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FINANCE-FREE HOUSING

Scoping Paper - Tom Bender - 22 Sept. '06

A Housing Trust (CLT) is a non-profit organization that holds permanent ownership of land and housing to prevent its cost escalation. Primary focus of CLTs to date has been in ownership of the land, as that is the element that suffers greatest cost escalation. Many options are used by the 150+ housing trusts across the country to strike a fair balance on resale of the houses to help minimize the cost escalation of the house portion of "owned" units and give the "owners" return on their investment.

Trust ownership of the *housing* as well as the land has additional benefits which suggest its use on a wider basis than just low-income housing. It can eliminate the financing portion of housing costs over a 20 year period as original purchases are paid off, as well as transfer costs of repeated sales of the units. Together, trust ownership of both land and housing can have huge impact on housing costs for an entire community. It can:

* **Stop inflation/market increases in both land and housing prices on trust-owned land and housing.** *At a 3% inflation rate, prices double in 20 years. Therefore trust ownership can cut the land/building component of costs in half in 20 years.*

* **Eliminate (in 20 years) the finance component of trust-owned land and housing costs.** *This would constitute a reduction in housing costs – in perpetuity – equal to the entire capital cost, where trust owns structures.*

* **Eliminate cumulative transfer costs on trust-owned land and housing.** *Where both house and land are trust-owned, this would amount to 1/3 of the purchase cost of a house over a lifetime.*

Thus 25% reduction in the capital and finance costs of a house is possible through escaping market inflation, 50% reduction through elimination of finance costs, 8% through avoidance of transfer costs. Together this amounts to 83% reduction in capital/finance costs.

Capital/finance costs of housing can be lowered by 83% within 20 years through housing trust ownership of buildings and land. This merits serious consideration.

Additionally, trust ownership can be a substantial factor in enabling savings through improving durability and reducing the energy component of housing costs.

* **Enable reduction in the energy component of housing costs.** *Two-thirds reduction in this component is easily and <u>quickly</u> possible, resulting in roughly 22% decrease in a person's overall capital/finance/operating costs of housing.*

In a mature (20+ year hence) CLT model of this kind, housing costs could easily range from 50-75% less than market (with the difference retained by the trust for ongoing expansion and/or upgrades). This is a rather significant incentive for "homeowner" participation. Greater community familiarity with condos, coop-housing, pocket neighborhoods, and co-housing, as well as the success of CLTs over the last 20 years, has lessened the unfamiliarity factor blocking participation. Clear presentation of the comparative benefits of "community-homeownership" vs "debtor-homeownership" can put CLTs in a favorable light. Homeowners hold the same important, “bundle of rights” – lifetime security of tenure, control of the property, ability to pass on to children, involvement in community and decisions. The issue of "building equity" through eventual resale of "debtor-owned housing" doesn't stand up well in comparison. Costs in the CLT model would be so much less (after initial 20 years) that owners could more profitably invest savings in other investments rather than speculating on increased sale value of their home. And participants would avoid spending whole years of their work lives just to pay interest to a finance company.

The remaining major issue, of course, is that "first 20 years" - developing the transition to get out of the current debt trap.

TWO FURTHER BENEFITS ARE VISIBLE AT THIS POINT WITH THIS MODEL:

• For small communities, a broader-based CLT can also potentially speed/ease getting to sustainable scale, and also use income from middle-income properties to fund the ongoing program costs of low-income ones.

• A housing trust can act as a vehicle for community members to invest their retirement savings in the community rather than in the stock market, while retaining liquidity and without need to develop "landlord" skills. It could presumably accept individual loans to the trust for construction/acquisition, and/or act as a real estate IRA.

IMPLEMENTATION STEPS FOR THIS CONCEPT:

• Develop an IRS-acceptable model for *community-wide* CLTs. (Potential filing as homeowner associations (§528) as well as 501c3s, or using the "lessening of the burdens of government" focus for 501c3?).

• Obtain more substantive data on different elements of housing costs, local market needs.

• Develop marketing model to clarify initial and 20yr+ benefits vs "debtor-owned housing".

• Develop financial modeling and strategies for investment, land, structure purchase (or repurchase) and transition through initiating years. (focus on land for broader base, or structures for maximum savings, or range of loan periods, etc.?)

• Work with state energy office to develop and implement "best energy practices" community-wide.

• Work with housing industry professionals on durability elements to incorporate.

• Develop a grant-based research/demonstration project to explore and document shortage/surplus housing cost shifts, acceptance of "community-homeownership" as opposed to "lifetime-indebted-homeownership".

• Catalyze community support for re-enabling real estate transfer taxes, inclusionary zoning, upzoning value capture, etc. to assist in funding programs.

• Work with local schools for expanding local building industry skill capacity.

• Support a second level project - East Coast row houses in a deteriorating city environment – to demonstrate potentials of the model in different environments.