

Creating a Community Land Trust to Acquire Foreclosed Properties: Stabilizing Neighborhoods and Creating Permanently Affordable Housing



Western Contra Costa County, CA



CENTER FOR COMMUNITY INNOVATION
at the Institute Of Urban and Regional Development

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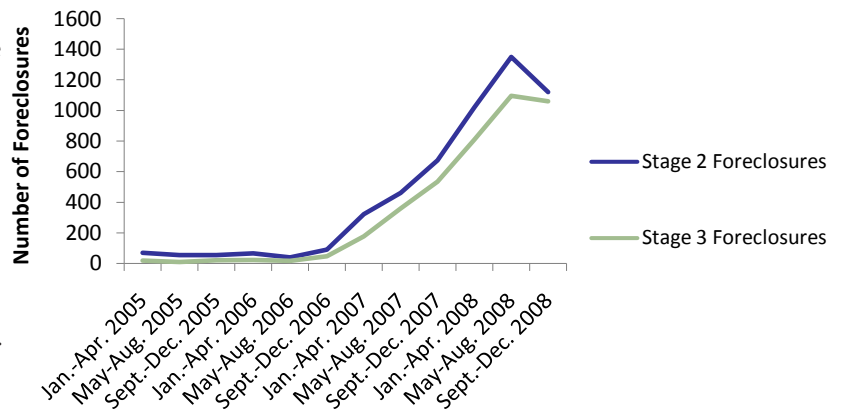
CENTER FOR COMMUNITY INNOVATION
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Creating a Community Land Trust to Rehabilitate Vacant Foreclosed Properties and Neighborhoods

The rate of foreclosures has increased significantly in Western Contra Costa County between 2005 and 2008. Efforts are currently underway at the national and local levels to undertake foreclosure prevention; however, many properties that have already gone through foreclosure are now vacant, bank-owned properties. During the period of bank ownership, these vacant properties are often vandalized and under-maintained, contributing to a lack of overall neighborhood stability. This report outlines how a community land trust (CLT) could be created in Western Contra Costa County to acquire and rehabilitate vacant bank-owned foreclosed homes. The community land trust would create permanently affordable housing while simultaneously improving stability in neighborhoods that have been deeply affected by the foreclosure crisis.

The foreclosure situation in Western Contra Costa County warrants close attention. Like many other regions in the country, the number of homes going into foreclosure has increased significantly in the past three years (see Figure 1). The number of units that have progressed from auction (Stage 2) to bank-ownership (Stage 3) has also risen dramatically.

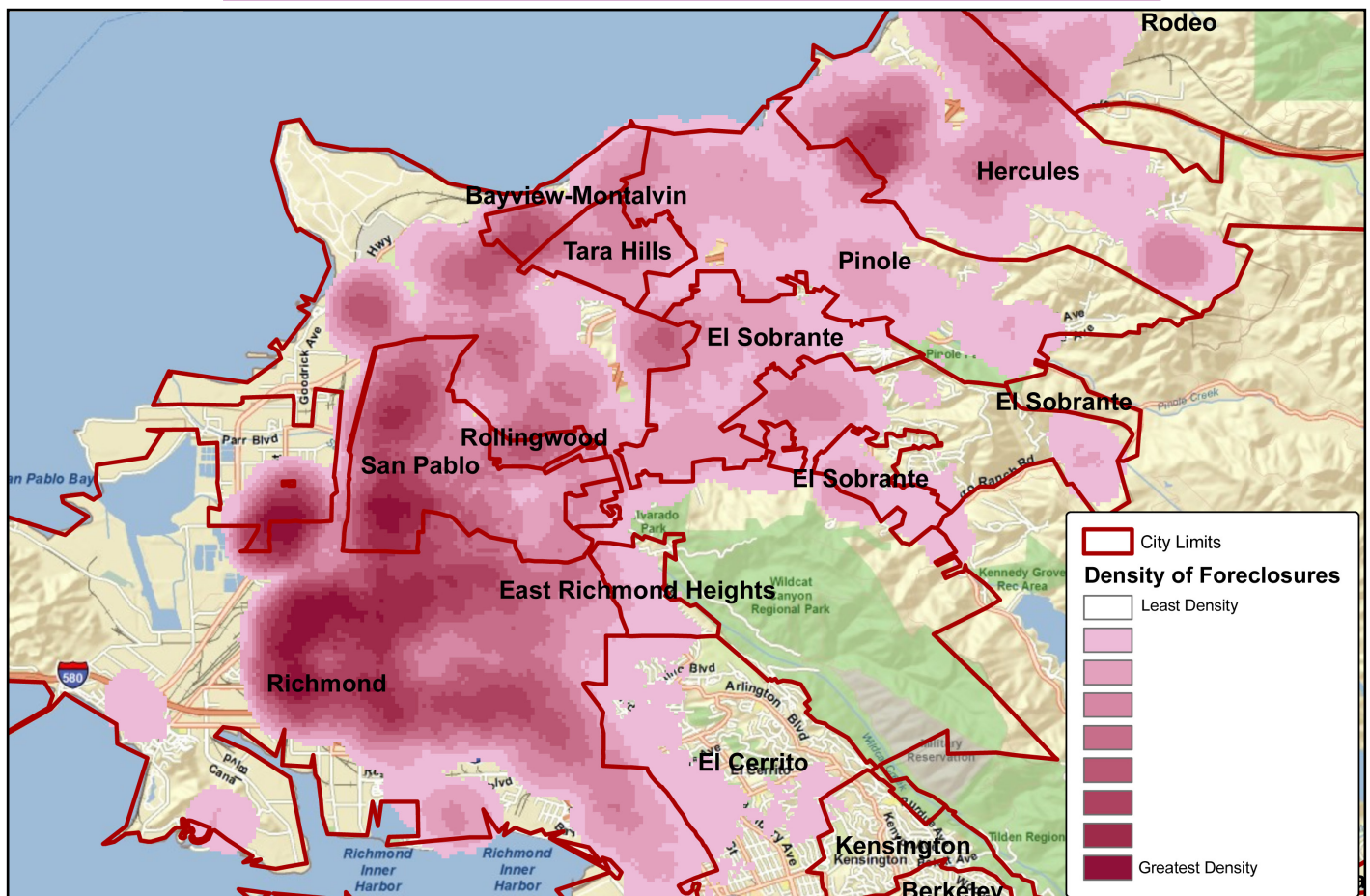
Figure 1. Western Contra Costa County Foreclosures, 2005-2008



Data Source: www.foreclosures.com

However, not all parts of West Contra Costa County have been impacted equally by foreclosure (see Figure 2). The highest concentrations of foreclosures are in Richmond, San Pablo, and the southwestern corner of Hercules. The situation has troubling consequences, not only for the individual families who are displaced after their homes undergo foreclosure, but also for the neighborhoods and cities in which these homes are located. As shown in Figure 3, many blocks in Western Contra Costa County

Figure 2. Density of Foreclosures in Western Contra Costa County Cities



Data Source: www.foreclosures.com Basemap: ESRI World Streets Map

have seen more than a fifth of their housing units undergo foreclosure.

