accessing three indicators: the seller's profit upon sale of the home, the financial gain to the homeowner over renting, and the annual rate of return on their up-front investment. Seller profit, in this case, is defined as the seller's share of the home's appreciation (NCLT allows the home seller's to retain 30 percent of the home's total appreciation). The seller's financial gain over renting is considered to be the seller's share of the appreciation, plus the equity they built up in the home, since neither of these amounts would be available to renters upon the end of tenancy. The annual rate of return represents the percent of their initial investment returned to the homeowner each year, and is calculated by formula to adjust for the effects of compounding. Since the accumulation of personal wealth is one of the most touted benefits of homeownership, these indicators will help gauge how well the CLT program meets this important goal.

The final research question, that of continuing affordability to subsequent low income buyers, will be addressed. In order to address this continuing affordability, it is necessary to distinguish between the affordability of the housing unit and the household income of the persons buying the homes. Unit affordability is determined by comparing the new sales price for each resold home to the purchase price paid by the first buyer. The maintenance of low-income homeownership is determined by comparing the percent median household income being served in the original sales and in subsequent resales. Thus, affordability is assessed both in terms of the housing unit and the population being served.

Research Findings[5] Research

Question 1: Relative Effectiveness of Subsidies

Part 1: NCLT and MURL Comparison

To address the first research question, that of the relative effectiveness of subsidies, we compare subsidy per household in CLT program versus subsidy per household in MURL program. Aside from looking at these statistics, it will also address what income levels the programs serves.

NCLT Subsidy

Northern Communities Land Trust provides most of its CLT housing through their Homeland program, which allows buyers to purchase a home of their choice. The CLT enters into a three way agreement with the CLT buyer and the market seller for the purchase of the home. The CLT retains ownership of the land and funds the necessary property rehabilitation. Homebuyers take out the maximum mortgage possible based on reasonable underwriting criteria. They also make a small down payment (usually $500 to $1,000) and pay for their own closing costs. The CLT retains ownership of the land, so the subsidy to the homebuyer is as follows:

[(original purchase price + the cost of the rehabilitation) - the value of the land]
minus
(the affordable mortgage amount + down payment + closing costs)

In instances where the NCLT purchased land and built homes, the first line of the equation would be the cost of construction (since the CLT maintains ownership of the purchased land).

The NCLT dataset is too large to provide here as an imbedded table, but the data can be acquired from the Lincoln Institute. This dataset provides 121 cases in which the subsidy amount can be calculated. These 121 households received an average of $23,309 (median $24,730) subsidy to assist them with the purchase of the CLT home. Individual subsidies ranged from $0 to $80,846, with a standard deviation of $14,717.

The MURL Subsidy

The MURL program purchases dilapidated homes, conducts substantial rehabilitation, and then sells the homes to low-income homebuyers. It is primarily funded by Home Investment Partnership funds, the Minnesota Housing Finance Agency, lead-based paint abatement funds, and energy efficiency grants from Minnesota Power. Loans are made for a thirty year term, with 0 percent interest. Households pay 25 percent of their gross income for mortgage, taxes, and insurance. If they wish to sell, owners have the option to either sell to another income eligible buyer at a restricted price. Owners may also obtain conventional bank financing and buy out the

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[5] All dollar amounts are adjusted to 2006 dollars using the national Consumer Price Index for all goods excluding housing/shelter (not seasonally adjusted). CPI data gathered from the Bureau of Labor Statistics.

loan at any time, if they are able to do so, and have the income restriction released. The program began in 1999, and to date has had 16 households participate. Fourteen households are currently active participants, while the remaining 2 have bought out their homes with regular bank mortgages.

This program provides homeownership financing for households who cannot obtain a conventional bank loan, thus the program must subsidize the entire interest cost of a conventional mortgage. Since we were not allowed access to recipient household income for our calculations, we assumed that the households actually can afford to pay the mortgage payments that would pay the principal off within the 30 year mortgage period. At the same time, we do know that these recipients were classified as very low to low–income households and thus the required payment of 25% of their gross income in all likelihood would not cover the mortgage, taxes and insurance.[6] Thus we are being conservative in our analysis by knowingly underestimating the amount of subsidy required.

