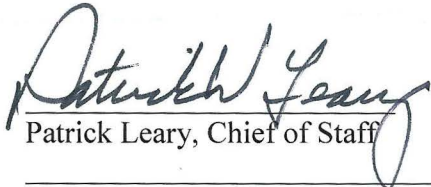





**CITY COUNCIL TRANSMITTAL**

  
Patrick Leary, Chief of Staff

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**TO:** Salt Lake City Council  
Stan Penfold, Chair

**DATE:** February 3, 2017

**FROM:** Mike Reberg, Community & Neighborhoods Director 

**SUBJECT:** Community Land Trust (CLT) Overview

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**COUNCIL SPONSOR:** Erin Mendenhall

**DOCUMENT TYPE:** Information only

**RECOMMENDATION:** Briefing only

**BUDGET IMPACT:** None

**BACKGROUND/DISCUSSION:**

Over the past year, HAND has been working strategically to identify long-term affordable housing solutions. While many are still being explored (especially those that require a funding source) there are some that can be acted on immediately that will bring long-term impact to Salt Lake communities. This transmittal and its attachments briefly outline the merits of the Community Land Trust (CLT) model, how it aligns with the current housing policy, and how the City plans to implement this program.

The CLT model is a long standing mechanism used throughout the country to preserve affordability in perpetuity for both single-family (homeownership) and multi-family (rental) housing. HAND intends to allow for both single and multi-family within the program, with an initial focus on homeownership. This focus is primarily derived from current availability of land and overall program costs. This model is not only a tool to preserve affordability but also serves as a partnership between community members and the program itself. This partnership begins

with shared investment in the property and a desire to maintain quality housing stock while building equity. Further, HAND would continue to serve as an educator and resource to homeowners as they continue to create wealth or face hardships.

One of the goals of land trust is to promote affordable housing in *all* areas of Salt Lake City, creating diverse and balanced communities, breaking down social and economic segregation, and building a city for everyone. Data shows that integrating affordable housing into a variety of neighborhoods can often help lower crime rates due to neighborhood cohesion and economic stability. Safe, stable, and affordable housing is essential in providing a path to financial security as well as a foundation to transition out of poverty. Salt Lake City's Housing Policy intends to foster diverse and vibrant communities and neighborhoods that provide housing options and opportunities for both single and multi-family housing. The CLT not only benefits the individuals participating in the program, but our community as a whole.

Here are some key facts about the program:

- This program is only accessible to those making 80% area median income (AMI) or less however, the larger goals of the program plan to target populations with lower incomes. For homeownership specifically, this program will provide access to a lower AMI, creating access to those closer to 60% of AMI.
- Through the use of a special warranty deed, SLC retains ownership of the land while conveying ownership of the structure and any improvements to the purchaser.
- A traditional bank mortgage can be used to purchase the structure, although it is initially anticipated that most will utilize a mortgage through HAND's existing program.
- Since the purchaser does not own the land, the City will lease the land at the rate of \$50 per month. The land lease fee is below market rate, which ensures affordability of housing. The fee may be lowered when necessary pending a committee approval.
- Lessee will pay a monthly repair reserve fee. This money belongs to the tenant and can be used for structural capital repairs that may be needed after about 7-10 years.
- Each lease runs 99 years in length and is renewed at each new sale, thus creating affordability in perpetuity.
- At the time of sale, the land will remain in the trust and the structure will be sold to another low-income household. The re-sale amount of the structure increases up to 3% each year which allows the purchaser to gain equity while ensuring affordability for future buyers.

***For more detailed information please refer to Attachment A which contains more program parameters and details.***

### *Next Steps*

Over the next 12 months HAND intends to use properties through its existing homeownership program as well as large projects that are shared with the private market via the RFP process. HAND anticipates adding 6 properties to the CLT in the next 6 months. Using existing programs and the RFP process will allow the City to keep costs of the program low while still ensuring that City owned assets are being leveraged to maximize affordability. One property has

already been completed and is ready to be placed in the trust with two additional properties that have are planned for development in 2017. Buyers will be selected on a first-come-first-served basis and outreach will be conducted to those in HAND's database currently.

Formalizing the structure now allows the mechanism to exist in a way that can be leveraged as opportunities come up. With such a program in place we may find new ways to partner on larger projects as it effectively lowers the cost of the land. This also allows the City to preserve housing in a new way. With ownership still intact, it offers a legal means to ensure that property is kept in good condition and with good oversight and management.

A final key component of the program is the ability to keep the amount of the land lease relatively low- no more than \$50 per month, in addition to the monthly mortgage payment on the structure. This number is lower than market rate for the land, thus triggering a public benefit analysis which has been submitted to the Council in a separate transmittal. This component is necessary to allow the program to benefit low-and moderate-income families. Without a reasonable lease rate, the program would continue to be out of reach for low-income households and would look more like an HOA structure as opposed to a CLT model. Further, the program needs to be consistent in nature ensuring that each purchaser experiences the same parameters. This is why the public benefit analysis is a program wide request as opposed to single benefit analysis. In the future, the benefit to each homeowner will be very similar in nature as will the city-wide benefits, thus it seems logical to include the entirety of the program in the request.

