Third Sector Housing and Housing Affordability

ByMartin Evers /1

Housing is a crucial component to a community's attempt to make itself a good place to live. A basic question is access (affordability) of housing, especially for first time homeowners and people of limited income. A community land trust is one mechanism to address this issue, i.e., third sector. Third sector housing consists of tenure arrangements that represent "a clear alternative to the more familiar models of both the market and the state: a nonmarket alternative to the for-profit rentals and market-priced home ownership of the private sector: a private alternative to the publicly owned projects of metropolitan housing authorities or the military" (Davis: 1994: 4). These tenure models are part and parcel of the "social economy" in that they do not exist for the purpose of private accumulation. Nor do they exist in the confines of previously-tried and heretofore-abandoned government oriented solutions to the quandary of affordable housing.

Third-sector housing programs are generally connected to a community-based organization located in a specific neighborhood. The third-sector approach has expanded considerably since its introduction in the 1970s. By 1990 it was estimated that 2,000 different community-based organizations were in operation, "producing between 29,000 and 45,000 newly constructed or newly rehabilitated housing units every year." (Davis 1994: 4)

These programs are not panaceas in terms of solving the housing crisis. Indeed, many homeless cannot afford housing of any sort, at least in the short-term, and therefore, the need for emergency shelter funding still exists in prominent fashion. Nonetheless, third-sector models help breaks the price-increase cycle imposed by the commodification of shelter by housing markets, thereby introducing "new

rungs into the local tenure ladder, new forms of limited equity housing that allow people of modest means to climb out of housing situations that are presently precarious and toward those that are more secure." (Davis: 1994: 14)

How do these third-sector models work? Typically, third- sector housing programs contain three defining characteristics: the units are privately owned, the context of ownership is mitigated by a social orientation rooted in community control that precludes private accumulation of wealth, and the units are price restricted, that is the prices are established by a predetermined formula and are not subject, therefore, to the mere dictates of the market.

(Davis: 1994: 5-6)

Third-sector or social housing programs exist along a continuum. These include: deed-restricted, owner-occupied dwellings, community land trusts, limited equity condominiums and cooperatives, mutual housing associations, and multiple forms of non-profit rental housing. (Davis: 1994: 76) The community land trust is a form of limited equity housing that is designed with the specific goal of de-commodifying the housing resource. This process of de-commodification is accomplished by removing the land on which the property is situated from the speculative real estate market.

The purchaser of a property from the community land trust is granted fee simple ownership in the house itself and in a portion of consequent improvements accounted for in the home’s appreciation. Ownership of the land, however, remains under the preserve of the non-profit community-based organization managing the community land trust. The significance of such an arrangement is apparent in the fact that land value consists of approximately one-quarter to one-third of the typical purchase price of a private home. Hence, the community land trust operates at the outset with what is referred to as "initial affordability."

The owner of housing property in a community land trust retains usufruct rights to the land in the form of a 99-year lease, which is paid for by a separate monthly ground lease fee. Resale restrictions written into the purchase contract grant the trust the right of first refusal and a portion of the appreciated value of the building upon sale. The Madison Community Land Trust requires 75 percent of this appreciated value to revert back to the trust. This recovery of the majority share of the appreciation is controversial, in that it runs counter to the basic motivations and incentives that adhere to private home ownership. Yet, this is integral in the attainment of "perpetual affordability," since such a mechanism allows the trust to then offer the same property for resale at a below-market rate.

Moreover, such a program recognizes the value in real estate is created in two ways. Value can be created privately, via sweat equity and/or monetary investment in the physical improvement of the property. But value can also arise in the context of the local community. When this occurs, the incidence is often purely fortuitous, such as when a school board chooses to locate an elementary school in one’s neighborhood. Another example would be the positive external benefits of several other owners in the neighborhood investing in the upkeep of their properties.

The community land trust, in distinguishing these two types of value, seeks to allocate accrued community capital by non-market means.

As communities explore ways to make housing more affordable, the third sector approach of a community land trust may be a method that deserves more attention.