

Community Land Trusts: Do they solve the land problem?

By Edward Dodson

Gary Flomenhoft's article, "A New Symbiotic Strategy for the Georgist Movement," in the Winter issue of *Progress* drew this response from Ed Dodson.

Gary Flomenhoft writes "that community land trusts provide a living example of the benefits of removing land from the market by establishing a trust that leases land to owners of residences (and other buildings). At the end of Gary's article, *Progress* editor David Collyer counters:

"In my opinion, Community Land Trusts sit right next to Georgism – but assist only those inside them, without ending the tax holiday enjoyed by landowners and rent-seekers elsewhere."

I write from the perspective of someone who for the better part of a decade worked to promote the expansion of the community land trust model as a potentially important tool for the creation and preservation of decent, affordable housing. During my tenure with Fannie Mae, I took on the role of primary liaison with the Institute for Community Economics (ICE), the organization founded by Bob Swann decades before. ICE works directly with groups setting up community land trusts around the United States. Well into the

1990s, a very real concern for individuals purchasing housing subject to the CLT ground lease was the ability to obtain financing. In many regions there were only one or two small banks willing to make and hold these loans in their portfolio because of the volatility of market interest rates. These banks could not afford to commit more than a small amount of their assets to these mortgage loans. This is where Fannie Mae came in.

We worked with ICE to create language in the ground lease that would satisfy our concerns regarding foreclosure in the event of a borrower default. The solution found was to allow the CLT to step in and pay off the mortgage loan balance, becoming the mortgagee. The CLT could then try to work out whatever financial problems existed for the homeowners. The shortcoming of this "solution" was that not every CLT had sufficient assets in reserve – or access to a bank line of credit – to make this work. Thus, there was a risk that a particular parcel of land might be removed from the CLT and sold to the highest bidder at a foreclosure sale. To minimize this risk, the CLT was to be notified right away if a borrower failed to make a payment on time.

One of the real challenges to the creation of CLTs is, of

course, the cost of land acquisition. Wherever the demand for land is high, investors with deep pockets will be attracted to acquire land to hold for some period of time while land prices continue to climb. Thus, CLTs are difficult to form in such areas without the donation of land by socially motivated individuals or access to foundation grants. Land prices are lowest where few people except those with no other choice are willing to live. However, as Gary informs readers, despite this obstacle the number of CLTs in the United States continues to slowly increase.

Bob Swann and others who dedicated themselves to promoting CLTs recognized the inherent weaknesses in the utopian models established by early admirers of Henry George. Self-interest intervened in the communities of Arden, Delaware and Fairhope, Alabama, so that the full potential rental value of land was never collected from each lessee. The market responded to this imputed income stream associated with the land by, in effect, creating a capital value for the leasehold interest. The result is that the cost of a residential property in these "Georgist" communities is as high or higher than in surrounding communities where land is held fee simple. Enough ground rent is captured to pay for public improvements that make the community very livable and attractive, so that the demand for properties within the trust is greater than the supply. Properties within the trust are available only at a premium. To solve this problem, Bob Swann and his successors at ICE incorporated language in the ground lease and restrictive covenants in the deeds creating a formula limiting the potential resale price of the property. In other instances, resale is restricted to households with incomes not exceeding some percentage of the area median income.

Within a very dysfunctional societal structure, one that rewards rent-seeking and leaves a large segment of the population unable to secure a decent place to live, the CLT offers an important means of mitigating the problem. For many people who move into housing within a CLT, this is the one real chance they have to become homeowners. For others, such as Gary, the motivation is also an opportunity to contribute to the social good. As he writes:

"Is it worth it to save money now and give up capital gains later when housing appreciates? It is to me on principle, and also on practical grounds.

I understand and empathize with Gary's message to the Georgist community. My professional work convinces me that a certain degree of planning is required to nurture a sense of community and a sense of place on the part of people who live there. Most of us would agree that our automobile-dependent lifestyles consume much too much of our time, financial reserves and natural resources than is healthy or sustainable. Our

communities need to become places where people can live, work and play feeling safe and with access to high quality public goods and services. The question is whether the CLT is an effective response, an effective approach to getting us from where we are to where we ought to be.

Here, the main issue for me - embracing the solution put forward by Henry George - is that CLTs are designed to prevent the natural tendency of the rent of land to increase over time rather than collecting this rent fund in full, which could then be distributed to each resident as an income supplement after providing for community-wide goods and services. CLTs are not self-sufficient. They all depend on services provided by levels of government outside the CLT. My understanding is that in Arden (Delaware) and Fairhope (Alabama), the CLT uses a portion of the ground rents collected to pay the property tax obligations of lessees to the school district and county. This at least rewards lessees who make significant property improvements over time (i.e., bringing the land to its highest, best permitted use). I am not aware that this is the case in other CLTs.

I concur with Gary that the people involved in the CLT movement are people we should cultivate. They have come to the CLT movement because they recognize the existing systems of property law and taxation work against a large segment of the population in any society. This does not mean (and I do not think Gary is arguing) that we should abandon our efforts to change the way government raises its revenue. Bob Swann made that decision because, as he explained to me years ago, he saw almost no prospect of getting the laws changed to implement the Georgist remedy. It is interesting to recall that Joseph Fels strongly supported the creation of intentional communities on the Georgist model, at a time when the number of people around the globe who might be counted as "Single Taxers" or "Georgists" was probably in the tens of thousands. Only a hardy few joined these fledgling communities, and most of these communities eventually changed or disappeared. Would I consider moving into a CLT if one was established nearby? Perhaps. There are more things to consider than whether my individual involvement with a CLT will have a symbiotic effect on the growth of the Georgist Movement.