#### *Summary*

The CLT model aligns strongly with the Administration's and the Council's affordable housing priorities. Current market conditions have essentially excluded low-and moderate-income families (those making 80% or less of AMI) from home purchase with the median sales price of \$227K. The CLT program reduces the cost of homeownership significantly by decreasing the purchase price of a home by removing the land cost from the total mortgage price. For example a home that is purchased at \$227K will be reduced to approximately \$160K to \$130K. The cost savings associated with the reduced monthly housing payment can add up to as much as \$8,500 over 5 years, and the equity potential after 5 years may be as high as \$55,000. Not only does the price reduction create access for low-income families, it creates more choice on where that family would like to live.

Lastly, there is a strong case to be made for the CLT actually preserving the character and diversity of neighborhoods that sometimes disappears through gentrification. This tool can be acted on immediately while maintaining long term impact in Salt Lake's communities at a time when the market continually excludes those most in need.

**PUBLIC PROCESS:** Not Required

#### **EXHIBITS:**

Attachment A: Community Land Trust Program Overview

## **ATTACHMENT A**

## COMMUNITY LAND TRUST OVERVIEW

Community Land Trusts are used as mechanisms to retain affordable housing in perpetuity. The trust acts as a steward that preserves affordable housing on behalf of the community by removing land from the private speculative market which stabilizes the cost of land. The Community Land Trust (CLT) model is used across the nation in order to provide opportunities for low- and moderate-income (LMI) households who might otherwise find homeownership out of reach, specifically those that are at or below 80% of area median income (AMI). In addition, the land trust can also be used to preserve the affordability of multi-family rental units. The CLT addresses long-term affordable housing issues ranging from homelessness to homeownership by providing affordable rental units as well as opportunities to transition into homeownership. As we battle gentrification in Salt Lake City, the land trust is one solution to ensure affordable housing is always available for home buyers as well as renters.

### POPULATION SERVED

According to the Fair Housing Assessment of Salt Lake City completed by the Bureau of Economics and Business Research in 2013, non-Hispanic White homeownership rates far exceed minority groups such as Hispanic, Asian, and Black. The Fair Housing Assessment points out that not only are homeownership rates lower among minority populations, but Salt Lake City has a clear line of segregation marked by I-15.

While homeownership rates among minority populations reaches as high at 60% in some west side neighborhoods such as Fairpark, Euclid, Poplar Grove, and Glendale, these rates are much lower in east side neighborhoods of Salt Lake City. This is attributed to vast differences in home values, ranging from \$175,000 in west side neighborhoods such as the River District, to upwards of \$700,000 the farther east you travel.

This has resulted in a lack of opportunity, especially among low income and minority populations. East side neighborhoods often have increased access to transportation, employment centers, and other opportunities that are not present in many neighborhoods on the West side. One goal of the CLT is to provide affordable housing opportunities in all areas of Salt Lake City; increasing housing choice and affirmatively furthering fair housing, specifically among minority and underserved populations. Not only will the land trust ensure the availability of affordable housing in neighborhoods throughout the city, it will also help preserve affordability in changing neighborhoods like Rose Park and Glendale that are experiencing gentrification pressure. As gentrification pressure increases, low-income families and small business may be displaced from the neighborhood due to rising housing costs.

Traditionally the homeownership programs offered by Salt Lake City, such as the First Time Home Buyer Program, have served residents at 80% of area median income (AMI). The additional affordability that the CLT provides allows the opportunity to serve residents closer to 60% of AMI who would otherwise find homeownership out of reach, particularly as housing costs continue to skyrocket. As more residents between 60% to 80% of AMI transition into

homeownership, additional housing resources will be freed up to assist very low-income households in need of safe, affordable, stable housing.

## **PROGRAM STRUCTURE**

### **Single Family**

Through the land trust, the homeowner owns the structure and its improvements but leases the land beneath it. This is achieved through a special warranty deed which splits the land and structure parcel. This model allows the land to remain in the trust to ensure affordability is maintained. Since the homeowner is not purchasing the land, they are able to purchase the home at a more affordable rate. Upon sale of the home, the CLT restricts how much the home can be sold for, ensuring future affordability while providing wealth-building opportunities for low income families to transition out of poverty, potentially ending the cycle of intergenerational poverty.