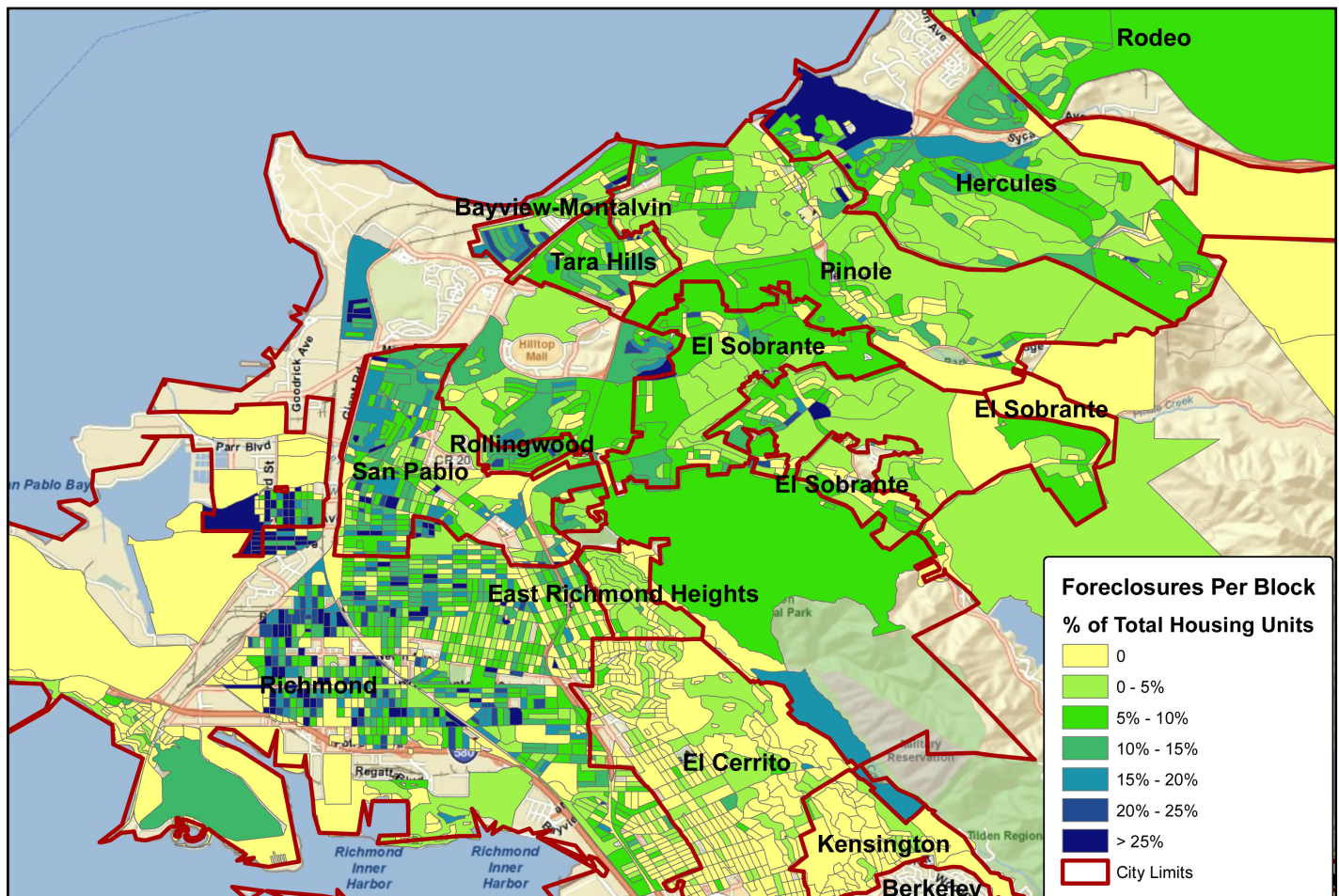
To understand how an effort could be undertaken to convert foreclosed homes into affordable housing through a community land trust, the foreclosure process and common terminology is first briefly explained. The entire foreclosure process takes several months. After one missed payment, the borrower is issued a Notice of Default, after which she has 90 days to correct the default.¹ Once the homeowner has been issued a Notice of Default, the property is considered to be in preforeclosure, or “Stage 1” of the foreclosure process. If the default is not corrected, a Notice of Sale is issued, which informs the borrower that the property will be sold at auction. Once the Notice of Sale is issued, the property has reached “Stage 2” of the foreclosure process. At the auction, the lender typically sets the opening bid or minimum bid, which is traditionally the remaining amount of the balance due, plus interest, fees, and other associated costs. The data utilized in this report shows that in Western Contra Costa County, the minimum bid is often as much as 10% over the total mortgage, not just the balance due plus costs. If no one else bids on the property, or if the minimum bid specified

by the lender is not matched, ownership of the property reverts to the lender. This period of bank ownership is “Stage 3” of the foreclosure process, in which properties are referred to as bank-owned or Real Estate Owned (REO). In the present market climate where home values are falling substantially after a long period of inflation, our data indicates that many properties are worth less than the minimum bid specified by the lender, making them difficult to sell at auction. Consequently, a high number of properties are progressing to this third stage.

In this uncertain economic climate, a community land trust would function as a mechanism to stabilize affected neighborhoods by rehabilitating vacant bank-owned properties, providing homeownership opportunities to lower income households, and ensuring a permanent stock of affordable housing when home prices rise again in the future.

1 www.foreclosures.com/pages/state_laws2.asp?state=ca

Figure 3. Stage 2 Foreclosures in Western Contra Costa County Cities, 2005-2008



What is a Community Land Trust?

A community land trust, or CLT, is an affordable housing model that provides homeownership opportunities to low-income households who might not otherwise be able to purchase a home. Additionally, it is a model that ensures permanent affordability of housing through non-profit land ownership and shared equity, limiting gains in appreciation that homeowners can realize when they sell. Currently, there are over 200 CLTs in the United States.²

A community land trust is generally organized as a membership-based non-profit organization with staff and a member-elected board of directors. Membership is generally extended not only to CLT homeowners, but also to neighbors and other residents of the jurisdiction, giving increased community control over local development. The CLT acquires and develops properties for sale to low- and moderate-income households. A homebuyer purchases the house, while the CLT retains ownership of the land, which it leases to the homeowner for a nominal fee through a long-term ground lease (usually a 99-year term). The property is more affordable because the homeowner is buying only the building and not the land upon which it sits. In exchange for this increased affordability, the homeowner agrees to take a smaller share of the appreciated value of the home upon its resale. When the homeowner is ready to sell the property, it is resold to another low- or moderate-income household without the need for additional subsidy. This subsidy retention model allows the benefits of the initial subsidy to pass to future homebuyers, in perpetuity.

A CLT benefits both the homeowner and the community. The homeowner receives the benefits associated with homeownership: the security that comes with owning a home with a fixed-rate mortgage, the opportunity to build equity, and, upon the home's sale, a portion of the appreciated value of the home. The community receives the benefits of permanently affordable housing stock and the ability to participate in the CLT's mission through membership. Because the CLT owns the land, it remains an asset of the CLT through which permanent affordability is ensured. When a home is sold, the land remains in the ownership of the CLT, and no profits are realized from the land. Thus, once the CLT acquires the land, no additional subsidies are required; the property remains permanently affordable. Unlike Low-Income Housing Tax Credit (LIHTC) projects, these units will not need to be purchased from investors after 50 years in order to preserve affordability.

