

The potential of Community Land Trusts

Briefing for Labour Sustainable Communities Commission

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The **National Housing Federation** represents 1,300 independent, not-for-profit housing associations in England and is the voice of affordable housing. Together our members provide over 2 million homes for around 5 million people.

The **Building and Social Housing Foundation (BSHF)** is an independent research organisation that promotes sustainable development and innovation in housing through collaborative research and knowledge transfer.



What are Community Land Trusts?

Community Land Trusts (CLTs) are locally based, democratically run, not-for-profit membership organisations that own land and property in trust for the benefit of a defined community.

The CLT captures the value of land and employs innovative development finance and equity sharing solutions in order to address local housing need and encourage social enterprise.

Land without planning consent has limited value but once it receives planning permission the uplift in the value of the site can be significant. The CLT model aims to capture this value increase in order to keep their housing provision affordable for successive generations. Increasing land and house prices are making homes too expensive for many newly forming households with the average house price now 8 times the average income in England¹. Emerging solutions such as CLTs are critical if we are to address the affordability problems in our housing market.

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The CLT model tackles this unaffordability in two ways:

1. It holds the housing and land assets in trust
2. It locks the assets out of the open market so they stay accessible to those on low and moderate incomes.

Assets can also be used to provide **affordable home ownership** with a covenant that restricts the resale value to ensure the assets continue to benefit successive generations.

CLTs can enhance and add to the work already being delivered by housing associations. Some associations in England are developing a 'technical enabling' role, acting on behalf of the CLT to project manage the start-up, negotiate the land purchase, secure the development finance and deliver the new homes – all the assets belong to the CLT (Cornwall Rural Housing Trust are an example of this partnership model).

CLTs offer local people an opportunity to directly tackle issues such as the lack of affordable housing, or the need for play space or other community facilities. By being a member of a CLT or taking part in setting one up, local residents can engage with planning authorities, influence the design of housing and meet local priorities. CLTs are often linked with rural areas, but they can be equally useful in towns and cities.

CLTs can be the recipient of land through several different mechanisms:

- Section 106 agreements
- the transfer of public land
- landowners who provide land, often through the exception site policy, in exchange for assurances regarding its use for affordable housing in perpetuity



¹ England's Housing Timebomb, Affordability and Supply 2006-2011, National Housing Federation

(this is increasingly the situation in rural communities, where landowners pass land over or sell at reduced price from social motives).

There are several pipeline CLTs in urban areas, such as the Shoreditch Self-Funding Regeneration scheme in London, which plans to use the value of public land to generate funding for affordable housing.

In Scotland, the idea has developed further with community land banks being set-up. They have proved an effective mechanism in creating a pool of land assets for communities to meet their housing needs. The Highland Housing Alliance takes this model even further, with the local authority setting up a dedicated company with partner housing associations to buy and service the land and in-put the infrastructure before passing it over for the development of affordable homes².

What are the advantages of Community Land Trusts?

- CLTs use the value of land to generate the capital for development, reducing the call on the public purse.
- CLTs can then ensure better value for money by locking in the value of government subsidy in perpetuity and recycling it for the benefit of successive generations.
- CLTs offer potential for public engagement with the planning role of local authorities and promote active citizenship by getting people involved in their local community trust. With an asset base, a CLT has more influence and ability to change things, and residents are doing more than simply being involved in a consultation exercise.

A comparison of CLTs, HomeBuy and shared ownership

The existing Right to Buy, HomeBuy and shared ownership schemes operate by subsidising potential homeowners to allow them to buy their first property with the help of public subsidy. Whilst shared ownership schemes can offer value for money in return for public subsidy there is the risk that the initial owner will capture any value increase and the asset is subsequently lost on to the open market. Public subsidy can be less efficient in these circumstances and the benefit to future generations can be lost.

Case study

For example, a household is assisted with the initial purchase of a house worth £100,000 with a £25,000 subsidy. Some years later the open market value is reappraised at £180,000.

Under **existing shared ownership schemes**, the owner can ‘stair-case’ to full ownership and when the property is sold on the open market the homeowner repays the subsidy that enabled them to purchase the property at the same percentage of the reappraised value.

