

TERM SHEET

Milwaukee Community Land Trust

Background

In the City of Milwaukee's 2021 budget, \$1.5 million was allocated to the Department of City Development for the purposes of supporting the creation of alternative housing/homeownership models for development that lead to permanent affordability and community ownership. This was similarly a recommendation of the City's Anti-Displacement Plan.

Residents and stakeholders have been convening meetings and exploring alternative homeownership models, including community land trusts and housing cooperatives and considering strategies to advance their implementation.

For the past two years, the Milwaukee Community Land Trust ("MCLT") has been working to launch a shared equity homeownership model in Milwaukee. They have established an active Board of Directors, secured initial operational funding and technical assistance and hired their first Executive Director.

MCLT's mission is "to empower neighborhoods and neighborhood organizations in Milwaukee to use the community land trust model to support permanently affordable housing, community control over real estate and development without displacement."

MCLT is now organized and equipped to complete its first acquisition of properties. Through a partnership with VIA CDC, two former City tax foreclosed properties that have been renovated in the Lindsay Heights neighborhood would be transferred to MCLT to be sold for affordable homeownership in the second quarter of 2022.

The Community Land Trust Model

Community Land Trusts (CLT's) are nonprofit, community-based organizations whose mission is to provide affordable housing in perpetuity by owning land and leasing it to those who live in houses built on the land.

In a common CLT, the CLT owns the underlying land (lot) on which a home is located and the homeowner owns and holds title to the structure (home) that is located on the land. The homeowner leases the underlying land from the CLT. Through its land ownership, the CLT preserves affordability by maintaining control over initial and subsequent uses of the land. This is accomplished through resale restrictions contained in a ground lease with the homeowner. In exchange for buying a house at a below-market price, owners agree to limit the price at which they can sell in the future and pass on "affordability" to future purchasers, while still being able to receive some market appreciation during their tenure.

A Board of Directors governs activities of the CLT. The traditional Board structure includes 1/3 owners in the CLT, 1/3 neighborhood residents and 1/3 public/community representatives (individuals with expertise in areas that can support the operations of the CLT.)

In addition to preserving long term affordability, CLT's offer other services to their members, e.g., providing or connecting them to financial counseling, maintenance training, home repair funds and community resources. Studies have demonstrated that CLT homeowners have a much lower mortgage default rate than conventional homeowners, because of the support services they receive and the ability and commitment of the CLT to provide early intervention in situations where a homeowner may be experiencing financial difficulty. Further, CLT's may be a springboard for "traditional homeownership" in the future.

MCLT

The MCLT has created a model designed to create affordable home ownership opportunities and preserve long-term affordability in Milwaukee neighborhoods.

It has established a goal of 44 homeownership acquisitions and sales for its first three years of operation, with the acquisition and sale of 8 homes in 2022, 12 homes in 2023 and 24 homes in 2024.

MCLT will target families with incomes under 80% of Area Median Income, with a priority for families with incomes under 50% of Area Median Income. Subsidies provided under MCLT's program will be governed by a resale formula that balances the preservation of affordability over the long term (insuring that when MCLT homes are sold, they are affordable to a future low-income buyer) as well as wealth creation for participating homeowners. (Example attached.)

MCLT homeowners will receive both pre purchase and post purchase counseling and support including education on the land trust model and how it compares to traditional homeownership.

For its inaugural acquisition, the MCLT is working with VIA CDC and its Turnkey Home Program and Walnut Way Conservation Corporation to purchase and sell two newly renovated homes in the Lindsay Heights neighborhood. In the future, MCLT may expand its model to additional areas after consulting with local residents and stakeholders regarding their goals for redevelopment and homeownership in their neighborhoods.

Allocation

The City will provide MCLT with funding of up to \$200,000 from the pool of funds allocated for the implementation of alternative housing/homeownership models to support the creation of affordable homeownership opportunities in Milwaukee neighborhoods. The funds will provide homebuyer (purchase) subsidies to low income homeowners to increase affordability and to preserve long-term affordability in City neighborhoods.

MCLT Responsibilities

- MCLT will undertake the acquisition and development of between 5-8 properties over the next 12 months (itself or in partnership with other development entities) that will be sold for affordable home ownership.

- Properties sold under the program will be marketed for affordable home ownership under the Community Land Trust model.
- For each property sold under the program, MCLT shall insure that it is code compliant, lead safe, energy efficient and renovated to a standard that insure purchasers' long term success as a homeowners.
- MCLT will create provide and educational materials for prospective homeowners and community partners informing them about the Community Land Trust model, how it works, as well as the key differences in the model compared to traditional homeownership.
- MCLT will establish a stewardship program for its buyers, to provide them with support in regard to financial counseling, maintenance training, awareness of community resources and intervention services should they encounter financial hardships.
- MCLT will provide the City with copies of their lease agreements/documents relating to purchase subsidies prior to any requests for funding under its agreement with the City.
- As part of its future acquisition strategy, MCLT will work with local neighborhood stakeholders in its selection of neighborhoods for its activities.

City Responsibilities

- City will provide grant funding of up to \$200,000 for the purpose of providing purchase subsidies to low income purchasers of MCLT properties. The average subsidy is estimated at \$30,000-\$40,000 per property. MCLT will be allowed to include a \$5,000 per property "acquisition fee" as part of the required subsidy being requested to support its costs relating to its acquisition, development and sale of the property.
- City funds will be provided on a "per property" basis upon submission of evidence of a purchase agreement/contract with qualified homeowners and documentation regarding the determination of the subsidy being requested (the difference between the fair market value of the property and the "affordable purchase price" to the homeowner).
- City will work with MCLT to explore opportunities for collaboration, including the development of properties under its new ARPA funded In Rem Initiative.

Financial Statements

MCLT shall keep accurate, full and complete books and accounts for activity under the program. Developer shall grant to the City or its designees access to its records pertaining to the project to conduct reviews of activity under the program.

Development Agreement

This term sheet does not constitute an agreement between the City and the Developer. The terms set forth and any other requirements necessary for a transaction of this sort shall be incorporated in a Development Agreement to be entered into between the Developer and City.

Contract Term

The Development Agreement will have on one-year term. Extensions may be granted based on performance and success in meeting the goals of the initiative.

EXAMPLE

Preserving Affordability Through The Community Land Trust

Home Purchase Example

Home Purchase Price (Value)
Community Land Trust "Affordability" Contribution
Price to Community Land Trust Buyer

\$110,000
(\$30,000)
\$80,000

*Land Trust Subsidy creates affordable purchase price for low income homebuyer
Helps for loan qualifying purposes - lower LTV - no private mortgage insurance required*

Monthly Housing Payment (PITI) for homebuyer
Minimum Income needed to Qualify

\$650
\$27,900
(\$13.40/hour)

Affordable to low income homebuyer

Homebuyer Sells after 5 years

Home Value
Original Purchase Price to Homeowner
CLT Appreciation Formula (1.25%/year) - Return to Homeowner
Pay down on Mortgage
Proceeds to Original Homeowner

\$127,500
\$80,000

Market Value, based on Estimated appreciation of 3%/yr.

\$5,000
\$8,400
\$13,400

Proceeds to Homeowner based on original purchase price and CLT return on investment and mortgage pay down

Purchase by New Homeowner

Home Value
Affordable Purchase Price To New Homeowner

\$127,500
\$85,000

"Pay it Forward" - Part of subsidy stays with the property and in the neighborhood, making it affordable to next homebuyer - \$85,000 purchase price vs. \$127,500

