



Legislative Analyst Report

TO: HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS
FROM: JOHN CLARK, Legislative Analyst
DATE: MARCH 26, 1999
SUBJECT: **HOUSING TRUSTS, File 99-0146**

EXECUTIVE SUMMARY

Housing trusts are a method whereby local governments and non-profit organizations can use a dedicated source of revenue to assist the development and preservation of affordable housing. San Francisco already uses 11 local and 4 federal sources of funds to help develop affordable housing, mostly rental units, through the Mayor's Office of Housing. Most of the housing trusts operating in the United States are also directed at developing affordable rental housing.

The City of Chicago operates a well-known housing trust, the Chicago Low Income Housing Trust. This program, however, is mostly a municipal Section-8 program, subsidizing rents for tenants at participating buildings, thus augmenting the federal program. Thus, Chicago's program is more directed at assisting low-income individuals with affording housing, not with the creation or preservation of affordable units per se.

One subtype of housing trust is the Community Land Trust (CLT). These trusts are more common in the East, but are gradually spreading to other areas of the country. Community land trusts buy or build property, sell it to low income residents at a below-market price, but retain a ground lease imposing conditions on the buyer, notably, a restriction on the appreciation the buyer may receive and the ability to reacquire the unit upon sale so that it can be conveyed to another low income resident. Land trusts separate the building (or unit, in multi-family buildings) from the land, which is the component which often increases the most rapidly and prices lower income buyers out of the conventional market. While all CLTs are a kind of housing trust, CLTs are a separate and distinct solution to lack of affordable housing.

Community land trusts have not been extensively used in San Francisco and may represent another method of encouraging home ownership for City residents priced out of our very expensive market. The Berkeley-based Northern California Land Trust has, however, developed more than 10 CLT properties in the Bay Area.

GENERAL REPORT

Background

The Housing Trust Fund Project defines a housing trust as having three characteristics: one, the program has a dedicated and ongoing source of revenue; two, the program is committed to the production/preservation of affordable housing; and three, the funds used in the housing trust are not those of other major housing programs

such as CDBG and HOME program funds. There are currently some 110 housing trust funds operating in the United States. A CLT is a housing trust, though most housing trusts are not CLTs.
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Under this definition, San Francisco already has funding sources administered by the Mayor’s Office of Housing which might be considered a “housing trust,” although none fit the definition of a CLT. There is one type of housing trust which has not been used extensively in San Francisco, however, which may offer some additional strategies for encouraging the development and maintenance of affordable housing -- the Community Land Trust (CLT).

Mayor’s Office of Housing Programs

The Mayor’s Office of Housing (MOH) is the City’s official affordable housing planning and coordination agency. Most of its programs are financial in nature, designed to assist first-time homebuyers, develop affordable rental units, assist lower income homeowners with repairs and rehabilitation. In addition to implementing these programs, MOH also manages the attendant monitoring and reporting for the programs, which are funded through a variety of local and federal sources including CDBG and HOME funds from the federal government, as well as local funds such as tax increment financing, the Hotel Tax Fund and Proposition A bond funds. Usually, MOH participates in projects where the City contribution will be used to leverage or guarantee other funds from non-City sources. In calendar year 1997, for example, \$48 million in City funds contributed to the completion of projects costing about \$161 million, meaning the City contribution was about 30%.

The following table summarizes the developments completed by the City during the “HUD Program Year,” 2/1/97-3/31/98:

Housing Program	Total Projects	Total Units	Total Beds	City Assistance	Total Cost of Development
<i>NEW DEVELOPMENTS</i>					
Supportive housing-AIDS related					
Supportive housing-Non-AIDS	1		12	450,000	717,984
Family rental housing	3	79		4,676,646	16,951,649
Senior housing	2	96		4,738,000	14,528,169
First-time homebuyer	4	170		10,205,707	38,751,692
<i>REHAB DEVELOPMENTS</i>					
Supportive housing-AIDS related	4	9	71	8,416,565	12,148,330
Supportive housing-Non-AIDS	7	161	120	11,385,834	22,656,185
Low income singles housing	2	149		2,650,000	12,721,685
Code enforcement rehab	1	1		7,500	7,500
Seismic safety rehab	1	35		199,999	254,287
<i>PRESERVATION DEVELOPM.</i>					
Supportive housing-AIDS related	1		32	450,937	478,643
Supportive housing-Non-AIDS	3	212	25	1,920,678	1,748,204
Preservation of at-risk housing	2	367		372,105	37,248,484
Low income singles housing	4	274		3,166,261	3,175,217

TOTALS	35	1,553	260	48,640,232	161,388,029
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MOH works closely with the Mayor's Office of Community Development (MOCD), which administers the federal CDBG program for the City. While MOCD and MOH have similar functions, MOCD is concerned with community development issues broader than affordable housing, which is MOH's mission. Both offices also work closely with the Redevelopment Agency and the Housing Authority.

