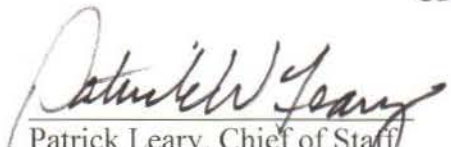




CITY COUNCIL TRANSMITTAL

  
Patrick Leary, Chief of Staff

Date Received: February 15, 2017  
Date sent to Council: February 15, 2017

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

**DATE:** February 15, 2016

**FROM:** Mary Beth Thompson, Finance Director 

**SUBJECT:** Public Benefits Analysis Re: Establishment of a Community Land Trust in Housing and Neighborhood Development, Per the Requirements of Utah Code Section 10-8-2

**SPONSOR:** NA

**STAFF CONTACT:** Randy Hillier, Policy and Budget Analyst (801) 535-6606 or  
John Vuyk (801) 535-6394

**DOCUMENT TYPE:** Public Benefits Analysis and Recommendation

**RECOMMENDATION:** The Administration recommends that a public hearing on the matter of the Public Benefits Analysis of the establishment of a Community Land Trust (CLT) within Housing and Neighborhood Development (HAND).

**BUDGET IMPACT:** Budget Neutral

**BACKGROUND/DISCUSSION:** Per a request from the Housing and Neighborhood Development (HAND) Division of the Department of Community and Neighborhoods, the Policy and Budget Division, has conducted a Public Benefits Analysis of establishment of a Community Land Trust (CLT) within HAND.

A CLT is a low-income housing mechanism that is commonly used throughout the country to enable homeownership or access to affordable rentals to individuals or families making 80% area median income (AMI). Those who qualify for the program would purchase the structure, but have a long-term lease on the property on which the structure sits which is far below market rate.

A CLT acts as a steward that preserves affordable housing on behalf of the community by removing land from the private, speculative market. Doing this helps stabilize the cost of land.

Establishing a CLT will be another effective tool the City may use toward addressing issues surrounding housing availability. Both the Council and the Mayor have voiced support for, and set goals toward improving housing opportunities for all income levels of Salt Lake City. The establishment of a CLT will be another step in the City's efforts to achieve those goals.

**PUBLIC PROCESS:** Public Hearing

## **MEMORANDUM**

**TO:** Patrick Leary  
Chief of Staff

**FROM:** Randy Hillier

**DATE:** February 15, 2017

**SUBJECT:** Establishment of a Community Land Trust in Housing and Neighborhood Development: Study to Comply with Utah Code Section 10-8-2

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It is recommended that Salt Lake City Corporation (City) establish a Community Land Trust (CLT) within Housing and Neighborhood Development (HAND). A CLT is a low-income housing mechanism that is commonly used throughout the country to enable homeownership or access to affordable rentals to individuals or families making 80% area median income (AMI). Those who qualify for the program would purchase the structure, but have a long-term lease on the property on which the structure sits which is far below-market rate. To assure that such lease agreements will be in compliance with Utah Code, the following study has been performed.

Utah Code 10-8-2 outlines the purposes for which a municipal body may appropriate funds (or in this case, offer a nominal, below market long-term lease rate) and the factors that must be considered in determining the propriety of such an appropriation. Prior to the requisite public hearing, and decision to appropriate any funds, a study shall be performed. This study will consider the following factors:

- (1) What identified benefit the municipality will receive in return for any money or resources appropriated;
- (2) The municipality's purpose for the appropriation, including an analysis of the way the appropriation will be used to enhance the safety, health, prosperity, moral well-being, peace, order, comfort, or convenience of the inhabitants of the municipality; and
- (3) Whether the appropriation is "necessary and appropriate" to accomplish the reasonable goals and objectives of the City in the area of economic development, job creation, affordable housing, blight elimination, resource center development, job preservation, the preservation of historic structures and property, and any other public purpose.

*See Utah Code §10-8-2(3)(e).*

## **Background**

The Community Land Trust (CLT) is a low-income housing mechanism used nationwide to create and retain affordable housing throughout a city in perpetuity. Such trusts act as a steward that preserves affordable housing on behalf of the community by removing land from the private, speculative market. Doing this helps to stabilize the cost of the land. The program will offer housing to individuals or families in the City with incomes at or below 80% of area median income (AMI).

Within the CLT program, the homeowner owns the structure and its improvements, but leases the land beneath it. This is achieved through a special warranty deed that splits the land and structure parcel. The CLT leases the land to the homeowner at a rate of \$50 per month. This is a long-term lease that will be set up for 99 years, and is renewed each time the home is sold.

An additional requirement placed on the homeowner will be the payment of a monthly \$35 repair reserve. The CLT will maintain the repair reserve, but funds will be accessible by the homeowner to be used for approved capital repairs to the structure. When the homeowner sells the property, the remaining balance in the repair reserve may be used by the new homeowners. The repair reserve account is attached to the structure, not the land or the homeowner.

In order to ensure affordability of the homes, the CLT places sales restrictions on the structure. For each year the homeowner lives in the home, the resale amount will increase only up to 3%. For example, if a homeowner occupies a property initially valued at \$200,000 for ten years, and the market is good during that time, the homeowner may realize an up-to 3% increase in value each of those ten years. This increase would result in them being able to sell the home for up to \$260,000, depending on what the market will bear. See the example below.

