

The Community Land Trust: Preserving Affordable Housing Stock in Orange County, North Carolina

Sonia Garrison, Christine Westfall, Alison Weiner, and Erin Crossfield

Orange County, North Carolina, located in the state's booming Research Triangle region, is increasingly becoming an area in which only the affluent can afford to live, threatening the economic, racial and cultural diversity that is needed for a healthy society. In response to the county's dwindling supply of affordable housing, area activists and governments together established the Community Land Trust in Orange County (CLTOC), incorporated in 1999. Two years later, CLTOC is now beginning to realize its goal of creating housing that will remain permanently affordable for generations.

The Housing Crisis in Orange County

The economy of the Triangle region is thriving, primarily due to the presence of several universities as well as a large number of research and technology firms. From 1990 to 1997, Orange County experienced population growth of 14.3 percent, with projections for the next decade increasing to 16.4 percent.¹ As a result of the booming population and prosperity of the region, Orange County is faced with a

severe lack of affordable housing. Incoming residents have turned the housing market into a seller's market, and the cost of housing has risen dramatically. Many new high-income homes and housing developments are cropping up around the county, and undeveloped land near the town centers is rapidly disappearing.

Home closing prices reflect the unaffordable nature of Orange County's homes. For the eleven months ending November 2000, the average selling price for all homes sold in Orange County was \$235,404. The average price for new homes was \$272,354.² Families would need to earn approximately \$85,000 to \$100,000 per year to afford sales prices in that range.

Unfortunately, incomes in Orange County are not rising as fast as inflating housing prices. In 1998, families of four that earned the median income in the county (\$54,700) were only able to afford 24 percent of the detached homes, and families earning 60 percent of the median income (\$32,820 for a family of four) could afford only six percent of the detached homes.³ In addition to the costs of homeownership, rental costs in the area are also out of reach for many working individuals and families. Rental units are in short supply, in part because more than 15,000 University of North Carolina students live off-campus.⁴

Traditional Solutions

As early as the 1980s, non-profits and citizen activists raised the issue of the diminishing supply of decent and affordable housing with the town and county governments in Orange County (the four governments are Orange County, the Town of Chapel Hill, the Town of Carrboro, and the Town of Hillsborough). In response, the governments used public funds to create

As members of the Orange Community Housing Corporation Staff, Sonia Garrison serves as the Community Land Trust in Orange County (CLTOC) Membership Coordinator, Christine Westfall serves as the CLTOC Project Manager, and Alison Weiner serves as the Chair of the CLTOC Board of Directors. Erin Crossfield is a master's degree candidate in City and Regional Planning at the University of North Carolina at Chapel Hill.

subsidized, affordable homes to be sold to low- and moderate-income buyers.

These homes were typically built or renovated by non-profit developers in the area. Area governments often subsidized these homes in the form of a no-interest "second mortgage" to the buyer. The second mortgages usually ranged from \$10,000 to \$25,000, which allowed the homes to be sold to buyers who earned 80 percent or less of the county's median income.

The initial owner of the home was permitted to sell it to whomever he or she wished. However, if the homeowner sold the home to someone who earned more than 80 percent of the median income, the buyer was required to reimburse the second mortgage subsidy to the government. Otherwise, he or she was required to pass the subsidy on ("roll it over") to the next buyer. In either case, sellers were allowed to realize all of the gains from any increases in property value since they bought the home. This system ensured that when the home resold, the public subsidy would either be recaptured by the government or passed on to the next low-income buyer. However, this system did not give sellers any financial incentive to sell to a low-income buyer; sellers would make the same amount of money from the sale whether or not they sold the home to an income-qualified buyer.

In addition, rapid increases in area housing values soon made these homes unaffordable to income-qualified buyers in spite of the second mortgage system. In the latter part of the 1990s, homes in Orange County appreciated at rates in excess of five percent a year, while personal income rose only three percent or less. Hence, if the initial owner of an affordable home resold his or her home in as little as five years, it would often be unaffordable to a low- or moderate-income buyer even if the buyer received the "rolled over" second mortgage subsidy. Many publicly subsidized homes did in fact re-sell unaffordably on the open market in as little as five years after they were built. These homes were then permanently lost as affordable housing stock, and the cost of building new homes to replace them was far greater than the amount of second mortgage subsidy which was recaptured by the government.