Table 1. MURL Interest Data

Case	Purchase Date	Sales Price	IR 30 Year FRM	5 Year Cumulative Interest	10 Year Cumulative Interest
ML01	4/20/2001	$90,560	7.14	$34,382.22	$61,799.55
ML02	7/1/2003	$110,000	5.40	$28,702.42	$50,602.33
ML03	5/16/2003	$115,500	5.45	$31,421.64	$55,536.57
ML04	3/2/2001	$84,900	7.03	$31,719.75	$56,982.04
ML05	7/2/2003	$165,000	5.40	$43,053.63	$75,903.49
ML06	5/8/2003	$126,500	5.62	$35,524.32	$62,852.91
ML07	3/2/2001	$107,540	7.03	$40,178.35	$72,177.24
ML08	3/1/2001	$113,200	7.03	$42,293.00	$75,976.05
ML09	10/8/2003	$154,000	5.95	$44,421.35	$78,572.33
ML10	5/2/2005	$154,800	5.75	$41,663.24	$73,453.27
ML11	11/7/2003	$165,000	5.98	$47,842.46	$84,638.24
ML12	3/10/2004	$164,934	5.41	$43,118.77	$76,023.02
ML13	8/31/2004	$171,360	5.77	$46,286.11	$81,613.10
ML14	3/29/2006	$160,000	6.35	$46,141.49	$81,387.93
ML15	8/9/2005	$180,600	5.89	$48,185.54	$84,773.78
ML16	8/8/2005	$167,184	5.89	$44,606.04	$78,476.30
			Mean	**$40,596.27**	**$71,923.01**

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[6] We estimated their income based on the percent of median provided using area median income for 2000 census, calculated the likely mortgage payments necessary to cover the sales price, and compared this to 25% of their estimated income. From these calculations, none of the recipients would be capable of paying the full mortgage payment. Thus, the subsidy is much deeper than we are using for our analysis.

If we assume the current set of owners will hold their properties for five years before reselling to another buyer, we can calculate the cumulative interest payments the MURL program must subsidize per buyer. Not surprisingly, the average MURL program subsidy (see Table 1) is considerably higher, at $40,596, than the NCLT average subsidy of $23,309.   The difference in the average per household subsidy is considerable, at $17,287. If we adjust our assumptions to a 10 year holding period per owner, the subsidy increases to $71, 923, or $48,614 more per unit than the NCLT program.

One might suppose that since the MURL program offers a larger subsidy, it must assist lower-income households than the NCLT program. However, such is not the case. MURL buyers vary between 30 to 80 percent of median income (adjusted by year), with an average income at 59 percent of the median. NCLT buyers range from 22 to 78 percent of the median income, with an average of 57 percent of the median income. Thus, the programs both serve a wide range of household incomes within their defined clientele of those earning 80 percent of median or below, and the average recipients of both programs have approximately the same income.

The analysis above clearly shows that NCLT uses subsidies more efficiently than the MURL program. Depending on holding periods, it costs the CLT between $17,300 and $48,600 less than the MURL program to assist a household to become homeowners. Or put another way, for every 1 household assisted by MURL, NCLT can assist 1.7 to 3.1 households. The real benefit of the MURL program is providing a homeownership opportunity for those who do not have the credit history or other financial criteria necessary to obtain a bank loan. The NCLT program assumes that a household is capable of obtaining conventional financing for housing production costs – but, there may be households that income-qualify for a CLT home but cannot participate due to credit issues or other difficulties in obtaining a loan.   The MURL program thus fills an important niche in the provision of affordable housing services in Duluth, but does so at the cost of larger subsidies per unit.

Part 2: Theoretical Analysis of Land Policy and Subsidy Implications

Many programs across the country offer subsidies to homeowners to help with the purchase of a home. One of the central policy differences between these programs and the CLT model is that the CLT maintains ownership of the land, selling only the improvements. This policy is held for several reasons; partly because of a general philosophy that land should be valued for its utility, and not as a profit-generating commodity, and partly because retaining ownership of the land helps control the ultimate disposition of the property, protecting its affordability. But this policy of land ownership also has practical financial consequences for the CLT and those buying CLT homes.

It requires less money to subsidize the purchase of a home through the CLT program than it does to subsidize the purchase of the same home to the same household with a conventional mortgage assistance program.   This difference exists because the CLT does not have to subsidize the purchase of the land each time the property changes hands. The buyer's mortgage and any gap financing they receive need only cover the cost of the improvements, instead of the land and the improvements. But just how significant is this difference? The analysis below

looks at the cost of land for the CLT homes in Duluth, and calculates how much more subsidy would have been necessary for these households to purchase these homes through a conventional mortgage assistance program.

