

## HOW THE COLUMBIA COMMUNITY LAND TRUST WORKS

### A THEORETICAL CASE IN POINT

#### **The Johnsons ask, “Why Rent When We Can Buy?”**

The Johnsons are a family of four with an annual income of \$65,000 and \$2000 in savings. They are looking for a place to live in Columbia, and they had assumed that they would, of course, be renting. But then a friend suggested that they ask about the possibility of buying through the Columbia Community Land Trust.

They do so, and find that the Land Trust has a 3-bedroom, 2-bath home that suits their needs. The home is newly built and is equipped high-efficiency appliances, excellent insulation, and rooftop solar panels. A professional appraiser has concluded that the house and the lot it sits on is worth \$290,000, but when the Johnsons talk with a representative of the Land Trust, they discover that they will be able to buy it for only \$175,000. They will, of course, need to borrow that \$175,000, which gives them pause, but their monthly payments (counting not just mortgage installments, but property taxes and homeowner’s insurance) will cost them about \$1,500, roughly what they had expected to pay in rent.

Buying the house will save them money in the long run. Historically, landlords have raised rents substantially (about 30% every ten years), but if the Johnson’s buy the house, they will have no landlord, and their mortgage payments will stay level. This alone could save them thousands of dollars. Then, too, money paid for rent is simply money spent, never to return. House payments, on the other hand, gradually build the buyers’ equity (their ownership portion) in their house. With a typical 30-year mortgage, the Johnsons would accumulate about \$25,000 in equity within 10 years. At the end of 30 years, they would have “banked” as equity the whole of the initial purchase price of \$175,000.

There are additional details to be considered, additional paperwork to be completed, but once the Johnsons understand the general outlines of the deal they are being offered, they decide that buying through the Land Trust seems a better option than renting.

#### **How can the Land Trust sell its houses at such low prices?**

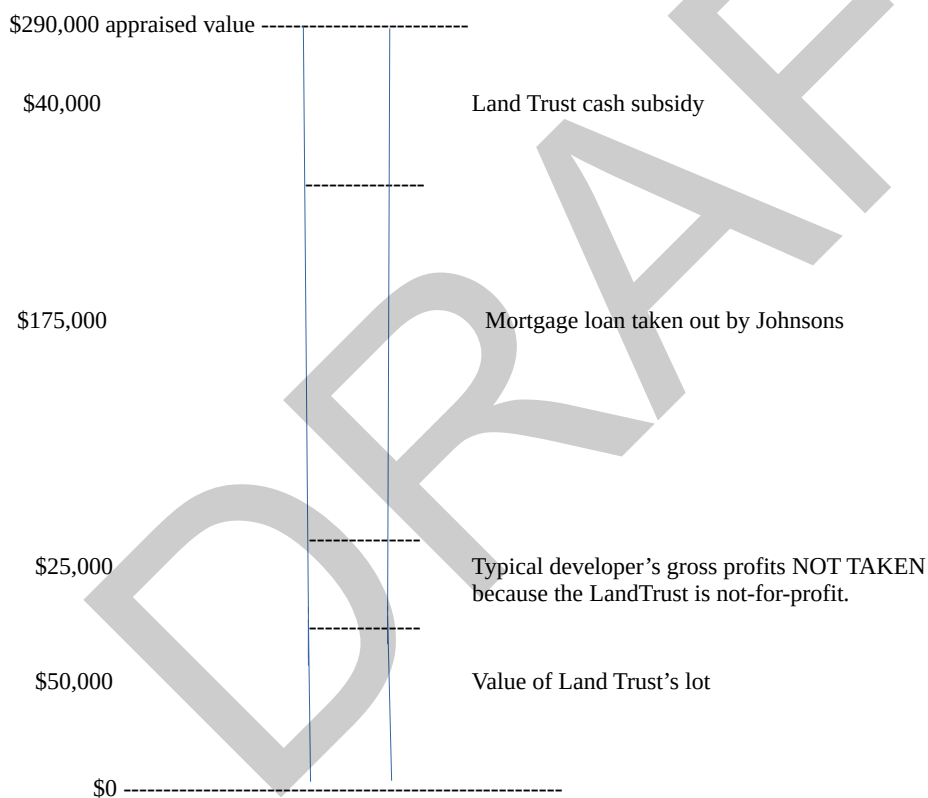
The primary reason that the Land Trust can sell families like the Johnsons houses at prices so far below their market value is that it is not a business, but a non-profit corporation that *partners* with cash-strapped homebuyers. When a private business sells a house, it needs to make a profit; when the Land Trust sells one it can take what is, effectively, a loss. The Land Trust can absorb these losses because of individuals and organizations (governmental and non-governmental) that contribute cash and other valuable resources to support its work.