The Community Land Trust Model: An Alternative Solution

A land trust is a familiar concept to both planners and lay-people because of its use in land conservation. Conservation land trusts preserve land for community health and enjoyment: they protect fragile ecosystems and wilderness, as well as open space and recreational areas. Community land trusts play a similar role as custodians of land that belongs to the community and are committed to good stewardship of that land. The difference lies in the use of the land; community land trusts usually have a primary mission of holding the land to create and preserve permanently affordable housing for those with low and moderate incomes. According to the Housing and Community Development Act of 1992, a community land trust (CLT) is an organization that:

- acquires parcels of land, held in perpetuity, primarily for conveyance under long-term ground leases;
- transfers ownership of any structural improvements located on such leased parcels to the lessees; and
- retains a preemptive option to purchase any such structural improvement at a price determined by a formula that is designed to ensure that the improvement remains affordable to low- and moderate-income families in perpetuity.⁵

Community land trusts sell affordable homes to low- and moderate-income buyers while maintaining the ownership of the land underneath those homes. When a homeowner buys a CLT home, he or she gains title to the improvements and simultaneously enters into a ninety-nine year ground lease for the land. At the end of the lease term, the homeowner (or "Lessee") may renew the lease for another ninety-nine years. This guarantees that the homeowner can live securely on the land, just as if he or she owned it. In addition, the homeowner may bequeath the home to a relative. The lease fee is usually kept low, just enough to cover the property taxes that

CLTs must pay annually on the land as well as some administrative fees.

The ground lease includes provisions that specify the rights and responsibilities of the homeowner as well as the CLT. The most significant provision is the resale formula. The resale formula ensures that when and if the homeowner decides to sell the home, he or she will sell it at a price affordable for buyers in the same income bracket. In addition to the down payment and any equity the homeowner has accrued, he or she realizes some percentage of the total appreciation of the home, depending on how many years he or she lived there before selling it. (Each CLT has a different resale formula, determined by the board of directors, reflecting the economic conditions of the area. The Community Land Trust in Orange County gives homeowners approximately 25 percent of their appreciation.) This formula allows the homeowner to realize some appreciation from his or her investment in the home, but is not enough to remove the house from the affordable housing stock for low- and moderate-income residents. In this way, CLTs try to balance the interests of the community with those of individual homeowners.

When and if the CLT homeowner decides to sell his or her home, it must be sold to an income-qualified buyer, defined as someone who earns less than the percentage of the median income that is specified for that home at a price determined by the resale formula. This ensures that the home remains permanently affordable and is kept in the hands of low- and moderate-income buyers. In addition, CLT homes must be occupied by their owners and cannot be rented out.

Other than the resale and rental restrictions, CLT homeowners enjoy all of the benefits of traditional homeownership. They can make improvements to their homes and can keep the grounds in the style that suits their tastes and lifestyles. Owners can use the home in any way that is consistent with zoning codes, in the same manner as the owner of any other home can. They can take advantage of the tax benefits offered to all homeowners. Most importantly, because the ground lease has a ninety-nine year

term, they can rest assured that they will not be displaced by a landlord and can enjoy the emotional benefits of knowing that their home will be theirs for as long as they want it.

All CLT homeowners are voting members of their CLT. As members, the owners are involved in making key decisions about the actions of the land trust, including voting for the board of directors. Members also have the opportunity to be elected to the CLT board, which implements the decisions of the Trust and oversees the actions of CLT employees. As membership organizations with members drawn from land trust leaseholders and the wider community, CLTs can provide greater local control over land and housing ownership than is commonly experienced by low- and moderate-income community members.

In addition, many CLT homeowners enjoy the support that this type of trust can offer. Because the relationship between the homeowner and the CLT is by definition a long-term one, many CLTs offer their members on-going services such as home repair and budgeting classes. These efforts serve both parties by helping to ensure that the individuals as well as the neighborhoods maintain a high level of stability.

The History of the Community Land Trust in Orange County

In November 1997, the Towns of Chapel Hill and Carrboro formed a task force to establish a community land trust as one tool for effectively creating long-term affordable housing. These two towns had experienced the greatest affordable housing crisis in the county, and both were fast running out of developable land that could be used to build new housing. In the neighboring City of Durham (in Durham County), the then ten-year-old Durham Community Land Trust had successfully created permanently affordable, community-controlled housing and promoted neighborhood revitalization in a low-wealth Durham neighborhood. Inspired by the Durham Community Land Trust, the task force researched community land trust programs nationwide (there are about 120 such programs). As a result of the task force's findings, the governments of Carrboro, Chapel Hill and

Orange County jointly voted to help fund a new community land trust in Orange County.

The aspect of the community land trust model that most interested these governments was the creation of permanently affordable housing. Government staff and officials determined that a community land trust could make the most efficient use of the limited public funding and the remaining land available for affordable housing. Instead of re-creating each affordable housing unit lost to the marketplace with new public funds and land, the community land trust model would allow subsidy money to be invested once, after which it would remain with that unit to keep it affordable permanently.