Data on land value was not available for every unit, as the early appraisals sometimes did not break out the land value separately from the improvements. Of the 130 NCLT homes sales, 121 units had a separate land value listed, and the individual land values ranged from $3,500 - $50,000, (or $0.17 to $8.00 per square foot). The mean land value for the dataset is $13,861. Given these figures, what would the additional cost be if the current CLT homebuyers had bought the land as well as the improvements?

Let us assume that each household has already obtained the maximum conventional loan they can afford. If the cost of the land were added to each CLT home purchase price, the additional financing required would have to be subsidized by the CLT or one of their partner programs. Given the mean land value of $13,861, and 130 households assisted over the CLT's history, the policy of retaining ownership of the land has saved them from subsidizing the refinancing of approximately $1,801,974 (plus another $136,530 for resales) over the last 16 years.

Research Question 2: Financial Benefits to the Home Seller

As mentioned above, the question of homebuyer equity and reasonable financial benefit will be addressed by assessing three indicators: the seller's profit, the seller's financial gain over renting, and the seller's annual rate of return on investment ("ARR"). These items are addressed separately below.

Table 2. Seller's Share of Appreciation

ID#	Original Improvement Value	New Improvement Value	Improvement Appreciation	Seller's Share (30%) Appreciation
NC002	$112,411	$144,480	$32,069	$9,621
NC009	$152,942	$164,000	$11,058	$3,317
NC042	$135,300	$134,000	-$1,300	-$390
NC055	$115,500	$133,128	$17,628	$5,288
NC056	$95,088	$133,018	$37,930	$11,379
NC057	$61,128	$76,368	$15,240	$4,572
NC065	$122,516	$130,000	$7,484	$2,245
NC068	$61,128	$86,688	$25,560	$7,668
NC076	$76,116	$86,430	$10,314	$3,094
NC090	$155,112	$165,120	$10,008	$3,002
NC099	$143,728	$146,544	$2,816	$845
NC107	$50,940	$78,000	$27,060	$8,118
NC121	$84,609	$94,944	$10,335	$3,101

Seller's Profit is equal to their share of the improvement appreciation. Since Northern Communities Land Trust allows the seller to retain 30 percent of the house's appreciation, the seller's appreciation ranged from $0 (in actuality, a $390 loss) to $11,379, with a mean appreciation of $4,758. While these amounts are not large compared to appreciation on the private market, in about half the cases it is enough to cover the household's down payment and closing costs of their next home merely through their share of the house's appreciation. At the same time, the need for homebuyer appreciation must be balanced with the need for the CLT to maintain affordability for future buyers. As demonstrated later, the CLT's portion of the appreciation is critical to preserving affordability.

Table 3. Seller's Equity

ID#	Original Principal Amount	Seller's Remaining Principal	Seller's Equity
NC009	$116,616	$111,700	$4,916
NC055	$82,500	$77,651	$4,849
NC056	$71,373	$65,382	$5,990
NC057	$45,280	$38,695	$6,585
NC065	$100,823	$86,423	$14,400
NC068	$60,070	$52,530	$7,540
NC076	$69,052	$63,396	$5,656
NC090	$91,156	$81,898	$9,258
NC099	$53,550	$51,029	$2,521
NC107	$35,828	$29,000	$6,828
NC121	$78,719	$74,198	$4,521

The seller's equity is determined by subtracting the unpaid mortgage principal due at the time of sale from the original principal amount. As shown above in Table 4, 11 cases had sufficient data for analysis, and the sellers' equity ranged from $2,521 to $14,400. This range is partially explained by the length of tenancy, which ranged from 1.4 years to 5.1 years, thus allowing households various amounts of time to make mortgage payments. The average amount of equity a seller took out of the sale was $6,642 (with an average tenancy of 3.3 years).

Seller' Equity is mentioned in this portion of the analysis because, although it is not true profit (since it is merely the return of money paid out), it is nevertheless money regained by the home seller that would have been lost had they been renting. Since most CLT buyers could not afford a home on the private market, the logical tenure with which to compare the CLT model is the rental market. In the rental market, all money paid for housing (with the exception of a refundable deposits) is lost – rental housing is the purchase of housing services only, with no opportunity to regain invested funds. However, homeownership – including the CLT model –

allows a household to build equity, and upon sale of the unit, to regain the amount of mortgage principle paid out. Thus, the mortgage equity retained by the homebuyer represents a zero sum (they get back what they paid in), which is a financial gain when compared to the permanent loss of money when renting. Table 4, below, calculates this financial gain over renting.