As noted, the City receives funds for affordable housing from 11 local sources and 4 federal sources. As noted above, the criteria for housing trust funds is that they not include federal funds dedicated to development, such as CDBG, HOME program and HOPWA (housing assistance for people with AIDs). The following table indicates the 11 local sources of funds that comprise San Francisco's "housing trust":

SOURCE OF FUNDS	AVAILABLE FOR NEW PROJECTS IN 1998
CERF	100,000
Citywide Tax Increment (taxable)	1,958,261
Citywide Tax Increment (tax exempt)	2,972,301
Hunters Point Tax Increment	450,000
SOMA Tax Increment	8,295,567
Western Addition Tax Increment	200,000
Preservation Tax Increment	1,000,000
Hotel Tax Fund*	0
Seismic Safety Rehabilitation	11,000,000
Homeownership Assistance Repayments	993,000
Proposition A Bond Funds	13,542,136
TOTAL	40,511,265

*\$4,104,136 in Hotel Tax Funds are committed for projects already "in the pipeline."

Note that the above figures do not include the federal funds administered by MOH.

Chicago Low-Income Housing Trust

One of the better known housing trust funds, the Chicago Low-Income Housing Trust (CLIHT), was formed in 1989 to supplement federal efforts at providing affordable housing. The trust is organized as a non-profit corporation and administered by the City of Chicago's Housing Department. Chicago's efforts fall into three main areas -- rental assistance subsidies, lending to developers of low income rental units and supportive housing programs. Of the three, the rental subsidy program is the largest, providing subsidies totaling some \$4 million in 1997. CLIHT receives a variety of funds, but most of the money used for the rental subsidy program is their equivalent of general funds. Thus, Chicago's program, while loosely meeting the definition of a housing trust, is in the main more of a rental subsidy program.

Some 1,600 units participate in the program, none of which are owned directly by the City of Chicago. Instead, private landlords (including some non-profits) apply to participate in the program. Participating landlords receive the difference between the 30% of income the tenant pays and market rent. Conditions for participation include meeting all code requirements and submitting periodic reports. Requirements for prospective tenants are rigorous -- participants cannot earn more than 30% of the area median income. In Chicago, this amounts to
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about \$18,000 for a family of four. The creators of the CLIHT deliberately structured the program for these very low income individuals and families, feeling that these people had the greatest need. Chicago also has much greater variance than San Francisco in its rental housing costs, so it's probable that those closer to median income have abundant private market choices.

Community Land Trusts

A CLT is a special type of housing trust (though not a trust in the legal sense) which is usually designed to allow low and very low income individuals and families a chance at home ownership. HUD defines a CLT as a "community housing development organization that is established and undertakes activities to: acquire parcels of land, held in perpetuity, primarily for conveyance under long-term ground leases; and be flexible by not only promoting resident ownership and management but by creating and preserving such critical resources as affordable housing, neighborhood businesses and social services." The Institute for Community Economics (ICE), a non-profit dedicated to assisting CLT's, has a slightly broader definition: "A CLT is a private, non-profit corporation created to acquire and hold land for the benefit of the community and provide secure and affordable access to land and housing for community residents. In particular, CLTs attempt to meet the needs of residents least served by the prevailing market. CLTs prohibit speculation and absentee ownership of land and housing, promote ecologically sound land-use practices, and preserve long-term affordability of housing."

How CLTs Work

A CLT works by acquiring or building either single-family or multi-unit housing, selling the unit or house to a low-income resident owner, but retaining the land and granting the buyer a land lease. The land lease allows the CLT organization to maintain affordability by imposing conditions on the buyer. These conditions generally include a limitation on the amount of appreciation the resident owner can receive if he or she later sells the property, a prohibition on the owner renting out the property, maintenance and "good neighbor" requirements. CLT ground leases also usually give the CLT the ability to either re-acquire the house or unit upon sale or to determine who the next buyer will be -- this is to preserve the unit for those unable to afford market rates.

In order to make the housing affordable for lower income residents, CLTs usually receive some type of subsidy to make up the difference between an affordable purchase price and market prices. The City of Berkeley, for example, uses a benchmark of \$35,000 per unit as the subsidy they will grant to a developer of affordable housing. The CLT model "locks in" affordability by retaining the underlying land and limiting the appreciation the buyer can realize. Most housing cost appreciation is due to increases in land value, thus under this concept, the CLT realizes the gain, not the lower income resident owner. To the extent that these land value gains are realized, the CLT can use the proceeds to develop more affordable housing. In addition to local subsidies, CLTs can use HUD's "203(k)" loan program, which allows the organization to borrow an amount equal to the *rehabilitated* value of a property, and the CLT can retain any difference between the cost of rehabilitation plus

the purchase price and the selling price, providing that the excess is applied to other affordable housing projects. Unfortunately, the 203(k) program is only available for one to four-unit homes.

What Properties do CLTs Develop?

CLTs have developed single family homes, multi-family buildings, SROs (single-room occupancy hotels) and in a few cases, commercial property. Generally, the types of property developed by a CLT are in response to

local market conditions and needs. Rural area CLTs tend more toward single family homes, while more urbanized areas need more multi-family apartment-type units.

