

Community Land Trusts

Minnesota Housing

Homeownership: Encouraging New Construction

HFA Staff Contact

Anbar Ahmed

anbar.ahmed@state.mn.us

As home prices and development costs rise, it is important to develop housing that is affordable at the time of initial sale and for the long term. To develop homes that are perpetually affordable, Minnesota Housing invests in and partners with community land trusts (CLTs).

The CLT model is a shared equity homeownership model where homeowners and the CLT share ownership of the home. Often nonprofits, CLTs hold the property's land in trust while selling the structure and improvements to homebuyers. As long as the CLT holds the land in trust, the home will be affordable to the first buyer and all subsequent buyers.

As part of the CLT model, the home's purchase price only includes the value of the structure and improvements. The value of the land is removed from the price, making the home more affordable. This is especially true where land value is high. In some areas of Minnesota, the value of land is upwards of \$150,000. In those areas purchasing a fee simple home would be \$400,000 while purchasing the same home through a CLT model would be \$250,000.

Additionally, CLTs place income restrictions on homebuyers. In Minnesota, CLTs require that a buyer's household income is at or below 80% area median income (AMI). This is true of the home's initial buyer and all subsequent buyers. By placing income limitations on buyers, CLTs ensure homes are available to those with lower incomes. This also prevents homes from being purchased by investors or households with higher incomes.

Through the Community Homeownership Impact Fund, Minnesota Housing is creating, preserving and financing housing that is affordable so all Minnesotans can live and thrive in a safe, stable home. The Impact Fund incentivizes the development of CLT homes through various resources, including state appropriated grants and 0% deferred loans from housing infrastructure bond (HIB) proceeds. These fund the acquisition of land for development, development gaps between the home's total development cost and its appraised value, and downpayment and closing cost assistance.

Innovation

The low supply of homes that are affordable is a challenge across the country. One solution has been to fund the development of new homes for purchase, which Minnesota Housing has done for decades. While this increases the supply of homes, only the first sale of the home is guaranteed to be affordable and accessible to homebuyers with lower incomes. The CLT model is innovative because it preserves the affordability of homes that are developed and placed in the CLT for the first and all future homebuyers. As a result, the Agency's one-time investment in CLTs will increase the supply of homes available for purchase and benefit households with lower incomes.

Replicability

There are over 225 community land trusts in the U.S. In Minnesota, there are 13. Some CLTs have been operating for decades while others were created recently. As the supply of homes drops and home prices rise, there is an increasing interest to create new CLTs and support existing ones. A Housing

Finance Agency can invest in CLTs across their state through financing development and home purchases.

Response to an Important State Housing Need

Like the rest of the country, Minnesota has more homebuyers than homes. Due to the low supply of homes, Minnesota needs more homes that are affordable. When the original homebuyer sells a CLT home, it must be sold to someone who meets the income restrictions established by the CLT. This helps keep homes affordable and preserves the home as a long-term affordable unit. The Impact Fund incentivizes development of CLT homes by providing funds for the acquisition of land and development gap.

Demonstrated Benefits to Targeted Customers

Investing in CLTs benefits targeted customers. Targeted customers include households with lower incomes, Black households, households of color and Indigenous households.

The removal of the land value from a home's purchase price enables households with low incomes to become homeowners. Due to the limited stock of homes, they may not have been able to afford the high price without a CLT. Over the past five years, CLT partners have developed and sold 248 homes with Agency investment. All homes were sold to buyers at or below 80% AMI. Of these buyers, 26% identified as Black, Indigenous, or people of color (BIPOC).

CLTs also remove the competitiveness of purchasing on the open market. This enables households with limited resources to successfully purchase a home without competing with investors who can pay cash or buyers who have more access to more funds and financing.

Program Success in the Marketplace

The Impact Fund program has been a success in Minnesota. The program increases the supply of homes and prepares households to purchase market rate homes in the future. CLT homes are often a point of entry for first-time homebuyers.

The CLT model enables homebuyers to purchase a home, as well as build wealth and equity that they could not do while renting. The wealth and equity provide them with resources needed to afford market rate homes. Data shows 80% of CLT homeowners go on to purchase market rate homes.

First mortgage financing for CLTs creates an opportunity for lenders to offer another product in their suite of available loans. Freddie Mac and Fannie Mae support lenders providing first mortgage financing to buyers of CLT homes.

Minnesota Housing offers first mortgage financing and downpayment and closing cost assistance through its Start Up and Step Up programs. In Minnesota, 50% of CLT borrowers use the Agency's first mortgage programs when purchasing their homes.

Program Benefits Outweigh Costs

The Impact Fund provides a one-time investment in CLT homes at the time of development and initial sale. The homes remain affordable and income restricted in perpetuity. The Agency's investment creates homes that are affordable for the initial and all future buyers. Data shows CLT homeowners often stay in their homes for five years. One CLT home could serve four households over 20 years.

Effective Use of Resources

Minnesota Housing provides a variety of funding during the development and sale process. Over the past five years, the Agency has committed \$25.5 million dollars to CLTs. This investment has developed 310 homes in Minnesota and represents 35% of the Impact Fund's total commitments.

Over the past five years, the Agency committed \$11 million to enable CLTs to acquire land. Bond proceeds received through HIB cover the costs of land acquisition. The remaining funds are state appropriated dollars covering development gaps and downpayment assistance for homebuyers.

Minnesota Housing provided \$732,168 to the City of Lakes Community Land Trust to purchase a lot to develop 18 townhomes. The one-time investment helped to mitigate the already high development costs due to the rising costs of material and labor. In addition, it will increase the supply of homes for sale in the area. The 18 new CLT homes will be perpetually affordable.

Effective Employment of Partnerships

The Impact Fund is the largest source of development funding for CLTs in Minnesota. The model's success in creating new homes that are affordable has encouraged funding of CLTs by other partners, such as local governments, employers and foundations. First Homes CLT partnered with the Mayo Clinic to develop new homes in Rochester, Minnesota to create workforce housing that is affordable.

The nonprofit organizations that run CLTs make the model successful. Minnesota Housing helps fund newer CLTs to help them build capacity. The Agency worked closely with nonprofits in the Fargo-Moorhead area as they created the Cass Clay Community Land Trust. The funding provided to Cass Clay CLT helped them build their portfolio of homes shortly after it was created.

Achievement of Strategic Objectives

The Impact Fund's investments in CLTs helps Minnesota Housing meet our strategic objectives. It is helping to improve Minnesota's housing system, preserve and create housing opportunities, make homeownership more accessible and strengthen communities. As Minnesota Housing continues to invest in CLTs, homeownership will become a reality for more and more Minnesotans.