



How the Community Land Trust Works?

West Hennepin Affordable Housing Land Trust

West Hennepin Affordable Housing Land Trust dba Homes Within Reach is a Community Land Trust.

A Community Land Trust organization is a -

- Nonprofit organization
- Formed to hold title to land to preserve its long-term affordability
- Receives public and private donations of land or monies, to purchase land on which housing exists or can be built
- The homes are sold to low-to-moderate income workforce families
- The CLT retains ownership of the land and provides a long-term ground lease to homebuyers to secure their rights to use the land
- The CLT retains a long-term option to re-purchase the homes at a formula-driven purchase price when homeowners later decide to sell & move.

CLT Practice
<i>Affordability is made permanent through the use of a 99-year renewable Ground Lease.</i>
<i>The land trust model guarantees that every subsequent homebuyer will be of low-to-moderate income.</i>
<i>The investment is never lost. The affordability recycles with each new homeowner.</i>
<i>Provides support for first-time homebuyers.</i>

The Community Land Trust (CLT) is one vehicle that allows homeownership to be affordable for low-to-moderate income workforce families.

Two key components driving the interest in Community Land Trusts are

- ☑ **A Social Component:** Promoting homeownership for low to moderate income families
- ☑ **A Financial Component:** Protecting the public's investment in affordable homeownership

A Community Land Trust (CLT) establishes affordability by removing the value of the land from the mortgage equation to create initial affordability resulting in savings of principal and interest and in down payment and closing costs.

The CLT retains ownership of the land and enters into a 99-year ground lease with the leaseholder-homeowner. Therefore, each affordable home will offer affordable homeownership to 6-9 families throughout the life of the lease.

The CLT leaseholder-homeowner pays property tax on both the home and the land, and secures the rights to use the land via a Ground Lease.

Federal, State, City and private contributions fund project costs - land acquisition, buyer assistance, rehab, and holding costs.

A CLT ensures permanent affordability of the home through two provisions found in the Ground Lease.

- ☑ The first is a pricing formula that provides the owner with a fair amount of equity (25%-35%), while ensuring the sale price for subsequent low-to-moderate income households is affordable.
- ☑ The second provision requires the homeowner to sell to another low-to-moderate income household. Also, the provisions ensure the home continues to be affordable with each sale.

A CLT leaseholder-homeowner receives benefits similar to non-CLT homeowners such as the ability to build equity, the federal mortgage interest and property tax deduction and the ability to pass on the lease interest and home to their heirs.

The following Chart provides an example of how a Community Land Trust creates initial and permanent affordability (99 years plus). The example compares the difference in affordability after ten years under the CLT and conventional model.

Affordability Comparison

Affordability Comparison			CLT Model	Conventional Model
Acquisition costs				
	Market Value Land		\$ 170,000	\$ 170,000
	Market Value Home		\$ 200,000	\$ 200,000
	Total		\$ 370,000	\$ 370,000
Subsidy				
	Subsidy/Affordability Gap		\$ 245,000	\$ -
	Sale Price		\$ 200,000	\$ 370,000
Housing Costs				
	Principal and Interest	¹	\$ 1,264	\$ 2,262
	Property Taxes		\$ 334	\$ 334
	Homeowner Insurance		\$ 150	\$ 150
	Land Lease Fee		\$ 30	n/a
	Total Monthly Principal, Interest, Taxes, Insurance		\$ 1,778	\$ 2,746
	Down Payment		\$ 1,000	\$ 18,500
	Closing Costs		\$ 4,628	\$ 6,292
Market Value After 10 Years				
	Market Value Home		\$ 232,108	n/a
	Market Value Land and Home		n/a	\$ 429,400
	Increase in Value ²		\$ 32,108	\$ 59,400
Sale Price Calculation after 10 Years				
	Percentage of Appreciation to Owner		35%	100%
	Owners Share of Appreciation		\$ 11,238	\$ 59,400
	New Sale Price of Home		\$ 211,238	\$ 429,400
¹	Mortgage Interest Rate 7%, Term 30 years,			
²	Annual average increase in market value 1.5%			

The chart above demonstrates that after ten years, the CLT home sells for \$211,238 as opposed to \$429,400 under the conventional model, thereby preserving the initial investment and preserving the affordability.

Two factors ensure the permanent affordability: the land has been permanently removed from the speculative market, the homeowner receives only a percentage of the appreciation of the home when they decide to sell. In the above example, the owner receives 35% or \$11,238, based on a formula that is standard among CLTs (25-35%) across the United States, where the homeowner receives only a portion of the appreciation in order to make the home affordable for each subsequent sale.