As the name implies, land itself is the Land Trust’s central resource. The trust owns—and intends never to sell—the lots on which houses like the Johnsons’ stand. This commitment to permanently retaining ownership of the building lots allows the Land Trust to make homes built on them affordable for buyers like the Johnsons not only for the rest of this century, but for the next century and the centuries after.

The lot under the Johnsons' house, worth about \$50,000 on the open market, may have been donated to the Land Trust by the City of Columbia or by a non-profit service organization, or even by a generous individual donor. Or it may have been bought with funds garnered from government grants and private gifts.

Owning the lot allowed the Land Trust to whittle \$50,000 off the potential \$290,000 sales price, bringing it down to \$240,000. And being a not-for-profit outfit allowed it to shave off another \$25,000 that a commercial developer would likely have collected to make the sale sufficiently profitable. That brought the sales price down to \$215,000. But the Land Trust understood that \$175,000 was highest price the Johnsons could afford to pay, so it drew down its own funds to close the \$40,000 gap. Once again, it was generous donations from governmental and private sources that made this subsidy—the final piece of the funding partnership—possible.

Joined together the partnership's funding looks like this:



**Will the Johnsons have the same property rights as other homeowners? Will they be able sell their house whenever they want, and will they be able to profit from the sale?**

Because the Johnsons' house stands on a lot owned by the Land Trust, they will sign a "ground lease" agreement. The agreement will allow them to live on that lot for up to 99 years, provided that they pay minimal fees (currently \$40 per month) and use the land in a responsible and legal way. With the lease

in place, they can occupy the house, decorate it, improve it, and thoroughly enjoy it, as can their family members and their guests. The Land Trust is committed to avoiding unnecessary interference with homeowners “personal lives, associations, expressions, or actions.”

When and if the Johnson’s decide to sell the house, they can offer it to the Land Trust or sell it to another family who meets the Land Trust’s income guidelines. By whichever route they sell, the Johnsons will not only reclaim the equity they have put into the house, but will get their share of any increase in market value. (Details of how the profit is to be divided are detailed in the lease agreement.)

### **Why should individual donors, government agencies, and non-government organizations support the Land Trust?**

Ultimately because they want to see that the people who live in Columbia are properly and affordably housed. Helping families like the Johnsons become homeowners is a way of helping them escape the trap of living from paycheck to paycheck, unable to build up savings and so always in danger of having some misfortune drop them into poverty. Also because the well-being of everyone in a community depends on the presence of people who work at crucial jobs that may pay them too little to buy a good home when housing prices are rising dramatically. If capable teachers, health-care workers, and tradespeople are forced to move elsewhere to find affordable houses, the whole community suffers the consequences.

To avoid this kind of “affordable housing desert” governments and non-profits sometimes offer subsidies to renters, and this strategy certainly has its value. Rent subsidies have the disadvantage, though, of being short-term solutions that may need to be renewed and repeated. If the Johnson family needs a rent subsidy to be decently housed one year, they may need a similar subsidy the following year or the year after, *if* funding continues to be available. An advantage of the Land Trust arrangement is that once in place, it stays in place, and so can help the Johnsons establish a firm financial footing without the need for repeated subsidies.

Finally and crucially, there is the matter of *permanent affordability*. Even if other housing prices skyrocket in Columbia in ensuing decades, the Land Trust house that the Johnsons bought won’t skyrocket with them. The Johnsons (or their children) may sell to the Kims, who otherwise wouldn’t have been able to afford a house, and the Kims to the Martinez’s, and the Martinez’s to the Harrisons. And when the house on the Johnson’s lot eventually needs replacement, another Land Trust house will be built in its place. Every dollar invested in the Land Trust, therefore, is a dollar that will benefit a series of low- and moderate-income families for generations to come.