CLTs sell their units in a variety of ways. Single-family units are sold much like regular houses, with conventional mortgages often carrying FHA or Fannie Mae guarantees. Most CLTs maintain relationships with local lenders to educate them about the unique features of CLT development. CLTs also sell apartments in both

condominium form (where you own a specific unit), and in co-op form (where you own a “share” of the building). CLTs also assist with financing of these units, which are often sold to very low income residents (e.g., 30% of median income) by using lenders familiar with CLT practices, local government bond funds or, as a last resort, using a revolving loan fund maintained by ICE. Unlike conventional housing for purchase, CLTs structure their sales with very low down payments, lease-purchase arrangements or application of rent to the down payment to allow very low income individuals to qualify.

CLTs in the US and in California

According to ICE, there were 89 CLTs operating in the US at the end of 1997. These CLTs collectively operate 4,465 units. Of the areas being served by CLTs, 42% operate in small cities and towns, 27% operate in rural areas, 13% in generalized metropolitan areas and 18% operate in urban neighborhoods, including Boston, New York and Washington D.C.

CLTs are more common in the Northeast, but have gradually spread to other states. The only CLT operating in the Bay Area is the Northern California Land Trust (NCLT) based in Berkeley. NCLT has developed 100 units of housing to date, with another 25 units in process. NCLT has developed both single family homes as well as multi-unit buildings in both the co-op model and the condominium model. NCLT has also developed the commercial building it is located in, renting the other units to like-minded non-profits at below-market rates. NCLT has also developed transitional housing which it rents to a service provider at below-market rates. The Rural Community Assistance Corporation operating in Sacramento is the local example of a rural-oriented CLT.

CLT Efforts in San Francisco

There haven't been very many CLT efforts in San Francisco. NCLT has developed one property in the Western Addition, the East-West house, a long-established communal living building which was previously operated by another non-profit organization as a rental building. When this organization was unable to continue its ownership, NCLT stepped in to assist the residents in setting up a co-op structure. CLTs, including the NCLT,

differ from the City's nine affordable housing developers (e.g., the Tenderloin Neighborhood Development Corporation) in that CLTs are focused on home ownership, while the developers focus on rental housing.

NCLT recently began working with the residents of buildings owned by Catholic Healthcare West (CHCW), buildings totaling over 125 units that CHCW is selling to finance seismic repairs at its hospitals. Some residents of CHCW buildings have expressed an interest in forming their buildings into cooperative units.

Advantages of the CLT Model

Advocates of CLTs contend that home ownership under the CLT model is ultimately a better vehicle for ensuring affordable housing over the long term because it removes the increase in land value from the price of
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housing in perpetuity, rather than for a fixed period. Most conventional rental subsidy developments restrict the rental rates for periods such as 20 or 30 years, and while that seems very long, San Francisco is already beginning to experience the problem of subsidized units coming off their restriction, as many of these units were built in the heyday of urban renewal in the 1960's and early 1970's. CLT advocates also believe that home ownership better preserves neighborhoods, provides greater stability and affords residents some benefits that

renters do not receive, such as mortgage interest tax deductions. CLTs are also typically managed by a board consisting of residents of CLT housing, thus increasing neighborhood responsibility.

Disadvantages of the CLT Model

CLTs usually cannot operate without subsidies from either the governmental or private sector. CLTs receive these funds from many sources including bond sales, dedicated revenues (e.g., developer fees) and outright grants. While CLTs deliver long-term, affordable, owner-occupied housing, the need for subsidization may take funds away from other needed housing programs, particularly those focused on developing low-income rental housing. Development of more CLTs in San Francisco could also result in the loss of rent-controlled rental units. Lastly, the high price of real estate in San Francisco makes CLT development much more expensive (thus requiring much higher subsidies) than in many other urban locations.

Conclusion

San Francisco already operates a number of programs which could be considered "housing trust funds" under the Housing Trust Fund Project's definition. The City's programs are dedicated to providing revenue for affordable housing programs targeted to low income and very low income persons and to the multiple needs populations. The City's programs take the form of development of rental housing, assisting first-time homebuyers and helping address the rehabilitation needs of existing homeowners.

The Chicago Low Income Housing Trust provides some similar services, in particular their emphasis on developing supportive housing. But the largest part of Chicago's program is devoted to rental subsidies, in effect, a local government Section-8 program. It may be useful to study Chicago's program in greater depth to see whether their experience may provide ideas useful in addressing the ongoing problem in the City with units coming off their federal low-income requirement and being raised to market-level rents.

The community land trust model is one area of affordable housing strategy that has not been aggressively pursued in San Francisco. City efforts have been concentrated in two areas: development of low cost rental housing, usually through new construction or rehabilitation, and assistance to first-time homebuyers. While CLTs do not explicitly assist in addressing the problem of a shortage of rental housing, CLTs can enhance ownership opportunities. The dramatic increases in rents in San Francisco have been accompanied by dramatic increases in the sale price of both single-family and multi-family housing. Further development of CLTs in the City may help slow some of the price increases, as CLT units become dedicated to affordable owner-occupants for the life of the property.