In this example, the homeowner will sell the property for the full open market value (£180,000) and refund the subsidy of 25% (£45,000) to the government or mortgage lender. This means that the value of the subsidy has grown to £45,000 and is used as a subsidy to help a new owner to buy the property. This model can be useful in increasing access to homeownership across the country, but as house prices increase rapidly,



² Highland Housing Alliance, c/o The Highland Council

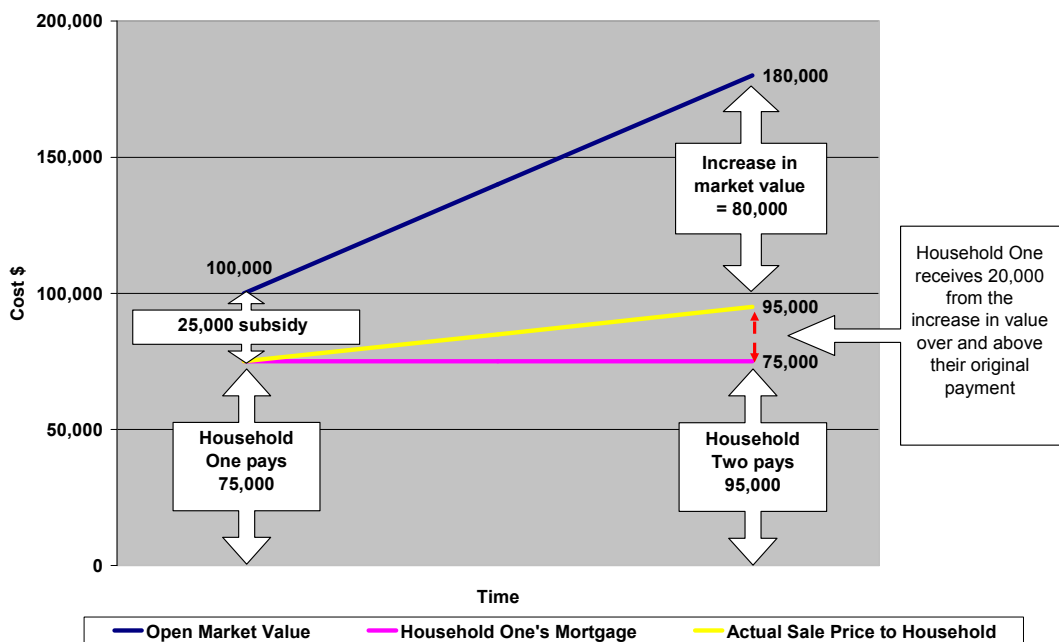
recycled subsidy is often insufficient to assist successive households and further public subsidy may be necessary.

In contrast, CLTs hold the property outside of the open market in perpetuity. The CLT resale formula means that the household cannot sell the property at open market value, instead sell the property back to the CLT and receive a percentage of the uplift in value. The resident can then use this uplift percentage as a deposit on an open market property. The example of the Burlington CLT model in Vermont demonstrates that this was used by 74% of households who went on to use their percentage to purchase a property on the open market. The remaining equity is used by the CLT to keep the price low for the next household. The result is that the property remains affordable for each subsequent generation and the growth in value is recycled repeatedly within the local community.

The American model

Under the resale formula from **Burlington CLT** in Vermont, the seller will only receive 25% of the uplift value (£20,000 - see graph below) which they can use as a deposit to purchase another property on the open market. The return is therefore modest in comparison to resale on open market. However, data from Burlington CLT reveals that 74% of households went on to purchase a property on the open market within six months of re-selling their CLT home.

But most significantly, the home can be bought by the second buyer at £95,000 – nearly half the new market value price (£180,000). Indeed if the formula is repeated the value of the subsidy will grow and the property will remain affordable after each sale in comparison to the open market prices. In this way the equity is locked in to assist future generations.