Land rent fees collected by the CLT funds the staffing needs of the organization, which supports CLT homeowners and oversees CLT contracts. While the CLT organization will need a subsidy to cover startup costs for the first year, once the first units are under construction, the organization itself will need little to no further subsidy. Once about 150 units have been sold by the CLT, the organization will be self-supporting in perpetuity, although any further construction would require additional subsidy. The

land ownership guarantees a revenue stream for the life of the organization. While the housing development process requires separate subsidy, the housing subsidy retention is ensured due to the self-supporting organizational structure that exists to protect the contractual agreements between homeowners and the CLT.

Given the current housing situation, it is important to note that CLT homes are 1/30 as likely to undergo foreclosure as a typical home in the United States.³ Many CLTs provide homebuyer education and financial literacy courses for potential homebuyers. CLTs also typically offer support throughout the purchase process, ensuring that the borrower does not use a subprime loan to finance their purchase. Moreover, the CLT continues to have a relationship with the new homeowner after the purchase of the property, offering support and guidance from which many first-time homeowners benefit. As with other types of affordable housing, the percent of the household's income spent on housing is limited to 35%, which allows more discretionary spending dollars to be spent within the local community than higher income residents that may spend a greater percentage of their income on housing. In this way, affordable housing can support local retail and the local economy.

Essentially, a CLT accomplishes the dual goals of allowing homeowners to build equity while the community retains a permanently affordable housing stock.

Limitations of a CLT

Certainly, a CLT will not solve all problems associated with the current foreclosure situation in Western Contra Costa County. Most importantly, a CLT is not a mechanism that would help current at-risk households avoid foreclosure. As the number of bank-owned, vacant properties continues to grow, any local strategy to address foreclosures must focus on foreclosure prevention, rather than solely on acquisition and rehab. Also, property acquisitions by a new CLT will be inherently limited in scope due to budget constraints and the operational constraints of a new organization. A CLT will only tackle a small fraction of the overall number of homes that have undergone foreclosure. Additionally, as foreclosed homes in higher-priced neighborhoods will be too costly to acquire, a CLT is not a tool to improve income diversity in those neighborhoods. However, it would allow homeownership in low and moderately priced neighborhoods to be accessible to a lower income group. As acquisitions will be scattered sites in existing neighborhoods, a CLT would promote income mixture within these neighborhoods.

2 National Community Land Trust Network: www.clnetwork.org/index.php?fuseaction=Blog.dspBlogPost&postID=27

3 National Community Land Trust Network: www.clnetwork.org/

How a CLT Could Acquire Properties in Western Contra Costa County: Focus on REOs

A community land trust develops properties for sale to low- and moderate-income homebuyers. With falling home values and an excess of vacant, bank-owned properties, the current situation provides an ideal climate for a CLT to acquire properties. Although there are several different ways to acquire foreclosed properties, we recommend that a CLT pursue the bulk sale of bank-owned properties. A comparison of the advantages and disadvantages of different property acquisition strategies can be found in Figure 5. Several scenarios that vary in acquisition volume and pricing will be explored later in this report.

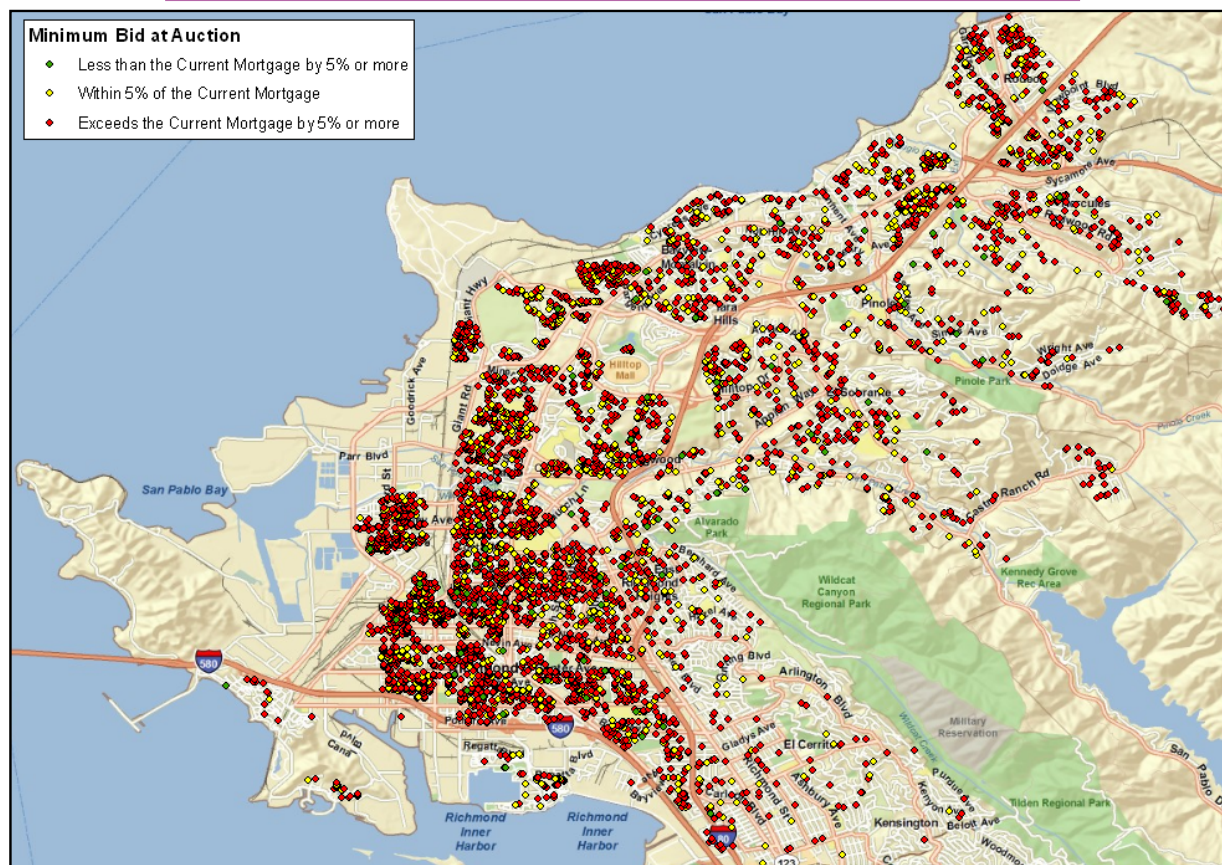
Acquiring foreclosed properties at auction will likely be less feasible for a CLT than acquiring bank-owned homes. In general, home prices at auction have not dropped to reflect the lowered property values in this area. The minimum bid price set by the banks at auction is usually 1%-10% higher than the current total mortgage. Recent news coverage has led many to believe that foreclosure auctions allow households to purchase properties at below market prices; however, it is clear from the 2005-2008 auction data that the minimum bid set by the banks for homes in Western Contra Costa County has been, in many cases, above market rate. Figure 4 illustrates the relationship between the minimum bid price set by the banks and the current

mortgage; in the majority of cases, the minimum bid price at auction exceeds the current mortgage by 5% or more.