Table 4. Seller's Financial Gain Over Renting

ID#	Seller's Appreciation	Seller's Equity	Total Financial Benefit Over Renting	Total Up Front Costs	Net Gain/ Loss
NC099	$845	$2,521	$3,365	$3,259	$106
NC121	$3,101	$4,521	$7,621	$4,511	$3,110
NC009	$3,317	$4,916	$8,233	$3,445	$4,789
NC076	$3,094	$5,656	$8,751	$3,528	$5,222
NC055	$5,288	$4,849	$10,138	$5,899	$4,239
NC057	$4,572	$6,585	$11,157	$3,046	$8,111
NC090	$3,002	$9,258	$12,260	$3,713	$8,547
NC107	$8,118	$6,828	$14,946	$3,636	$11,310
NC068	$7,668	$7,540	$15,208	$3,763	$11,444
NC065	$2,245	$14,400	$16,645	$2,890	$13,755
NC056	$11,379	$5,990	$17,369	$3,848	$13,521

Table 4 shows the sum of the seller's equity and appreciation, which is in essence the financial gain home seller's take away from the CLT program (as compared to a rental scenario, in which neither equity or appreciation would be gained). This financial gain ranged from $3,365 to $17,369, with a mean of $11,427. While the lower end of this spectrum is an extremely small sum to take away from the sale of a house, consider that the two lowest-gain households only remained in their homes for 17 months. Even for these homeowners, the financial gains of equity and appreciation exceeded their initial investment of down payment and closing costs, with an average net gain of $7,650.

Financially, this amount of gain cannot compare to the opportunities available on the open real estate market. However, for most of these families, homeownership through the open market was not a feasible option. The incomes for these households ranged from 46 percent to 74 percent of area median income, or from $23,927 to $42,527. Even in a market as reasonably priced as Duluth, it is difficult for households in this income bracket to find a decent home they can afford.

In concluding this section it should also be noted that, in order to encourage proper upkeep of the CLT homes and promote homeowner capital investment, NCLT offers owners an investment credit. If the owner spent money on approved major repairs, alterations, or additions to the house, they receive a letter of credit from the CLT. Upon sale of the home, NCLT adds the

amount of the credit to the purchase price they pay the seller. Of the thirteen resales, two of the households made investments in their homes, and received an investment credit upon sale of $3,818 and $1,000 respectively.   While these amounts are not considered part of the seller's profit or financial gain in the above analysis, as they are simply a return of money invested, they do represent a guaranteed return to the seller, which they might not have obtained if selling the house on the private market.

Table 5. Annual Rate of Return on Investment

ID#	Total Appreciation	Total Invest.	Total % Return (p)	Years Owned (n)	1+p	1/n	ARR
NC042	-$390	$3,975	-9.8%	2.7	0.9	0.4	0.0%
NC065	$2,245	$5,899	38.1%	5.1	1.4	0.2	6.6%
NC099	$845	$3,763	22.4%	3.2	1.2	0.3	6.6%
NC076	$3,094	$3,713	83.3%	4.4	1.8	0.2	14.7%
NC121	$3,101	$3,848	80.6%	3.4	1.8	0.3	18.9%
NC068	$7,668	$3,046	251.7%	5.2	3.5	0.2	27.6%
NC002	$9,621	$3,259	295.2%	4.9	4.0	0.2	32.2%
NC057	$4,572	$3,528	129.6%	2.5	2.3	0.4	39.4%
NC107	$8,118	$2,890	280.9%	3.2	3.8	0.3	52.6%
NC009	$3,317	$4,081	81.3%	1.4	1.8	0.7	52.2%
NC056	$11,379	$3,445	330.3%	2.8	4.3	0.4	67.4%
NC090	$3,002	$3,636	82.6%	1.2	1.8	0.8	65.1%
NC055	$5,288	$4,511	117.2%	1.4	2.2	0.7	72.9%

Another way to view the financial benefit to the CLT homeowner is through the annual rate of return on their investment ("ARR"). Annual rate of return is calculated by taking the total appreciation divided by the number of years owned (n) to find the annual appreciation, which is then divided by the total up front costs to find an annual percentage appreciation (p). This percentage is then plugged into the following formula, $ARR = [(1+p)^{(1/n)}] - 1$, which adjusts the annual percent return to account for compounding.

