



MINNESOTA COMMUNITY Land Trust Coalition

F. A. Q.'s

Q. What is a community land trust?

A. A community land trust (CLT) is a nonprofit, community-based organization that works to provide permanently affordable homeownership opportunities. A CLT acquires land and removes it from the speculative, for-profit, real estate market. CLTs hold the land they own “in trust” forever for the benefit of the community.

A community land trust provides access to homeownership for people who cannot afford homes for sale on the real estate market. CLTs provide greater housing security than renting. CLT residents benefit from stable monthly payments, security from eviction, and the opportunity to build equity through homeownership.

Like all non-profits, CLTs follow local laws and zoning requirements, and also follow the organizational bylaws put in place when the CLT was established. CLTs are governed by a board of directors that is made up of community members and CLT homeowners. Members of the CLT elect the board of directors.

There are over two hundred CLTs in the nation today – nine of them in Minnesota.

Q. Who lives in land trust homes?

A. Land Trust homeowners include families, children, grandparents, couples, and singles. They are social workers, bus drivers, teachers, students, office workers, business owners, stay-at-home moms, artists, musicians, and much more.

Some of our lowest income homebuyers would not have been able to buy a home except through the Land Trust. Other Land Trust homeowners could have afforded to buy a home on the open market, but most likely they would have qualified for a home in need of significant repairs which would have been too expensive for them to complete. The Land Trust helps these families purchase a much higher quality home than they would have otherwise been able to afford.

Q. How does CLT homeownership work?

A. Homebuyers with CLT programs purchase only the house – and enter into a long term agreement with the CLT to lease the land. CLT homes are sold to families with limited incomes. These homes cost less than market rate homes because CLT homebuyers purchase only the house and enter into a long-term agreement – a 99-year ground lease – with the CLT for the use of the land. When a family decides to sell a CLT home, they sell only the house to another family with a limited income for the price that is determined by the resale formula in the ground lease. The home stays affordable for future generations.

By taking the cost of the land out of the real estate transaction, land trust homes are more affordable than houses on the open real estate market.

Q. What are the benefits of CLT homeownership?

A. There are a number of benefits to purchasing a house through a community land trust:

Affordability – Land trust homes are more affordable than homes purchased on the open real estate market.

Mortgage – consistent housing payments allowing the homeowner to build equity and receive federal tax deductions for mortgage interest and property taxes.

Community – The 99-year Ground Lease ensures that CLT homeowners will have the support of the land trust community. CLT homebuyers are part of this larger community – they can choose participate in the CLT community through voting, volunteering, and becoming a CLT board member.

Support – CLT homebuyers have the support of CLT staff as long as they own their homes. CLTs provide a wide array of support to CLT homeowners – from informational newsletters to hands-on home improvement workshops. CLTs are also available to help CLT homeowners in dealing with financial problems and foreclosure prevention.

Stability – Homeownership provides stable housing costs and security from eviction. With this stability, some CLT homeowners have gone back to school and pursued better jobs.

Q. What is the ground lease?

A. Because a CLT owns the land and the homeowner owns the home, a CLT and the homeowner sign a ground lease that defines the roles and responsibilities of both the CLT and the homeowner.

- The ground lease allows the homeowner secure, long-term rights to use the land. CLT homeowners have exclusive use of the land, and they have full responsibility for the property.
- The nominal lease rates are different for each CLT, but with all CLTs, the lease fee gives the homeowner full use of the land and support services from the CLT.
- The ground lease is renewable, can be transferred to the family's heirs, and ensures full rights of privacy.
- The ground lease also provides a resale formula that is used to determine the sales price, if and when the family decides to sell their CLT home.

Q. Why do CLTs use a resale formula to calculate the sales price?

A. CLTs provide access to homeownership for people that cannot afford houses that are for sale on the real estate market. CLTs make homeownership affordable for today's homebuyers as well as for future generations of homebuyers.

CLT homes are affordable today because the CLT homebuyer receive financial assistance from the community land trust to buy down the amount needed to purchase the house.

The resale formula preserves the affordability for the next family who will buy the CLT house.

Essentially, by agreeing to the resale formula, CLT homebuyers are agreeing to help another limited income family purchase a house in the same way that they were helped in purchasing their house.

Q. What is the process for selling a CLT home?

- A.** When a CLT homeowner wants to move there are several options. The home can be sold directly to an income-qualified buyer, can be sold back to the CLT, or it can be given to the children or other qualified heirs of the homeowner.

Assuming the house has retained or increased its value, the CLT homeowner who sells his or her home will get all of their equity (the amount of money that they used as a down-payment as well as the portion of the mortgage paid off) plus a portion of the appreciated value of the home.