Figure 6 examines the foreclosure process and pricing of several sample properties in Richmond and San Pablo. In each case the minimum bid price set by the banks at auction was higher than the current mortgage amount, and in each case the home did not sell at auction. All of the properties went into bank ownership, and sat vacant for varying lengths of time (from one week to eight months) before selling. The ultimate sales prices for these homes were significantly less than the minimum bid prices that had been set at auction and significantly less than the current mortgage amounts at the time of foreclosure. Considering the difference between the expected auction price and the actual price at which the property sold, it is disappointing that the banks would not choose to modify these loans to avoid foreclosure, rather than take the loss associated with selling the bank-owned home.

Consequently, we recommend that a CLT not attempt acquisitions at auction, as the minimum bid prices set by the banks are prohibitively high, and in general, do not reflect the current reduced property values in this area.

Figure 4. Required Minimum Bid at Foreclosure Auction (2005-2008)



Data Source: www.foreclosures.com Basemap: ESRI World Streets Map

Figure 5. CLT Acquisition Strategies for Foreclosed Properties

When During the Foreclosure Process Should a CLT Acquire Properties?	Benefits to the Community	Acquisition Costs for the CLT	Benefits and Drawbacks for the CLT
Short Sale (Can occur before Notice of Default)	<i>Least</i> These properties would be most easily absorbed back into the market and some could be purchased by low or moderate-income households without subsidy. They are the least likely to be vacant and vandalized.	<i>Moderately expensive to acquire.</i> Prices are usually discounted from the balance owed on the mortgage, as approved by the lender's loss mitigation department. This would comply with Neighborhood Stabilization Program (NSP) requirements as being purchased at a discount.	This method of purchase would require a nimble organization and ready access to credit for purchases. It would be more difficult to buy units in a concentrated geographic area. The number of units sold at short sales will hopefully be slowed by the March 2009 federal Homeowner Affordability and Stability Plan, which allows more households to refinance their mortgages. The short sale process can be complicated and time-consuming.
Auction (Stage 2)	<i>Moderate</i> Properties have not been vacant long, and may be less vandalized. While some foreclosed properties will be absorbed back into the market at auction, this is rare in Richmond and most of San Pablo.	<i>Most expensive to acquire.</i> Prices may be as high as 10% greater than the current total mortgage (not simply the balance owed).	This would require a nimble organization with ready access to cash for purchases, and quick action by an individual rather than a more carefully considered approach approved by the organization's board of directors. Auction sales may not comply with NSP use of funds, as homes are not purchased at a discount.
Bank-Owned/REO (Stage 3)	<i>Most</i> These properties are least likely to be quickly absorbed back into the market. Properties may have been vacant for an extended period of time, and may be heavily vandalized. Rehabilitating bank-owned homes is most likely to have a strong beneficial impact on the surrounding neighborhood.	<i>Moderately expensive to acquire.</i> Prices are often greatly reduced from the auction price. If the CLT is able to negotiate "as-is" or NRV prices with the banks, this is likely to be significantly lower than the minimum bid prices at auction. This would comply with Neighborhood Stabilization Program (NSP) requirements as being purchased at a discount. Property listings by bank can be found on the National Community Stabilization Trust's website: www.stablecommunities.org/topics/find_property	Many CDCs are attempting to structure bulk sales of bank-owned units at current "as-is" or NRV pricing. The negotiation and closing process with the bank may be time-consuming, and there is currently no established precedent for this method of purchase. The CLT would need to work with a single bank or the National Community Stabilization Trust to make a bulk purchase. In order to have some choice in property locations and price ranges, it is advised to work with the financial institutions that are the owners of the largest numbers of REOs in these areas. If negotiations are unsuccessful, partnerships could be formed between the CLT and Cities and Redevelopment Agencies in order to utilize the powers of Eminent Domain to acquire vacant REO properties at the current appraised market rate. If bulk-purchases prove infeasible, a piecemeal purchasing strategy might need to be pursued. As many of the foreclosed properties are moving directly from auction to bank-ownership, the CLT could attend pre-auction property viewings in target neighborhoods with their contractor, in order to develop an estimate for rehabilitation. When the property does not sell at auction, the CLT would have an offer ready for the bank. This bank-owned purchasing strategy would require access to a ready line of credit.

Due to the current uncertainty surrounding property values, negotiations for a bulk purchase of properties in bank ownership should focus on calculating an “as-is” price for each individual property. This is found by determining what the maximum market value of each home would be if it were in perfect condition, then deducting the cost of necessary repairs to bring each home up to that standard, plus a 10% developer’s fee. Properties that have been heavily vandalized and under-maintained may need more repairs than the fully rehabilitated market rate price would recover. We recommend that a newly formed CLT should avoid acquisitions of properties in this condition, as it will consume resources that could be better spent on additional acquisitions or on buying down the purchase price of the homes so that they are accessible to households in lower income groups.

Another method used to calculate an appropriate price for a property is the net realizable value (NRV). The NRV is equal to the market value of a property minus the costs of disbursement and the anticipated costs of holding the property (taxes, insurance, maintenance, and anticipated depreciation). The longer the seller expects to hold the property, the higher these costs will be. At present, when banks are holding properties for extended periods of time, using the property’s NRV could result in a significant discount from the market value.

A CLT should calculate both an “as-is” price and the net realizable value for a property prior to negotiating a purchase. While the banks will have calculated these figures, it is important that they be verified by the CLT’s contractor or appraiser after thorough inspection of the property; any

difference between these appraisals may be used as a point of negotiation.

The pooling and servicing agreements that govern the permissible actions of servicers and trustees of mortgage backed securities complicate the purchasing process of foreclosed properties, as it is not always immediately clear which entity has the authority to adjust pricing.

Although bulk purchasing is a challenging method of acquiring properties, some banks have started to take steps to streamline the process through REO discount or donation programs. For example, the Wells Fargo Housing Foundation has a Real Estate Owned Discounted Properties Program available to cities and affordable housing developers, offering prices 5-15% below market value. Also, the National Community Stabilization Trust is a new non-profit organization that provides information about available resources and assistance in connecting non-profits with banks in order to acquire bank-owned foreclosed properties.

Future policy actions that might assist the CLT in the acquisition of foreclosed properties could include establishing a clearinghouse to facilitate the transfer of foreclosed properties. In this scenario, banks would sell their foreclosed properties to a single entity, which would in turn distribute the properties to non-profit housing developers. Massachusetts recently established such a program, the Massachusetts Foreclosed Properties Initiative, on a state level. Local governments and the National Community Stabilization Trust have also been taking on this role.

