

Taking the price of land out of the price of homeownership

City, community groups look at new way to foster affordable homes by removing land from the equation

By Kate Alexander <mailto:kalexander@statesman.com>

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When buying a home in Austin, dirt cheap is not a commonly heard phrase these days.

But cheap dirt soon might be the city's newest method to make homeownership more affordable to lower- and middle-income residents.

A group of city officials and community organizations is exploring a way to buy land through a nonprofit entity known as a community land trust and make homes affordable by selling only the structure, not the land. The trust then holds the land forever and can control the increases in the home resale value for subsequent buyers.

Supporters say this approach ensures permanent affordability, particularly as land prices increase with time, and provides the flexibility to use the land for any kind of home or other community facilities.

"At its very core, this is about the community protecting its assets," said Michael Brown, a consultant working with the Austin group to develop the trust.

Many people see prime opportunities for using the land trust at the Robert Mueller Municipal Airport as it is redeveloped and in a newly created East Austin revitalization zone, bordered by Manor Road, Riverside Drive, Interstate 35 and U.S. 183.

Details of a potential Austin land trust will be presented to the City Council in late July.

Austin voters could have the opportunity next year to weigh in on the idea because the startup money could come from a likely bond measure for affordable housing. The newly formed Austin Housing Coalition is pushing to include \$50 million of that bond money for several affordable housing initiatives, twice the amount that City Manager Toby Futrell said in April was needed.

The coalition, which has united the traditional housing and community development groups with the more politically connected Liveable City group, plans to push affordable housing issues into the spotlight as Austin ramps up for next year's City Council and bond elections.

A tested idea

While untested in Texas, the community land trust model is not new. About 180 such trusts have been formed in 33 states, Brown said.

Portland, Ore., started its land trust in 1999, said Allison Handler, executive director of the Portland Community Land Trust.

It now owns the land beneath 42 single-family homes while the occupant owns the house. A qualifying family of four cannot have an annual income of more than \$54,300, or 80 percent of the annual median income, though most of the families have much lower incomes.

The affordability comes with strings for the homeowner, however.

"They're trading off affordability for a resale value in the future . . . that is certainly smaller than the market would bear," Handler said. That value is the original purchase price plus 25 percent of the appreciated value so that the house can be resold to another family of the same income level.

Harry Savio, executive vice president of the Home Builders Association of Greater Austin, said his group supports all programs that promote homeownership, but added that "it's a head-scratcher to me as to whether or not you're going to be able to sell to a buyer a home where they don't own the land."

The trust homes are intended as the first step up the homeownership ladder, said Mary Houghton, finance director for the Burlington Community Land Trust in Vermont. A recent study found that 60 percent of the trust's homeowners who sold their homes moved on to market-rate homes.

Launched in 1984, the Burlington trust is the flagship program in the country. The city's voters in 1989 approved a property tax of 1 cent per \$100 of assessed value to create a housing trust fund, which has generated an estimated \$2.5 million. About two-thirds of that money has gone to the land trust to produce about 400 single-family homes and another 384 multifamily units.

Austin hopes to do it bigger.

A sizable investment

Paul Hilgers, director of Austin's Neighborhood Housing and Community Development Department, said he would like 20 percent of next year's affordable housing bond issue dedicated to the trust. That would be \$5 million to \$10 million depending on the size of the package. The city plans to put \$17.6 million toward affordable housing programs next year, most of which will come from grants.

Either figure would be sizable compared with many other land trusts, according to the Institute for Community Economics, which developed the community land trust model.

"That, I'd say, is exceptional and would be a large commitment in the scheme of the land trust world," said Jeff Yegian, director of technical assistance at the institute.

Supporters say that the need for affordable housing far exceeds the proposed amount and that a land trust would address a crucial factor that is pushing homeownership out of the reach of many working families: rising land values.

From 1998 to 2004, the land values of single-family homes in the East Cesar Chavez Street neighborhood increased about 500 percent to an average of \$41,000 as developers sought properties near downtown, according to a study conducted by a group of University of Texas students. The values of the structures on that land increased only 34 percent to about \$54,000. At the same time, the property taxes paid by those homeowners jumped on average \$1,112 or 128 percent.

"Austin is in a position where housing prices and rental prices are going up, and people are feeling it," said Frank Fernandez, director of programs for the Austin Community Development Corp. and one of the founders of the housing coalition.

The community land trust model has drawn mixed reviews from some in the development community who want to increase affordable housing opportunities.

Developer Terry Mitchell, who has served as the Real Estate Council of Austin point man on affordable housing, said the idea has great potential.

"You have the ability to get drastically lower in your pricing," Mitchell said, adding that the savings can be passed on to family after family.

But Bill Lee, who develops both market-rate and affordable housing as a principal with Tekoa Partners Ltd., said land is only one part of the cost equation. For multifamily housing, for instance, reducing land costs is not going to dramatically reduce housing costs.

Austin could do more to make housing affordable by revamping its development code, he said.

"There's no doubt that having access to inexpensive land will be a positive," Lee said. "However, it is not a panacea or a silver bullet of any kind."

How one community land trust works

A nonprofit organization acquires land, either through purchase or donation, and holds that land in trust forever.

Houses or apartments on the trust land are sold or rented to income-qualified families. The cost of the home is reduced because the land is not part of the purchase price.

When a homeowner wants to sell the house, the resale value is capped at the original purchase price plus 25 percent of the appreciated value.

The trust then sells the house to another income-qualified family for that adjusted value.

Source: Portland Community Land Trust