The sales price for the house is determined using an independent appraisal of the value of the house and the resale formula outlined in the ground lease. Different CLTs have different resale formulas.

The following is an example of how the selling price for a CLT house would be determined. This example uses resale guidelines that determine the sales price by adding 25% of the increase in value of a home to the initial purchase price of home.

- Initial purchase price (market rate) of CLT home: \$165,000
- Initial cost to the CLT buyer (after buy-down grant): \$140,000
- Value of the home at resale: \$220,000
- Increase in value of home: $\$220,000 - \$140,000 = \$80,000$
- Resale price to another CLT homebuyer : $\$140,000 + (25\% \times \$80,000) = \$160,000$

In this scenario, the seller receives the amount they paid off of their mortgage, their down-payment, plus \$20,000 from appreciation.

Q. Who pays the property taxes?

- A.** The CLT homeowner pays all the taxes associated with the property. As with all homeowners, property taxes and mortgage interest are tax deductible. Many CLT homeowners are also eligible for a Property Tax Refund from the state of Minnesota.

Q. What kind of support does a CLT provide for its homeowners?

- A.** A CLT makes a long-term commitment to its homeowners. Types of support offered by CLTs to homeowners after they purchase their homes include education, resources and community events.

CLTs have helped homeowners with foreclosure prevention, property tax refunds, and re-financing options. CLTs also provide resources about reputable home maintenance contractors – some CLTs offer ‘how-to’ home maintenance workshops for its homeowners.

CLTs can also provide a connection to the greater CLT community – CLTs host events for homeowners, publish informational newsletters geared toward CLT homeowners, and provide opportunities for homeowners to be involved in the decision-making process for the organization.

Q. How does CLT homeownership compare to renting?

- A.** CLT homeownership provides families stability and security not found with renting. CLT homeowners have control of their housing. CLT homeowners benefit from stable monthly housing payments, security from eviction, and the opportunity to build equity. CLT homeowners can also take advantage of income tax deductions for their property taxes and the interest paid on their mortgage.

Q. How does CLT homeownership compare to conventional homeownership?

A. CLT homeownership is essentially the same as other homeownership except that the land which CLT homes are located on is owned by the community based organization.

Similarities:

- The homeowner has a mortgage with a bank
- The homeowner accumulates equity
- The homeowner pays property taxes
- The homeowner can make alterations and improvements
- The homeowner receives federal tax deductions for mortgage interest and property taxes

Differences:

- The purchase price is lower, because the land is not purchased by the homeowner
- The CLT owns the land, the homeowner leases the land from the CLT for a nominal fee
- If a family chooses to sell their home, the selling price will be lower – selling a CLT home helps limited income families the same way as buying a CLT home

Q. What do CLTs have in common?

A. CLTs are committed to providing safe, stable homeownership opportunities for families and individuals with limited incomes. In addition...

- CLTs are community based; they are guided by the communities they represent and value their decisions.
- CLTs believe that it is essential for each community to critically evaluate, plan, and address long-term housing affordability in their communities
- CLTs strive to strengthen their communities through homeownership
- CLTs preserve housing affordability through the use of a ground lease
- CLTs are governed by boards of directors that include CLT homeowners
- CLTs hold the land beneath CLT homes “in trust” for the community

Q. How are CLTs different?

A. CLTs reflect the communities they represent. In addition...

- CLTs use different development strategies and housing programs to provide homeownership opportunities
- CLTs use different resale formulas to determine the sales price of homes sold by CLT homeowners
- Each CLT has a list of mortgage financing options that work with their programs (not all mortgages work with all CLTs)
- Each CLT has its own application process

Q. What do all CLT homeowners have in common?

A. Prior to purchasing their homes, all CLT homebuyers are required to attend homeownership training, like the Home Stretch Workshop. In addition...

- CLT homeowners pay lease fees for the use of the land beneath their homes
- CLT homeowners are involved in the decision-making process of their CLT – they elect and can be elected to their CLT’s board of directors
- CLT homeowners are part of the grater community of CLT homeowners
- If they choose to sell their homes, CLT homeowners help other low- and moderate-income prospective families and individuals purchase homes

Q. What About Realtors?

- A.** Every Community Land Trust organization works with the Realtor community differently. Some Land Trusts have a Realtor on staff or are affiliated with a Broker, others work with an area Realtors and still others work with Realtors who bring buyers into the equation. You may choose to work with a realtor to purchase a Land Trust home or you may choose to purchase a home without a Realtor.