Figure 6. Foreclosed Homes - Foreclosure Process

Address	Original Purchase Date	Original Purchase Price	Mortgage Loan Date	Mortgage Loan Amount	Auction Date	Bank-Set Minimum Bid Price at Auction	Bank-Sold Date	Bank-Sold Price	Lender’s Agent/Entity Conducting the Auction	REO Bank Owner
1919 Pine Ave. San Pablo	2/26/1993	\$110,000	3/6/2007	\$420,000	11/24/2008	\$445,003	12/1/2008	\$131,750	Ahmsi Default Services Inc	
848 30th St. Richmond	6/24/2004	\$350,000	5/30/2006	\$440,000	10/23/2008	\$464,393	10/29/2008	\$305,192	Td Service Co	Oakland Municipal Credit Union
3136 Henderson Dr. Richmond	7/6/2005	\$425,000	6/1/2007	\$495,000	9/2/2008	\$524,253	1/23/2009	\$145,000	Quality Loan Service Corp	Bear Stearns Asset 2007-He6
1402 Esmond Ave. Richmond	2/11/2002	\$227,000	6/14/2006	\$300,000	11/26/2007	\$323,518	8/6/2008	\$100,000	Standard Trust Deed Service Co	Thompson Ronald P & P J Trust
418 S 27th St. Richmond	2/6/1979	\$35,000	10/10/2005	\$120,000	5/1/2008	\$134,045	11/26/2008	\$100,900	Ndex West Llc	

Source: Addresses coordinated by Katrina Vizinau of Community Housing Development Corporation (CHDC) of North Richmond and provided by Yvonne Guyton Johnson. Property and financial data from Foreclosures.com and RealtyTrac.com.

How a CLT Could Acquire Properties in Western Contra Costa County: Focus on a Neighborhood

Although there are few areas in Western Contra Costa County that have been untouched by foreclosure, certain neighborhoods are sustaining far greater numbers of foreclosures than others, as shown in Figure 2. Stage two foreclosures - properties whose owners have not corrected any delinquencies after a notice of default, and are sold at auction - show which neighborhoods are struggling the most with foreclosures. It is these neighborhoods of high foreclosure concentrations in which a Western Contra Costa County community land trust could best focus its efforts. In these areas, it will be of particular importance to the neighborhood's health to reduce the number of vacant units, and it is these neighborhoods that will most benefit from the stabilization that a CLT could potentially provide. Furthermore, focusing on these areas will ensure that there is an ample supply of foreclosed properties for the CLT to acquire.

Focusing on one or two small "pilot" neighborhoods will also will allow the CLT to provide the most benefit from its limited resources. Concentrating its efforts will allow it to

make a real difference in terms of decreasing the number of vacant properties and contributing to neighborhood stabilization. Focusing on a neighborhood will allow the CLT to build strong relationships with one group of neighbors, as well as with a single planning department, building department, and redevelopment agency.

While scattered site development has the benefit of addressing foreclosed properties, one drawback of this approach is that the CLT homeowners are not as close geographically as they would be in a single development. However, a CLT is designed to build community not only among CLT homeowners, but within the larger neighborhood, a goal which is furthered by integrating CLT residents into the broader neighborhood context. In fact, many existing CLTs have scattered site acquisition strategies. For example, Rocky Mountain CLT in Colorado focuses on scattered site development because it allows residents greater flexibility and choice when selecting a home, and promotes mixed-income communities.

Figure 7. Required Minimum Bid Under \$200,000 at Foreclosure Auction (2005-2008)

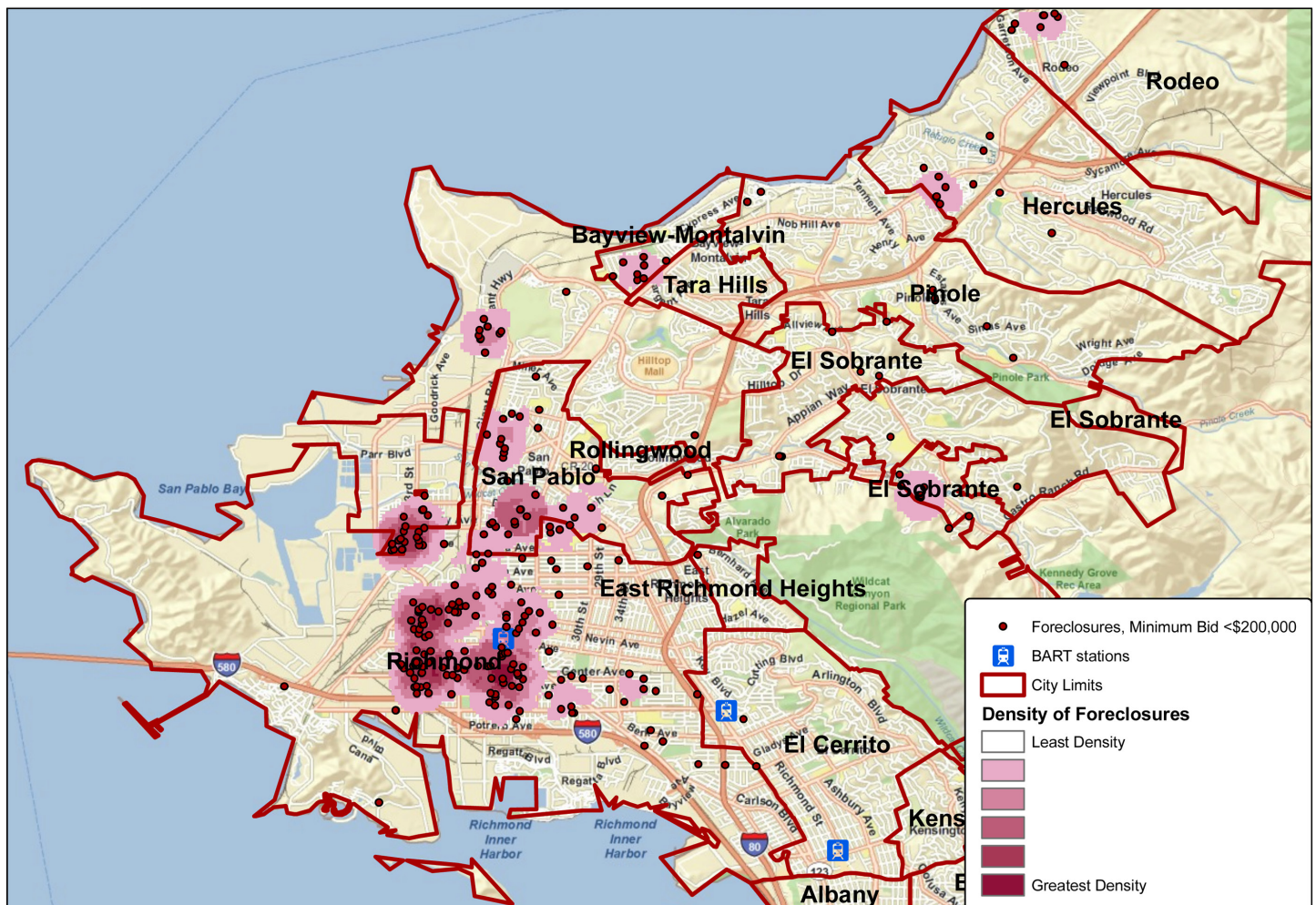
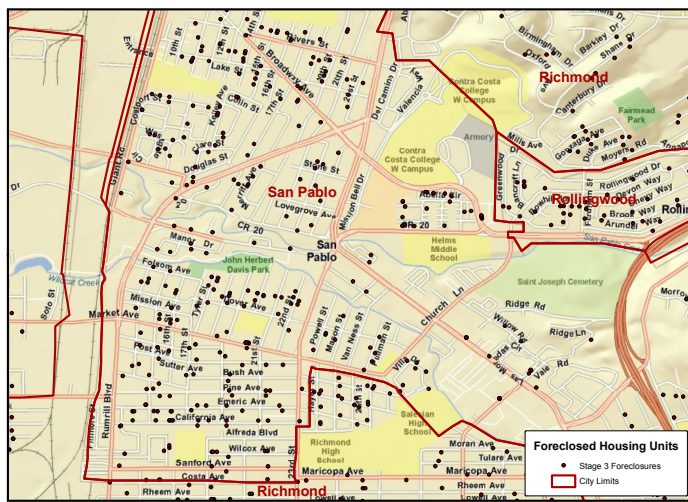
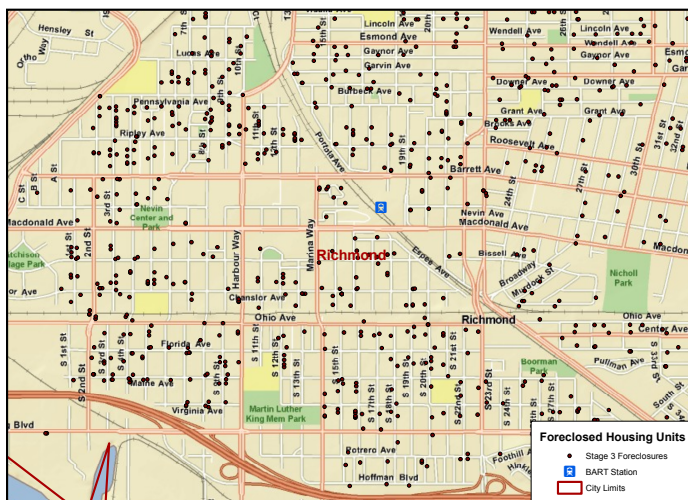