### **Multi-Family**

Although Salt Lake City's Community Land Trust will begin with single-family units, it is a natural progression to include multi-family rental units in the trust. Many multi-family affordable housing units have affordability restrictions for 15 to 50 years. When the affordability restrictions expire, there is a possibility that residents could be displaced by increased rents. Land trusts ensure that housing remains affordable even after the term of affordability has ended. The availability of affordable multi-family units assists Salt Lake households that may be on the brink of homelessness by providing quality, affordable, safe, and stable housing. Further, the trust ensures that multi-family properties are continually maintained and improved preventing blight and dilapidation. Multi-family properties will follow a similar structure to single-family, however actual fee structures are yet to be determined.

**Land Lease-** The trust leases the land to the homeowner at a rate of \$50 per month. The lease is set up for 99 years and is renewed when a new home buyer purchases the home. If the homeowner is experiencing financial hardship, the lease can be temporarily reduced or waived. A hardship application will be submitted for review and approval of any reduction in the land lease.

**Repair Reserve-** The CLT strives to promote successful homeownership in the LMI population. A large struggle that this population faces is the ability to save for home maintenance and repairs. In order to encourage homeowner success as well as protect the City's asset, a repair reserve will be established to help finance capital improvements of the structure such as replacing a roof or windows. The repair reserve will be included in the homeowner's monthly mortgage payment in the amount of \$35 per month. The trust will maintain the repair reserve, but the funds are accessible by the homeowner only to be used for approved repairs. When the homeowner sells the property, the balance of the repair reserve will remain with the trust and can be used by future homeowners. The repair reserve is attached to the structure, not the land.

**Re-sale Restrictions-** In order to ensure future affordability of the single-family homes, the CLT places sales restrictions on the sale of the home. For each year the homeowner lives in the property, the re-sale amount increases up to 3%.

Re-sale formula = {purchase price x [0.03 (number of years in home)]} + purchase price

Example: re-sale after 10 years = {\$200,000 x [0.03 (10 years)]} + \$200,000 = \$260,000

Re-sale amount is dependent upon the market. The CLT does not guarantee that the home can be sold for the maximum re-sale amount. The risk of depreciation is assumed by the homeowner. The purpose of re-sale restrictions are to reduce inflation in home prices to ensure that the same home will remain affordable to the LMI population.

**CLT Example-** Based on a 2 bedroom 1 bathroom in an east side neighborhood valued at \$240,000. As shown by the chart below, through the CLT, we are able to serve lower AMI populations and provide more affordable housing options in all areas of Salt Lake City.

	<b>CLT</b>	<b>SLC Mortgage*</b>	<b>Other Lenders**</b>
<b>Purchase price/Mortgage</b>	\$165,000	\$240,000	\$243,240
<b>Principal and interest payment</b>	\$695	\$1,010	\$1,195
<b>Mortgage insurance</b>	\$0	\$0	\$172
<b>Land lease + repair reserve</b>	\$50 + \$35	\$0	\$0
<b>Total monthly payment***</b>	\$780	\$1,010	\$1,367
<b>Income need to qualify</b>	\$38,000	\$48,000	\$55,000
<b>AMI for 3 person household</b>	57%	72%	83%

\* Mortgage financing offered through Salt Lake’s Home Buyer Program.

\*\* Based on an FHA loan.

\*\*\*Does not include property taxes and homeowners insurance.

## **FINANCING**

Purchase of the structure through the CLT is essentially the same as a traditional home purchase. The only difference is that the homeowner is purchasing the structure and it’s improvements as opposed to the lot and the structure. Salt Lake City Housing and Neighborhood Development Division offers a mortgage program that will provide the financing for homeowners to purchase through the CLT program. The mortgage offers a 3% interest rate fixed for 30 years with no mortgage insurance. With the combination of the Community Land Trust and Salt Lake City’s low cost mortgage, homeowners have access to the most affordable mortgage payments possible. Reference the chart above to see the payment savings available through the program.

## **ELIGIBILITY**

Eligibility to purchase a home through the Community Land Trust is based on income and several other factors. Households at or below 80% of AMI are eligible for the program.

Residents must meet mortgage qualifications as well. This includes (but is not limited to) housing and debt-to-income ratios, credit score requirements, and stable employment history. The program will target underserved populations and minorities in order to provide increased fair housing opportunities in Salt Lake City.

## **STEWARDSHIP**

A key piece of the Community Land Trust model is stewardship. Below are HAND's four goals of stewardship:

1. Promote success of homeowners
2. Protect affordability of publicly-subsidized homes
3. Preserve the quality and condition on homes for future generations
4. Prevent loss of public investment and homeowner returns, especially to foreclosure

The CLT provides stewardship of assets as well as homeowners, which creates a well-rounded program that promotes positive outcomes for the homeowner and the city. Homeowner success is achieved by ongoing education, support, and engagement. Salt Lake City partners with community organizations that offer home buyer education, financial coaching, post-purchase counseling for homeowners, and a variety of other resources. Community partnerships are essential to the success of the program as it allow us to connect homeowners with resources, supporting them without placing the entire burden of providing resources on the City of Salt Lake.