Table 5, above, shows the results of this calculation. With the exception of household NC042, who lost money on the sale of the home, home seller's ARR ranged from 6.6 percent to 72.9 percent, with a mean ARR of 33.2 percent. While some of these returns are low (6.6 percent), not much higher than one might realize from other secure investments, others are quite high, returning much more than other secure investments could during this period.

Given a mean profit of $4,758, a mean financial gain over renting of $11,427, and a mean annual rate of return of 33.2 percent, we can only conclude that Duluth's CLT homeowners are able to

realize a reasonable financial benefit from the sale of their homes. While the amount of profit and ARR are small compared to what these households could have made on the private market, for most of these owners the private market is not a realistic alternative. Furthermore, when compared with the negative financial return of renting (no appreciation, no equity, no return on investment), it is clear that this option is a very attractive way for entry-level homeowners to begin to build wealth.

Research Question 3: Continuing Affordability

For the final research question, that of continuing affordability to subsequent buyers, we compare the new sales price for each resold home with the purchase price paid by the first buyer, to see if the housing unit affordability has been maintained, or even increased. We also examine the percent median household income of owners being served in the original sales with those in the resales, again, to determine if the level of household income of the serviced client utilizing this affordable housing unit is not creeping up and out of the low income category (i.e., low income housing is being sustained).

Table 6. Gain or Loss of Housing Unit Affordability Upon Resale

ID#	Total Purchase Cost	Total Buyer Cost	Subsidy Amount	CLT Purchase Price	Derived CLT Fee (7%)	Repairs/Realtors/Other	Price to Next Buyer	Net Gain / Loss of Affordability
NC002	$86,925	$85,838	$1,087	$103,279	$7,230	$0	$110,508	-$23,583
NC009	$157,896	$120,697	$37,199	$122,497	$8,575	$0	$131,071	$26,825
NC042	$144,177	$108,310	$35,867	$111,610	$7,813	$3,000	$122,423	$21,754
NC055	$126,280	$87,011	$39,269	$94,442	$6,611	$3,044	$104,097	$22,183
NC056	$101,880	$74,817	$27,063	$87,734	$6,141	$8,090	$101,965	-$85
NC057	$83,027	$48,808	$34,218	$55,000	$3,850	$12,966	$71,816	$11,210
NC065	$133,194	$106,722	$26,472	$114,022	$7,982	$0	$122,003	$11,191
NC068	$88,370	$63,116	$25,254	$72,404	$5,068	$8,669	$86,141	$2,229
NC076	$92,371	$72,765	$19,606	$77,090	$5,396	$0	$82,486	$9,885
NC090	$147,323	$94,793	$52,530	$101,604	$7,112	$0	$108,716	$38,607
NC099	$151,011	$57,313	$93,698	$59,728	$4,181	$0	$63,909	$87,102
NC107	$64,524	$38,718	$25,806	$48,618	$3,403	$1,302	$53,323	$11,201

Table 6 shows the pricing of the unit as it transitions from the initial sale to the first buyer, through the CLT, and then resells to a second buyer. The original purchase cost is the price of the home on the open market, plus rehabilitation costs. Since this price is not necessarily affordable to a low-income buyer, subsidies were used to bridge the funding gap between the original buyer's costs (affordable mortgage amount, down payment, and closing costs) and the original purchase cost, as shown above in the first three columns. The CLT purchase price is the original buyer's cost, plus the seller's share of the equity and their investment credit (if any). Upon resale of the unit, the CLT takes a fee of 7 percent of the CLT purchase price. These funds

are used to sustain the CLTs operational costs. The price to the next buyer is the CLT purchase price, plus the CLT fee, plus any other realtor costs, subsidy loan repayments, or repairs necessary after the first sale.

As Table 6 illustrates, in 11 out of 13 cases the price to the next buyer is less than the price to the original buyer in real dollars, by $1,751 to $87,102, or 1.8 to 57.7 percent of the original purchase price. On average, these 11 units dropped their price by $22,176, or 17.1 percent of the original purchase price. While 2 of the properties increased in price, one of these increases was nominal, at only 0.1 percent of the original purchase price. Only one unit showed substantial gain in price and loss of affordability, with a price gain of $23,583 or 27.1 percent of the original purchase price. The mean gain in affordability (decrease in real price) for all homes together was $17,317, or 12.4 percent lower than the original purchase price.

