

# Land Trusts Offer Houses That People With Lower Incomes Can Afford—And a Stepping Stone to Lasting Wealth

*More than 200 land trusts around the country help struggling families buy their first homes, often in gentrifying neighborhoods.*



**Penn Loh** posted Sep 17, 2015

*Editor's note: Earlier this year, we covered [a Boston community land trust that's stopping gentrification in its tracks](#). Our readers wanted to know, can that model, which limits the amount homes can be sold for, really help low-income people build family wealth? Here's what we found.*

Five years ago, Joyce Fidalgo bought her first home in the lower-income Boston neighborhood where she was raised. Several years out of college and working at a hospital, she was embarking on a well-worn path to the “American Dream” through homeownership.

But as Boston real estate prices skyrocket, Fidalgo won't be able to sell her home for a hefty gain. The land that her home sits on is owned by a community land trust, a nonprofit entity owned by community members who steward land for long-term public benefit. The trust, which is affiliated with the Dudley Street Neighborhood Initiative community group, limits the selling price so that the home can remain affordable for future buyers. First established in the 1960s, there are now more than 200 such community land trusts across the country. A 2011 survey of 96 CLT's found that they host almost 10,000 units of housing, including 4,000 ownership units.

While this price restriction allowed Fidalgo to afford her home in the first place, she admits, "I may not benefit as much as if I lived in a market-rate home." For instance, she would not be able to reap the windfall from selling her home at market price, which went up 30 percent for the median home in her neighborhood in the first quarter of 2015. Still, she says, "The other benefits are more valuable to me now than selling years down the line."

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Fidalgo's story represents one of the key debates over the community land trust model. Do they help lower-income residents to build wealth or do they lock these residents into subsidized housing? Some longtime residents of New Orleans Lower 9<sup>th</sup> Ward, which was devastated by Hurricane Katrina, opposed a community land trust effort because of concerns over whether it would help families build wealth. These residents and others question whether it is fair to offer a "second class" of homeownership that restricts low-income people from building wealth through home appreciation in the same way as conventional homeowners.

There is no doubt over the role of homeownership in building wealth. In 2011, home equity accounted for 25 percent of all individual wealth according to the U.S. census. A 2008 study published by HUD concluded that for low-income households, homeownership is often the only source of wealth and can be a good means of building greater wealth. It allows families to leverage the little equity they do have to reap the benefits of home value appreciation. Perhaps until the foreclosure crisis, owning a home was seen as the surest way into the middle class.

Meanwhile, community land trusts are increasingly touted as a tool for preventing gentrification and securing land for affordable housing and urban farming (see my previous article on this here). And, according to a 2013 study by Federal Reserve Bank of Cleveland, Boston is the city with the most neighborhoods that gentrified between 2000 and 2007, among the largest 55 cities in the United States.

## Starter homes

Proponents of the model say that land trust homeowners actually do build wealth. While they may not build as much equity as they would from owning a market-rate home, they note that lower-income people would not be able to afford market-rate homes in the first place.

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Christopher Kaufman Ilstrup said that when he purchased a condo on the Champlain Housing Trust in Vermont in 2004, “the land trust felt clearly like the best option for a person without significant savings to afford to make a down payment.” Having worked his entire career in the nonprofit sector, he thought that “saving \$30,000 for a down payment was impossible.” Without

the land trust home, he “probably would have just stayed a renter and not built any wealth at all.”

Instead, he lived for seven years in the condo, during which time he got married and adopted a child. He says that in 2011 “when we sold the property, it gave us enough, along with our savings, to buy a market-rate home.” He gained about \$8,000 from the sale, which represented an almost 29 percent annual rate of return on his initial investment. Most land trust homeowners are improving their financial situation to the point where they can afford to buy at market prices.

Studies confirm that Ilstrup’s experience of land trust homeownership as a stepping stone to market-rate homeownership is shared by many others. The Urban Institute evaluated three land trusts that had large numbers of ownership units—and resales of those units—over two to three decades. These studies found that those who sold their land trust homes gained modest proceeds ranging from about \$8,000 to \$17,500, representing annual rates of return from 22.1 percent to 38.7 percent.

## Building Equity Beyond Land Trusts

In case studies of three community land trusts, the Urban Institute found that homeowners who sold their properties built equity, and the majority went on to own homes at market rate.

### Summary of Shared Equity Homeownership Evaluation

	Vermont <i>(Champlain Housing Trust)</i>	Duluth, MN <i>(Northern Communities Land Trust)</i>	Boulder, CO <i>(Thistle Community Housing)</i>
Median length of tenure	5.2 years	3.3 years	3.4 years
Median equity from Sale	\$17,501	\$7,989	\$13,043
Percentage of sellers moving to market rate home ownership	68%	78%	72%

Data via Urban Institute (Temkin, Theodos, & Price, 2010)

Each of these land trusts allows owners to keep 25–30 percent of any appreciation of the market value of the property. These returns on initial investments far exceed those that would have been possible if they had invested their down payment in stocks or bonds.