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

The example shown in the table below helps illustrate the savings a qualifying individual may experience in a land trust versus other homeownership options. This example is based on a 2 bedroom 1 bathroom home in a typical Salt Lake City east side neighborhood, which is valued at \$240,000.

	<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.

The CLT will reduce the cost of homeownership for participants significantly by decreasing the purchase price of a home. For example, a home that would normally list at \$227,000 would be sold within a range of approximately \$130,000 to \$160,000. The cost savings associated with the reduced monthly payment could add up to as much as \$8,500 over five years, with the equity potential after five years being as high as \$55,000.

Although the Salt Lake City CLT will begin with single-family properties, the mechanism may be used for multi-family units as well. The CLT should progress toward supplying multi-family housing as the size of the program grows. Unlike many multi-family affordable housing units, which have affordability restrictions that last for 15 to 50 years, a land trust will ensure the housing remains affordable even after the term of affordability has ended. Multi-family properties will follow a similar structure to single-family properties, however, the actual fee structure has yet to be determined.

Over the next year, HAND intends to use City-owned land as a mechanism to build the CLT, with at least three properties joining within the next four months. By using existing City-owned property, the costs of the program can be kept low, while still ensuring that City-owned assets are being leveraged to maximize affordability. Buyers will be selected on a first come first served basis, and outreach will be conducted to those currently in HAND’s database and through existing nonprofit relationships.

### **Benefits and Costs to Salt Lake City**

There are numerous benefits to Salt Lake City residents and the community as a whole that the CLT model provides. Providing homeownership and equity building, reducing

homelessness, as well as neighborhood stability are among the most obvious reasons to consider the establishing a CLT. Additionally, shared equity programs, such as a CLT, have been promoted as a cost-effective method to help low-income families build wealth through sustainable homeownership, while at the same time providing a permanent supply of units that remain affordable over time.<sup>1</sup>

Further, it should also be noted that such programs have been effective in providing a respectable rate of return for home buyers. A case study analyzing the Champlain Housing Trust found that homebuyers in the program who sold their home realized median rate of return of 30.8 percent, despite restrictions on the appreciation that they could realize upon resale.<sup>2</sup>

Benefits aside, it should be mentioned that the program requires an initial investment of City assets and the ongoing reduced lease rate on the land. It was calculated by the City's Real Estate Services that the market rate for the lease on the land associated with one of the houses slated for the program would be approximately \$400 per month, a difference of \$350 over-and-above the \$50 per month lease rate currently built into the CLT program.

### **Salt Lake City's Purposes and Enhancing the Quality of Life for Residents:**

Initiating a CLT will help to enhance the quality of life for Salt Lake City residents in many ways. Despite the limited number of dwellings available in the beginning of the program, it has the potential for allowing many more residents to achieve homeownership and build equity. Additionally, the long-term lease provisions and the restrictions on how much a home can be sold for will help to reduce the amount of gentrification the City is experiencing. The land trust will ensure the availability of affordable housing in neighborhoods throughout the City and help preserve affordability in neighborhoods like Rose Park and Glendale, which are experiencing gentrification pressures.

By increasing the number of homeowners throughout the City, the CLT will also help to create stability in neighborhoods. And, by promoting affordability in more areas of the City, the program will help to preserve the character and diversity of those neighborhoods, while introducing more diversity to others.

### **Accomplishing Salt Lake City's Goals:**

Both the Council and the Mayor have voiced support for improving housing opportunities for the residents of Salt Lake City. The most current set of goals embraced by both the Mayor and Council include objectives regarding improvements in housing opportunities for all income levels throughout the City.

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<sup>1</sup> Community Investments, Spring 2011 – Volume 23, Issue 1, page 32

<sup>2</sup> Shared Equity Homeownership Evaluation: Case Study of Champlain Housing Trust, Oct 2010, The Urban Institute

## **Council Objectives**

Housing/Homelessness – One of the most pressing issues facing Salt Lake City is the lack of affordable housing for everyone who wants to live here. An ample supply of affordable housing is especially important in addressing the complex issue of reducing homelessness in our community.

## **Mayoral Objectives**

Access to a wide variety of housing types for all income levels throughout the City, providing the basic human need for safety and responding to changing demographics.

Additionally, the CLT Program addresses the four goals of stewardship that Housing and Neighborhood Development (HAND) has embraced.

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

The CLT Program 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 allows the City to connect homeowners with resources, supporting them without placing the entire burden of providing resources on the City of Salt Lake.

## **CONCLUSION:**

The establishment of a Community Land Trust will be another effective tool the City may use toward addressing issues surrounding housing availability. The CLT model provides a long-term and sustainable way to initiate homeownership for sectors of the City's population that may not have access to affordable and stable housing. The CLT model has also proven to be a sustainable and long-term way to provide affordable housing to underserved populations. Using existing City assets for a CLT is a cost-effective approach to achieving the City's goals related to affordable housing to the population of Salt Lake City.

**To meet the law's requirements, this study has been available in the City Recorder's Office, Room 415, City & County Building, 451 South State Street since \_\_\_\_\_, 2016. The City Council will hold a public hearing on whether to adopt a resolution approving the proposed study. The public hearing will be held \_\_\_\_\_.**