Figure 8. Stage 3 Foreclosures in San Pablo, 2008



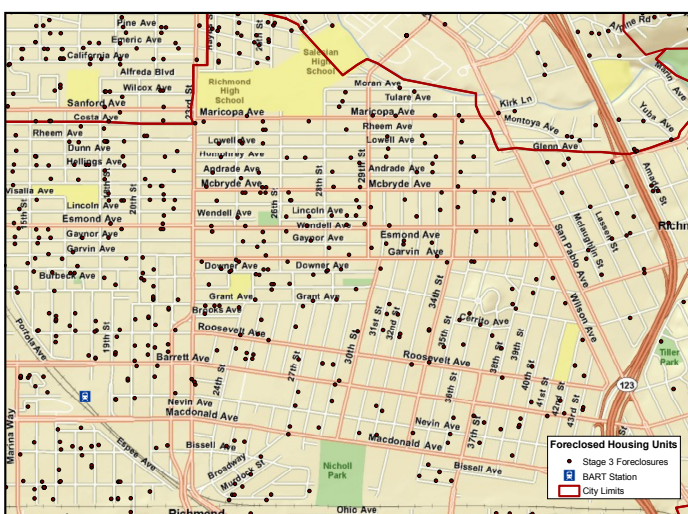
Data Source: www.foreclosures.com Basemap: ESRI World Streets Map

Figure 9. Stage 3 Foreclosures in Richmond, 2008



Data Source: www.foreclosures.com Basemap: ESRI World Streets Map

Figure 10. Stage 3 Foreclosures in North & East Richmond, 2008



Data Source: www.foreclosures.com Basemap: ESRI World Streets Map

In Western Contra Costa County, areas which are under particular duress as a result of a high concentration of foreclosures include the Iron Triangle in Richmond, North and East Richmond, western San Pablo, and to a lesser extent, southwestern Hercules. However, not all these areas will be appropriate for a CLT. For example, although southwestern Hercules has a relatively high number of foreclosures, the value of many of these foreclosed properties is still high and is likely out of the reach of a nascent CLT.

Figure 7 demonstrates the number of properties for which the banks set a minimum bid price at auction of \$200,000 or less. While banks often accept much less for properties once they have not sold at auction and have sat vacant for some time, this map gives a quick vision of where the banks' starting prices are lower. The Richmond and San Pablo neighborhoods, with high concentrations of more affordable foreclosed properties, are appropriate starting places for a CLT (see Figures 8, 9, and 10). These figures show all of the properties that were bank-owned in 2008, and while some have now sold, there are still others that have gone into bank-ownership in the meantime.

It may be possible to concentrate acquisitions in a neighborhood within walking distance (1/2 mile) of the BART station. This would link families who purchase a CLT home with transit to reach the jobs and resources of the wider region. However, these units are likely to be slightly more expensive and may be sold out of bank ownership more quickly due to the transit amenity.

Working with a selected bank (or banks) that holds one of the highest numbers of bank-owned foreclosed properties in Western Contra Costa County will enable the CLT to be selective in the location and price of the properties purchased. If acquiring properties in a concentrated area from a single bank proves difficult, the CLT may choose to advocate for an intermediary clearinghouse as discussed in the previous section.

An alternate strategy to acquiring properties in a small target area might involve working with a single bank to acquire properties within a particular price range that are scattered throughout the jurisdictions in Western Contra Costa County. While this strategy would allow the CLT to seek support from multiple jurisdictions, it would add many administrative complications arising from far-flung properties, and would be too dispersed an investment to have neighborhood stabilization effects.

Who Would A CLT Serve?

How Much Would CLT Homes Cost?

Home prices are currently lower than they have been in several years. However, many homes available on the market today will require substantial rehabilitation prior to occupancy. Bank-owned foreclosed properties that have been vacant for an extended period of time are susceptible to gutting and vandalism. Consequently, we assume that gut renovations will be required.

Who Would A CLT Serve?

Lower home prices mean that a household earning 80% or even 60% of Contra Costa County's area median income (AMI) might currently be able to afford a home on the market without the resale restrictions that come with a CLT property. Thus, a CLT in Western Contra Costa County will need to market its properties towards a lower income group. It should be noted that the median household income for Richmond or San Pablo is expected to be considerably lower than HUD's area median income for the county. The CLT's target of 50% AMI, based on the county's median, may correspond to a population in Richmond that is closer to 70% of Richmond's median. Targeting the sale of CLT homes to lower income levels allows this housing to be affordable to current area residents.

Regardless of the target income, as the housing market is in such flux right now, a new market study analyzing the current real estate climate will be necessary to determine the market value of homes in the neighborhoods in which the CLT will likely be working, to ensure that the CLT properties are priced 30% below market rate.

How Much Would CLT Homes Cost?