Furthermore, 68–78 percent of the sellers went on to buy market-rate homes. Far from being trapped in subsidized housing, most land trust homeowners are improving their financial situation to the point where they can afford to buy at market prices.

Perhaps the best news is that these land trusts were not only able to support homeowner asset-building, but also retained the affordability of these homes for future generations. Ilstrup says that when he sold his condo, he didn't "begrudge the grant going to the next owner, who was a single mother with a child."

Thus, the land trusts effectively preserve and recycle the original public subsidy. One study estimates that if the local and state investments of \$2.17 million in the Champlain Housing Trust homes was not preserved, it would have taken more than five times that amount in additional subsidies to keep those homes affordable.

## “The land trust is looking out for you”

The foreclosure crisis proved that as much as real estate value can appreciate, it can also fall. For lower-income people, these risks may outweigh the benefits of homeownership. As Miriam Axel-Lute of the National Housing Institute notes, "...pushing low-income families into homeownership often backfires. Without any savings in the bank or cushion in their income, these families are often blindsided by maintenance or repair problems they can't

address, or are only a few weeks of unemployment away from defaulting on their mortgage payment. With lower credit scores, they are often saddled with higher interest rates and unsustainable loan terms.”

**Most land trust homeowners are improving their financial situation to the point where they can afford to buy at market prices.**

One study found that only 47 percent of first-time homeowners and less than 80 percent of those with median incomes still owned their homes five years later. Community land trusts can help buffer homeowners from these downsides of market ownership. For instance, almost all of the homeowners in the three Urban Institute cases secured affordable, 30-year, fixed-rate mortgages. Ilstrup credits the land trust’s homeowner education program for helping him understand what is

affordable and sustainable.

Similarly, Fidalgo says that the land trust introduced her to a bank that offered her a second mortgage so that she could put down larger down payment and avoid costly private mortgage insurance (which can run a couple hundred dollars a month). Fidalgo was approved for a mortgage large enough to afford a market-rate home, but she says the payments would have been so high that “I’d be living from paycheck to paycheck and getting help to pay my monthly bills.”

But more than just homeowner education and financing support, land trusts also help residents steward their properties. Fidalgo notes that if she needs to make repairs, she can look to the land trust for a list of contractors. She and Ilstrup both believe that the quality of their land trust homes is higher than the market-rate homes they could otherwise afford, which helps to keep maintenance costs down.

This partnership between owners and land trusts also helps prevent foreclosures. A 2011 study found that at the end of 2010, only 1.3 percent of the mortgages held by land trust homeowners were seriously delinquent, compared to 8.57 percent of conventional mortgages. The study attributed these lower rates to the stewardship practices of land trusts, such as retaining the right to address late mortgage payments and buy the property back in case it is foreclosed on. As Ilstrup says, it’s “very positive to know that the land trust is looking out for you and has an interest in the property.”

## What the neighborhood can provide

The question of whether and how land trusts contribute to building wealth for lower-income families, though, should be examined in terms broader than just real-estate ownership. Community land trusts promote security and stability for residents simply by providing homes that they can afford. Fidalgo says that this stability has allowed her to “save money

to pay for my education. I can travel and do other things and not have to worry about having money just to pay my mortgage.” In fact, she just finished her masters in education this spring.

Ron Stokes, a neighbor of Fidalgo on the Dudley land trust, can attest to what this security and stability means. He has lived in his land trust home for 21 years now. Nearing 70, he is a retired bus driver and raised two daughters with his wife. “We knew what our monthly payments would be,” he says. “As time went along, we were able to put away a few more dollars than we would have. The extra money went toward retirement and education.”

**Ultimately, land trust home ownership provides another choice between renting and market ownership.**

He believes his daughters, now both health professionals, “are successful because of what this neighborhood could provide.” Both Stokes and Fidalgo point to the added value of community that the land trust brings. In Stokes’ words, “since we’ve moved in, all the neighbors have been here and we look out for one another.” Fidalgo says that on the land trust “you are part of a community and you can interact with people who you might not

otherwise know.”

Community land trusts diversify our concepts of property ownership. Conventional thinking now dictates that you are either an owner or a renter. Owners enjoy all the benefits of any appreciation in value. But land trusts are rooted in the idea that land value is not only created by the labor of the owner. Rather its value depends largely on public infrastructure improvements like transit and parks and other collective efforts to build community and economy. The land trust model separates ownership of the land from the human improvements on it and retains the socially generated value for community benefit.

Ultimately, land trust homeownership provides another choice between renting and market ownership. For some, like Ilstrup, it is an interim step on the way to a market-rate home. For others, like Stokes, it is simply a home that provides the comfort and security to pursue other life needs.



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