Burlington CLT Resale Formula

Appraisal of open market value at initial purchase = £100,000
 Initial purchaser requires 25 per cent subsidy to purchase = £25,000
 Initial purchaser obtains a mortgage for £75,000

Re-appraisal of open market value at resale

At resale, the notional open market value = £180,000
 The increase in value = £80,000
 The CLT resale formula repays the initial purchaser's mortgage of £75,000 and gives them 25 per cent of the uplift in value = **£20,000**

The remaining equity stays with the property and the restrictive covenant limits the resale cost to allow the next household to purchase the property at a price of **£95,000**

£20,000 (25% X £80,000) + £75,000 (household one's mortgage) = a resale price of £95,000

The original subsidy delivers ongoing benefit and grows in value with each resale. There is also the potential for CLTs to borrow against the increasing value.

Alternative models for delivery of a CLT in England

The Burlington CLT resale formula is just one of a range of CLT models. All approaches are underpinned by common values - holding assets in trust; locking them out of the open market; bringing benefit to a defined community.

There are varying mechanisms for CLTs to deliver home ownership:

- many CLTs will obtain a **corporate mortgage** to fund development and to subsidise the cost to individual households.
- some provide an **equity mortgage** to subsidise individual households and create a CLT interest in a property, which prohibits sale on the open market.
- some CLTs employ **co-ownership models** to share the ownership of a property between the CLT and the individual household.
- another model suggested calculates the value of the portfolio of property owned by the CLT and divides the development into units of property equity. The **equity shares** are then purchased by residents according to their income, with the ability to purchase more shares as income rises or sell shares if it falls. When residents move from their home, they sell their shares to the next household in order to realise the capital value. The advantage of transferring equity shares is the reduction in transaction costs associated with property purchase such as legal fees and estate agents commission.

What can government do to assist the creation of CLTs?

A legal definition and policy support would increase confidence for lenders to invest and enable CLTs to increase their access to private finance for development. CLTs can employ various mechanisms to avoid the loss of assets as a result of leasehold enfranchisement. A legal definition for CLTs and exclusion from the provisions for leasehold enfranchisement under the Commonhold and Leasehold Reform Act 2002 would simplify delivery of CLTs.

CLTs in England are often slowed down by the reluctance of local authorities to explore new approaches in terms of public interest or show flexibility in the interpretation of planning policy despite significant local support. Confirmation that the disposal of public land for social and community benefit is supported by the Treasury needs to be re-inforced. We also recommend the government look to the shared ownership model developed between the local authority in South Shropshire, South Shropshire Housing Association and a local developer. They are developing an equity mortgage product for new build homes.

Start-up CLTs would benefit from assistance with pre-development funding to cover initial costs such as feasibility studies, registration fees, public consultation and administration. In Scotland, the Big Lottery provides capital for a Land Fund, which provides grants to assist communities with the acquisition of land.

CLTs rely on access to land and this generally depends on sources such as public land, S106 agreements, rural exception sites, private landowners or regeneration companies. Government support for CLTs in the form of planning guidance or best value policies would enable land transfer to better understood by local authorities.

Practitioners working with communities to develop CLT projects would benefit from a technical support network similar to that available in Scotland. Communities are assisted by the Executive's specialist Community Land Unit, which provides advice on planning, legal, development and funding issues. In England current developing practice over-relies on volunteers, rural housing enablers, community groups or housing associations spending time and money up-front on complex project management. Inevitably this slows down the delivery timetable. Pump-priming funds for the development phase are required if CLTs are to be rolled out to any significant scale.

There is a rapidly growing demand for advice on CLTs and an informal network of practitioners currently exists to share knowledge on an ad-hoc basis. Support for this network would increase the ability to deliver tailored advice and technical support quickly and effectively.

Our organisations support CLTs where they are used to deliver access to affordable homes, both rented and low cost home ownership, and for much needed community facilities. But it is worth indicating that any roll-out of CLTs should ensure that they do not primarily become vehicles to stop anything from happening, with a worst case scenario that Trusts are set-up purely to prohibit any development of affordable homes, despite desperate housing need amongst local residents.

We strongly advise that any government policy looks to both the tried and tested Scottish and American models to identify potential risks and opportunities for adaptation to the English market.

We believe CLTs have the potential to be an increasingly valuable new tool in addressing the provision of affordable housing.

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