Mission and Structure of the Community Land Trust in Orange County (CLTOC)

The primary mission of CLTOC is to develop permanently affordable housing for low- and moderate-income people and to promote neighborhood improvement through the equitable and responsible stewardship of land and other community resources. Secondary purposes are to protect the natural environment, promote the ecologically sound use of land and natural resources, and support the long-term health and safety of the community. In addition to low- and moderate-income housing development, CLTOC can also facilitate the creation of special needs housing, group homes and rental housing. Additional goals of CLTOC are to combat neighborhood deterioration caused by absentee ownership and lessen neighborhood tensions that are caused by gentrification and the displacement of low-income people.

CLTOC was designed to be community and resident controlled. Putting partial control of the organization in the hands of the residents ensures that the CLTOC appropriately serves its target populations. CLTOC provides services to people who live or work in Orange County and who earn less than 100 percent of the area median income. Most of CLTOC's projects serve those earning less than 80 percent of the area median income. Community control is attained through the use of a voting membership as well as a board of directors that is made up of community members, government representatives and CLT

homeowners. The membership includes all those who own or lease a house through the CLTOC program and community members who are supportive of the community land trust concept. In order to ensure cooperation rather than competition with other local affordable housing developers, one of the positions on the board is reserved for a representative of another non-profit organization that provides housing or other services for low-income people.

Current Projects for CLTOC

CLTOC is constantly in the process of identifying potential future building sites. Once a site is found it must be evaluated; topography, possibilities for access to infrastructure, zoning, environmental status, and land value are examined. If the land is appropriate for housing development and subsidy money is available, CLTOC can make an offer on the land (or the land can be donated). Once the site is acquired, CLTOC must obtain liability insurance on it, pay taxes and insurance, and take care of any necessary maintenance on the property. CLTOC works with developers to build or rehabilitate housing on the land.

While the housing is being developed, CLTOC conducts outreach to the community-at-large and to potential homeowners. It assists future homeowners with arranging the appropriate public and private financing to purchase the homes. CLTOC's work is not finished when the homes have been purchased; it is responsible for paying taxes and insurance on the land, collecting the ground lease fees, working with the homeowners to maintain their homes, and educating the public on community land trusts. When the owner wishes to sell, CLTOC will help the seller arrange for a new buyer and market the home. Currently, CLTOC is developing fourteen town homes on land donated by the Town of Chapel Hill. Ten of the homes are already spoken for, and completion of the project in the spring of 2001 is eagerly anticipated.


A Sticky Issue

The CLTOC program does an effective job of ensuring that homes are always available to

the sector of the population with low- and moderate-incomes. Part of this lowered cost is achieved through the removal of the price of the land from the price of the home. However, even this subsidy would be insufficient to guarantee permanent affordability without restricting the resale price of the home.

This is an important consideration for potential CLTOC home buyers. While CLTOC homes do help people build equity and are a much better financial investment than renting, they are not investment properties that can offer large returns. In the past century, many American families have built wealth by realizing large gains through the appreciation of their homes. Traditional affordable homeownership programs have invested large amounts of money to help a few families benefit from buying their home affordably, then selling it at a much higher price on the open market. By restricting the price at which land trust homes can be re-sold, the community land trust model balances the homeowner's opportunity to build wealth with the community's need for permanently affordable housing.

Is the benefit to one family of realizing full equity on the sale of its home more valuable than the benefit to the community of guaranteeing affordable housing for countless families? This is a particularly important consideration to minorities, who have historically been denied opportunities to create wealth, including the opportunity for land ownership. It is reasonable that some may question the CLT model wherein wealth accumulation is restricted.

Despite these concerns, the Community Land Trust in Orange County shows much promise as a way to both increase and preserve Orange County's stock of affordable housing. 

Notes

- ¹ ABODE: Coalition for Housing Diversity in Orange County. 1999. "Who Can Afford to Live in Orange County: An Assessment of Orange County's Housing Stock and Affordability.
- ² Triangle Multiple Listing Service Inc., ending 12/01/2000.
- ³ Knuth, Sharon L. 1999. *Implementation of a Countywide Land Trust in Orange County, NC*. Master's thesis, University of North Carolina at Chapel Hill.
- ⁴ Institute of Community Economics internet web page www.iceclt.org, November 24, 2000.
- ⁵ Housing and Community Development Act of 1992, amending Section 233 of the Cranston-Gonzales National Affordable Housing Act (42 U.S.C. 12773). This definition appeared at H11966 of the Congressional Record, October 15, 1992.