

# COMMUNITY LAND TRUSTS: A Primer for Local Assessors

A Product of Community Legal Resources  
Community Land Trust Project  
[www.clronline.org/clt](http://www.clronline.org/clt)

## I. What is a Community Land Trust?

A community land trust (CLT) is a private, nonprofit corporation created to provide secure affordable access to land and housing for the benefit of the community. The CLT provides access to ownership of housing for people who would otherwise be priced out of the housing market.

CLTs are unique in that they separate ownership of land and homes. CLTs permanently own the land on which homes and other structures or facilities are built, while individuals own the home (or other structure/facility) on the land pursuant to a long-term (usually 89-year) renewable ground lease.

The ground lease entered into by every CLT homeowner requires that owners live in their homes as their primary residences. CLT homeowners and their descendants have a right to occupy and use the leased land for as long as they wish, provided that they abide by the terms of the ground lease. In exchange for an initial subsidy from the CLT that is built into the price of the home, the terms place some limitations on the resale of the home—preventing resale to a household that does not qualify as low- or moderate-income, and limiting the sales price to keep it affordable. The lease lays out a “resale formula” that determines the maximum allowable price that may be charged upon resale of the home. Each CLT designs its own resale formula to give homeowners a fair return on their investments, while keeping the price affordable for other lower income people. In addition, the CLT has the right to buy each home back for an amount limited by the CLT’s resale formula.

Typically, CLTs are used in neighborhoods that are experiencing or are expected to experience gentrification. In many communities today, population growth and economic investment are driving up real estate prices so that fewer low- and modest-income workers can afford to buy homes or rent in the communities where they work. Limited public funds are available to subsidize housing costs for lower income households. However, the gap between the amount of subsidy needed and the amount of subsidy available for affordable housing continues to widen as housing costs soar.

According to the U.S. Census, from 1990 to 2000 the median value of owner-occupied homes increased by 97% in the State of Michigan. While housing prices have escalated, government funding for affordable housing has decreased and private funders are unable to subsidize these projects at the level previously supported by the government.

While CLTs do not build equity for low-income communities as fast as conventional homeownership would, CLTs are designed to serve a population that otherwise would not have homeownership opportunities in the current conventional market. In addition, the initial investment in the affordability of the housing is preserved for future owners, thereby maximizing the utility of that investment.

CLTs are being developed in a growing number of communities – in expanding metropolitan areas from Cleveland, Ohio to Portland, Oregon; in university communities from State College, Pennsylvania, to Boulder, Colorado; and in expensive resort communities from the Florida Keys to the San Juan Islands of Washington State. In Michigan, CLTs have been formed in Traverse City, Boyne City, and Oceana County, among others.

## II. Special Concerns of Local Assessors

### A. Assessing CLT Property

A CLT residence typically consists of a building on leased land. Under Michigan law, the improvements and the underlying land are each assessed as real property, and should be assessed separately to the respective owners.

The long-term lease that is the central feature of the CLT structure has an impact on the True Cash Value of both the underlying land and the improvements. It is well established under Michigan case law that significant restrictions on the transferability of property, and therefore on its marketability, may reduce the assessable value of that property. *Lochmoor Club v City of Grosse Pointe Woods*, 10 Mich App 394; 159 NW2d 756 (1968); *Canada Creek Ranch Association, Inc v Montmorency Township*, 206 Mich App 498; 522 NW2d 690 (1994).

### B. Assessment of Land

In particular, the underlying land owned by the CLT is burdened with a lease that typically will have a term of 89 years. Under the terms of the lease, the CLT will receive an amount of rent that is not set at market rates but at a minimal rate consistent with reducing housing costs for the benefit of low-income or moderate-income homeowners. A purchaser of the land would not pay market price for property that is subject to a permanent commitment of this type. The assessment of the land should accordingly reflect the reduction in value resulting from the existence of the long-term lease.

### C. Assessment of Improvements

The CLT homeowner owns the improvements, including the structure, out buildings, and any site improvements, in fee simple. However, the CLT homeowner is also a party to the CLT ground lease. This fact has two major implications for the assessment of the homeowner's property.

First, because the homeowner does not own the underlying land, sale prices of comparable properties in which the land is included are not reliable indicators of the value of the homeowner's property. Second, and more importantly, because the ground lease restricts the price at which the homeowner may resell the improvements, the market value (and therefore the assessable value) of the improvements is likewise restricted.

Once the CLT is established, it is a condition precedent to purchase of the improvements by a potential CLT homeowner that the purchaser enter into the ground lease. This is not optional to the CLT homeowner. Having purchased the improvements (at a discount to the price that would otherwise apply to a residence that included the

land), the CLT homeowner is required by the ground lease, if he or she intends to resell the improvements, to first offer them for resale to the CLT at a formula price. The formula permits the CLT homeowner to recover his or her investment in the improvements plus a predetermined but limited percentage of their appreciation in value.

This contractual obligation has the effect of fixing the market value of the improvements at the formula price – the owner cannot sell it for more, and a potential purchaser has no incentive, nor need, to pay more. It follows that the assessable value of the improvements, even if “uncapped” as a result of a sale, cannot logically or legally exceed the formula price.

#### **D. Homestead Issues**

The CLT homeowner is required by the ground lease to reside in the property. As a result, the homeowner is entitled to claim the improvements as his or her personal residence for purposes of the homestead exemption.

*This document is a product of the Community Legal Resources Community Land Trust Project. Please check the CLR CLT Project website for updates to this document: [www.clronline.org/clt](http://www.clronline.org/clt).*

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