A household at 50% AMI earns approximately \$44,400 annually in Contra Costa County. Assuming 30% of gross monthly income will be used towards housing costs, a household in this income bracket could afford a house priced at \$148,000 (including a 10% down payment). Down payment assistance may be available through CalHome or other first-time homebuyer assistance programs.

A one-time grant of \$50,000 will be required for the CLT organization's start-up costs. Once a CLT has developed approximately 150 units, the revenues from monthly ground lease fees and new lease and marketing fees at resale will cover the staffing and overhead of the CLT. While a CLT can be established by undertaking the acquisition and rehab of a moderate number of units in the first year, this development effort would need to be sustained over 7-10 years until enough units were built that ground rent income covered the CLT's staffing costs. Any additional property development would require additional subsidy. However, once the organization becomes self-sustaining, the properties it has developed will remain affordable in perpetuity without additional subsidy, ensuring that the original subsidy is retained and benefitting future generations of homeowners. Also, these scenarios assume all acquisition or rehab

subsidies are in the form of grants or forgivable loans.

As there is currently much uncertainty about the pricing of bank-owned homes, three scenarios are explored in Appendix A. Each scenario uses an estimated average rehab cost of \$100,000, based on other non-profits' estimates of foreclosure rehabilitation. Each scenario assumes the homes will be sold to households at 50% AMI for \$148,000. All other development costs are held even across the scenarios. Varying acquisition pricing changes the annual volume of acquisitions and rate of development required to cover organizational costs. Less expensive acquisitions require more units to be produced annually, in fewer years, in order for the organization to cover expenses.

In each scenario, the subsidy required per unit is nearly equivalent to the acquisition cost. The rehabilitation costs are essentially paid by the homebuyer. These scenarios demonstrate the need for a careful acquisition strategy and aggressive pricing negotiations, as the cost of acquisition is directly reflected in the amount of subsidy required.

Scenario 1

15 homes would be rehabbed annually for ten years. Homes would be acquired from the bank for \$200,000, and the total development cost per unit would be \$345,214, requiring a subsidy of \$197,214 per unit to reach households at 50% AMI. The annual subsidy required would be \$3 million, for a total of **\$29.6 million** to rehabilitate **150 units for permanent affordable homeownership**.

Scenario 2

20 homes would be rehabbed annually for eight years. Homes would be acquired from the bank for \$100,000, and the total development cost per unit would be \$241,091, requiring a subsidy of \$93,091 per unit to reach households at 50% AMI. The annual subsidy required would be \$1.9 million, for a total of **\$14.9 million** to rehabilitate **160 units for permanent affordable homeownership**.

Scenario 3

22 homes would be rehabbed annually for eight years. Homes would be acquired from the bank for \$50,000, and the total development cost per unit would be \$189,091, requiring a subsidy of \$41,091 per unit to reach households at 50% AMI. The annual subsidy required would be \$900,000, for a total of **\$7.3 million** to rehabilitate **176 units for permanent affordable homeownership**.

In comparing these scenarios, the effect of acquisition pricing becomes clear. **Scenario 3** is the most feasible, requiring the least subsidy, providing the most units in the shortest time, and adding significant value to severely distressed properties and neighborhoods. Negotiating "as-is" or NRV pricing and targeting the lowest cost properties that can be rehabilitated for \$100,000 should be a focus of the CLT.

Creating a CLT Organization - Staffing

A Western Contra Costa County CLT would require a small staff in order for the organization to be financially self-sustaining. The CLT could form a partnership with an existing housing organization providing homebuyer education and possibly with local government in an ombudsman role. The CLT will also need to establish relationships with various consultants to provide contract services on an as-needed basis.

CLT Staff

A **program director** would manage the day-to-day functions of the CLT's homeownership program. This staff person would be responsible for developing relationships with the community, marketing CLT projects, maintaining a list of potential homebuyers, and daily administration. It will be important to maintain a substantial list of potential buyers who are ready to purchase; especially in its initial years, the CLT will not be able to afford having finished units stand unsold and empty. The program director would work closely with both the homebuyer education partner organization, as potential buyers will be referred through the program, and with the CLT's realtor (see following sections). This position would be funded by the CLT from ground lease revenues.

The CLT should hire an experienced individual to perform the **construction management** function. Though we anticipate that the CLT will acquire existing homes, in even a best-case scenario, these existing buildings will need minor repairs. However, it is more likely that the bank-owned properties will require extensive rehabilitation and must consequently go through a permitting and construction process. Given the amount of work that the CLT is expected to produce in its first years, directly hiring a full-time construction manager, rather than partnering with a developer, will be more cost effective. This position will be funded by a per unit fee of 4% of the development cost per unit for the duration of the construction period.

Because homes purchased through the CLT will have a land lease, the CLT must have an **ownership support manager** to oversee payment, maintenance, and other issues related to the terms of the lease. During the years that housing is renovated and sold, funding for this role would be provided from the CLT's revenues. The program director may take on these additional roles at the end of the construction period.

CLT Partners

Homebuyer education is a crucial function of any CLT. Prior to purchasing a home, many first time homebuyers need guidance to help repair their credit, save for a down payment, and learn what homeownership entails.

However, it is unlikely that in its initial years the CLT will be able to support a full education program. The Community Housing Development Corporation of North Richmond (CHDC North Richmond) already operates a HUD-approved homebuyer counseling program, along with financial education programs and an Individual Development Account (IDA) savings program. Neighborhood Housing Services of Richmond (NHS Richmond) also offers financial education, first-time homebuyer courses, and administers a down payment and mortgage assistance program. Both organizations are potential partners that could provide support in this area. The CLT would provide \$10,000 annually to this partner, in exchange for their educator undergoing CLT training and holding several CLT education sessions a month.

Another potential CLT partner is the municipal government. A CLT **ombudsman** within the local government could aid in expediting building permits and coordinating city funding, and would strengthen relations between the CLT, the government, and the community.

Contract Services

Property sales will need to be performed by an organization that is familiar with the intricacies of the CLT model in addition to being equipped to deal with the needs and concerns of first-time homebuyers and lower-income clients. Ideally, this partner would work with the program director to prequalify potential buyers, enabling the CLT to maintain a pool of prequalified households ready to purchase immediately when construction is finished. NHS Richmond currently has a working relationship with a real estate broker; the CLT could use this model for its sales program. A sales agent commission of 4% of the purchase price of each home is budgeted for this position. Some of the marketing budget may be used by the sales agent.

The CLT will also need a consultant for **legal services**. The consultant should be familiar with the complexities of the community land trust model, as well as have experience in general housing and tenure law. An annual budget of \$20,000 for legal services during the construction period has been assumed, with fees decreasing at the end of construction, after which point legal services will be needed primarily for resales.

Technical assistance could be provided by Northern California Land Trust, a Bay Area CLT with over 30 years of experience, or by Burlington Associates, who currently provide technical assistance to CLTs. Technical assistance will be of particular importance in areas where the CLT model differs from traditional homeownership models, for example, post-ownership support.

Potential Funding Sources

Potential grant and loan funding for a CLT would need to be pieced together from a number of different sources, including **Community Development Block Grant** funds, support from the **Redevelopment Agencies, Housing Authorities, CalHome**, other public sources, and from various foundations. Neighborhood Stabilization Program funds need to be spent by June 2010, which will likely exclude a new CLT from this funding, unless this collaborative project was undertaken immediately.