Table 7. Median Household Income of Original and New Buyers

ID#	Original Buyer % Median	New Buyer % Median	% More Affordable
NC002	56%	74%	-18%
NC042	58%	60%	-2%
NC056	65%	29%	36%
NC057	65%	61%	4%
NC065	74%	67%	7%
NC068	61%	46%	15%
NC076	65%	62%	3%
NC099	66%	78%	-12%
NC121	62%	56%	6%

There were 9 cases in which the percent median household income (in the year of purchase) could be determined for both the original buyer and the new buyer (see Table 7). Of these 9 homes, 6 saw an increase in affordability (i.e. the home was resold to a lower income buyer than the first household) while three saw a decrease in affordability. In the 6 cases of an increase, affordability gains ranged from 3 percent to 36 percent, and on average, homes were resold to households with a median income 12 percent lower than the original buyer. Thus affordability was not only preserved, but increased. Three of the homes were sold to households with greater incomes than the previous buyers (2 percent, 12 percent, and 18 percent greater respectively). However, even the higher income buyers were all under 80 percent of the median income, so the homes remained affordable to the CLT target population. Overall, the 9 homes resold to households earning 4 percent of the median income less than the original buyers. Thus, answering the question of affordable for whom.

Looking at the tables above, it is clear that, for the most part, affordability was not only preserved upon resale of the CLT home, but actually increased. On average, homes resold to households earning 4 percent less than the original purchasing household, and homes sold at

prices averaging $15,700 less than the original purchase price. These numbers support the claim that CLTs can in fact preserve affordability for subsequent generations of buyers.

Summary of Findings

A summary of our conclusions from the Northern Communities Land Trust analysis is provided below.

- Research Question 1a: The NCLT program provides a much more efficient use of subsidies than the MURL program, and serves approximately the same income range of clients. NCLT saves approximately $17,300 to $48,600 per household over the MURL program, and can assist 1.7 to 3.1 clients for the same amount of money needed by MURL to serve 1. However, MURL fills an important niche in the affordable housing market by assisting potential homebuyers who cannot obtain a conventional loan.

- Research Question 1b: In addition to advancing philosophical goals and long term control of property, the CLT policy of retaining land ownership also has enormous financial benefits, negating the need for subsidizing the refinancing of estimated $1.8 million in land costs over the last 130 NCLT sales.

- Research Question 2: NCLT home seller's were able to make a reasonable financial benefit from the sale of their homes, with a mean profit of $4,758, a mean financial gain over renting of $11,427, and a mean annual rate of return of 33.2 percent. This bodes well for the use of the program by low income renters as a stepping stone to unrestricted market housing.

- Research Question 3: On average, homes resold to households earning 4 percent lower on the median household income scale than the original purchasing household, and homes sold at real prices averaging $17,317 less than the original purchase price (in constant 2006 dollars). These numbers support the claim that CLTs can in fact preserve affordability for subsequent generations of low income home buyers.

Appendix A

Table 8. Demographic Information for Duluth, MN

	Duluth
Population Figures	
Population, 2003 estimate	85,734
Population, percent change, April 1, 2000 to July 1, 2003	-0.70%
Population, 2000	86,918
Population, percent change, 1990 to 2000	1.70%
Age Cohorts	
Persons under 5 years old, percent, 2000	5.40%
Persons under 18 years old, percent, 2000	21.30%
Persons 65 years old and over, percent, 2000	15.10%
Racial Demographics	
White persons, percent, 2000 (a)	92.70%
Black or African American persons, percent, 2000 (a)	1.60%
American Indian and Alaska Native persons, percent, 2000 (a)	2.40%
Asian persons, percent, 2000 (a)	1.10%
Persons reporting some other race, percent, 2000 (a)	0.30%
Persons reporting two or more races, percent, 2000	1.80%
Persons of Hispanic or Latino origin, percent, 2000 (b)	1.10%
Foreign born persons, percent, 2000	2.80%
Education Characteristics	
High school graduates, percent of persons age 25+, 2000	87.70%
Bachelor's degree or higher, pct of persons age 25+, 2000	28.20%
Housing Characteristics	
Living in same house in 1995 and 2000', pct age 5+, 2000	52.90%
Housing units, 2002 (2000 city)	36,994
Homeownership rate, 2000	64.10%
Median value of owner-occupied housing units, 2000	$81,600
Households, 2000	35,500
Persons per household, 2000	2.26
Income Characteristics	
Median household income, 1999	$33,766
Per capita money income, 1999	$18,969
Persons below poverty, percent, 1999	15.50%
Land Information	
Land area, 2000 (square miles)	68

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