The following foundations support acquisition and rehab for affordable housing:

Fannie Mae Foundation

Nation's Housing Challenges Grants

The Home Depot Foundation

Affordable Housing Grants

Enterprise Foundation

Green Communities - Charette & Planning and Construction Grants

Institute for Community Economics

Revolving Loan Fund

National Housing Trust

Community Development Fund

Wells Fargo Housing Foundation

Next Steps

In short, a Community Land Trust in Western Contra Costa County could be a valuable component of a larger strategy to address the foreclosure situation, particularly with regard to neighborhoods feeling the pressure of high numbers of foreclosures. A CLT would increase the county's affordable housing stock and reduce the number of vacant, bank-owned foreclosed properties in a way that offers long-term benefits to both homeowners and neighborhoods.

Next steps towards establishing a CLT might include:

- gauging the interest of potential partner organizations for homebuyer education and city ombudsman roles, and capacity to contribute time to the CLT;
- determining the funding availability from county and city governments as well as from foundations;
- conducting a market study of target neighborhoods to ensure that CLT homes would be priced 30% below market rate;
- development of a detailed pro forma, based on the market study, and possibly additionally considering a lease-to-own financing structure;
- and, preliminary discussions with banks holding a high number of foreclosed properties in Western Contra Costa County to determine the likelihood of acquiring a group of foreclosed properties at an affordable price.

Appendix A

Scenarios 1-3 Development Pro Forma
Scenarios 1-3 CLT Cash Flows

	Scenario 1 15 Units Acquired Annually, \$200,000 Acquisitions, 10 Years	Scenario 2 20 Units Acquired Annually, As-Is Pricing \$100,000, 8 years	Scenario 3 22 Units Acquired Annually, As-Is Pricing \$50,000, 8 years
PROJECT OUTLINE			
Unit Type	Single-Family	Single-Family	Single-Family
Number of Units Annually	15	20	22
Average Size (sqft)	1000	1000	1000
Number of Years of Construction	10	8	8
Total CLT Units	150	160	176
DEVELOPMENT COSTS			
Acquisition Cost/Unit	\$200,000	\$100,000	\$50,000
Rehab Cost/Unit (\$100/sqft)	\$100,000	\$100,000	\$100,000
Landscaping Cost/Unit	\$800	\$800	\$800
Construction Management Fee (%)	4%	4%	4%
Construction Management Fee/Unit	\$12,000	\$8,000	\$6,000
Insurance/Unit	\$10,000	\$10,000	\$10,000
CLT Marketing Fee (% of final BMR price)	7%	7%	7%
CLT Marketing Fee/Unit	\$10,360	\$10,360	\$10,360
Other Soft Costs (as % of Construction Costs)	8%	8%	8%
Other Soft Costs/Unit	\$8,000	\$8,000	\$8,000
Total Development Cost/Unit	\$345,214	\$241,091	\$189,091
CONSTRUCTION FINANCING			
% Financed (Not Including Acquisition)	75%	75%	75%
Maximum Annual Construction Loan	\$1,134,000	\$1,512,000	\$1,663,200
Interest Rate (%)	6.5%	6.5%	6.5%
Length of Construction (months)	12	12	12
Construction Interest	\$60,811	\$78,624	\$86,486
Length of Sales Period (months)	6	6	6
Sales per month	2	2	2
Number of CLT Applicants Annually	50	50	50
Homebuyer CLT Application Fee	\$25	\$25	\$25
GROUND LEASE			
Ground Lease Fee (month/unit)	\$50	\$50	\$50
Total Annual Ground Lease Fees, At End of Construction	\$90,000	\$96,000	\$105,600
SALES PRICES & SUBSIDY NEEDED			
Total Development Cost/Unit	\$345,214	\$241,091	\$189,091
Subsidized Price (30% AMI - County)	\$79,000	\$79,000	\$79,000
Subsidy Needed/Unit (30% AMI - County)	\$266,214	\$162,091	\$110,091
Subsidized Price (50% AMI - County)	\$148,000	\$148,000	\$148,000
Subsidy Needed/Unit (50% AMI - County)	\$197,214	\$93,091	\$41,091
Subsidized Price (80% AMI - County)	\$241,000	\$241,000	\$241,000
Subsidy Needed/Unit (80% AMI - County)	\$104,214	\$91	-\$51,909
*A current market study of home sales in Richmond will be needed to determine if these subsidized prices approach 30% below market prices - if not, resale restrictions will not be attractive to most buyers			
DEVELOPMENT SUMMARY			
Total Acquisition Cost	\$3,000,000	\$2,000,000	\$1,100,000
Construction Cost	\$1,572,811	\$2,094,624	\$2,304,086
Soft Cost	\$605,400	\$727,200	\$755,920
Total Development Cost	\$5,178,211	\$4,821,824	\$4,160,006
Total Revenue from Home Sales	\$2,220,000	\$2,960,000	\$3,256,000
Construction Grant - Annual Subsidy Required	\$2,958,211	\$1,861,824	\$904,006
CLT Operations - 1st Year Subsidy Required	\$50,000	\$50,000	\$50,000
Total 1st Year Subsidy Required	\$3,008,211	\$1,911,824	\$954,006
Total Subsidy Required Over Development Term	\$29,632,108	\$14,944,592	\$7,282,051
HUD AMI - Contra Costa County			
Annual Income	100% AMI \$86,100	80% AMI \$66,250	50% AMI \$43,050
Monthly Gross Income	\$7,175	\$5,521	\$3,588
30% of Gross Monthly Income	\$2,153	\$1,656	\$1,076
Insurance + Taxes	\$367.50	\$300.83	\$223.33
Ground Lease Fee	\$50.00	\$50.00	\$50.00
Remainder Available for Mortgage	\$1,735	\$1,305	\$803
Maximum Purchase Price (w/ 10% down)	\$321,000	\$241,000	\$148,000
	\$1,200 annual insurance		
	1.00% property tax (% assessed value)		

The above scenarios contain many assumptions that will need to be further refined as the CLT project advances and costs and expenses become less uncertain.

Assumptions:

Acquisition Cost - This will need to be negotiated with the banks in the process of brokering bank sales, as the current asking prices for vacant bank-owned homes is often high.

Rehab Cost - This \$100/sqft figure is based on conversations with other non-profits doing rehab work on foreclosed homes.

Construction Management Fee - This fee pays the salary of the construction manager CLT staff position.

Soft Costs - This is a catch-all for the costs of other services that may be necessary and may include, but is not limited to, appraisal, engineering, or architectural plan drawings for submittal to the city for building permits.

Construction Financing - This assumes a commercial construction loan is available to the CLT for the rehabilitation work. Alternately, construction financing could potentially be financed through a bond measure, and repaid as the homes are sold. This would provide a lower interest rate than a conventional construction loan, reducing the necessary subsidy.

The calculations in each of the scenarios outlined here show that the CLT will be a financially self-sufficient organization (excluding development costs).

[illegible][illegible][illegible]

