Feasibility Study & Business Plan for a Proposed Community Land Trust Program Serving Denver's Globeville, Elyria and Swansea Neighborhoods

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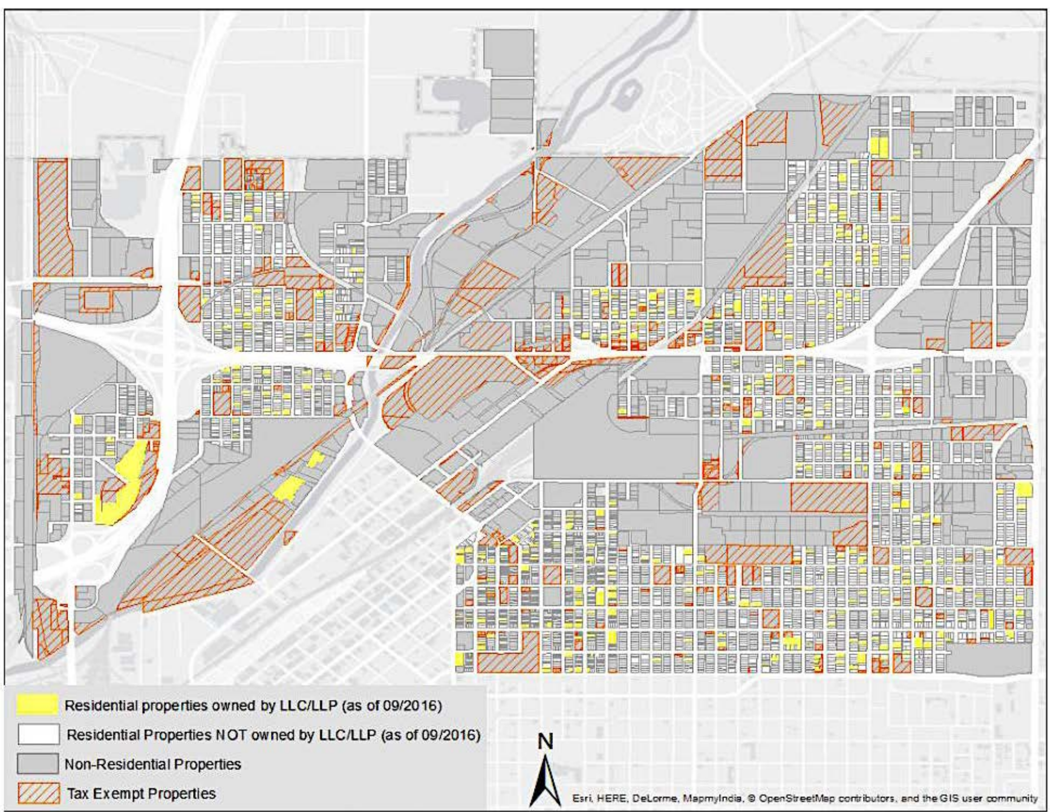
If development is to be equitable, if revitalization is to have the essential support of those living in neighborhoods targeted for assistance, if the outcomes of these investments are to benefit more than those moving into the city, decision-makers in the public and private sectors must anticipate these potentially harmful effects and take effective and timely steps to mitigate them now, and into the future.

Maureen Kennedy and Paul Leonard, *Dealing with Neighborhood Change: A Primer on Gentrification and Policy Choices*, Washington DC: The Brookings Institution, 2001



Mapping the start of speculative investment. One third of the residential parcels in GES changed hands between 2013 and 2016. Half of those parcels were purchased by an LLC, an LLP, or another absentee owner. ***Source***: Shift Research Lab, Piton Foundation, “Globeville, Elyria Swansea Market Overview,” 2016.

Executive Summary

The three northeast neighborhoods of Globeville, Elyria, and Swansea have been identified by Denver's Office of Economic Development (OED) as being "susceptible to gentrification." That is a mild way of saying there is a tsunami gathering force on the near horizon, powered by speculative investment in the area's real estate, public investment in the area's infrastructure, and a robust regional economy attracting a thousand new households to Denver every month. Within the next five-to-ten years, a majority of the low-income and moderate-income people who presently live in Globeville, Elyria, and Swansea (GES) are likely to be gone, swept aside by a powerful wave of private market forces pushing rents and house prices beyond their reach.

This future is foreseeable, but it is *not* inevitable. There are ways to ensure that investment and development occur in GES without the wholesale displacement of affordably priced housing, lower-income households, and neighborhood businesses. There are ways to allow GES to absorb an influx of newcomers more affluent than the population currently residing there without the wholesale elimination of economic and social diversity. There is still time, in other words, to chart a course of ***equitable*** development in these residential neighborhoods.

But that window is closing fast. What is feasible now will not be feasible for long. If Denver's nonprofit developers, charitable institutions, public agencies, and community activists are committed to preventing displacement and preserving diversity in Globeville, Elyria, and Swansea, they must act in concert without delay, before the price of land and housing in these neighborhoods is bid exorbitantly upward.

The kind of coordinated, cross-sector response that is called for here is a strategic intervention that rapidly results in a large portion of the existing market-rate housing in the core residential areas of GES being "converted to or replaced by income-restricted housing," in the words of OED's 2016 *Gentrification Study*. The **community land trust** (CLT) is such a strategy. Its particular advantage is permanency. Unlike most housing assistance programs that use public dollars and charitable donations to bring homeownership or rental housing within reach of lower-income families, the CLT does not allow the affordability of these heavily subsidized homes to lapse after 5 years, 15 years, or 30 years; it does not allow these islands of inclusion to erode. Instead, the bulwark against displacement that is put in place by a CLT is designed to last, preventing the future loss of affordably priced homes and preserving social and economic diversity, even in neighborhoods beset by a rising tide of gentrification.

Sometimes a CLT comes into being as a start-from-scratch nonprofit corporation with a membership and a board drawn mostly from the empowered community the new organization was established to serve. Other CLTs are implemented as a newly created program of a local government, an existing nonprofit, or a consortium of nonprofits, acting on behalf of one or more place-based communities. Among the nation's 280 CLTs, there are numerous variations in the manner in which they are organized and structured, but they are similar in what they ***do***:

- CLTs acquire multiple parcels of land that are scattered throughout a designated service area, some of which are vacant at the time of acquisition and some of which have residential or commercial buildings already affixed to the land;
- CLTs hold onto their land forever, removing it permanently from the speculative market;
- CLTs develop (or partner in developing) a portfolio of affordably priced homes, either through the rehabilitation of existing housing or the construction of new housing;
- CLTs sell off any residential (or commercial) buildings on their land, conveying title to individual homeowners, neighborhood businesses, or nonprofit or for-profit partners;
- CLTs execute a long-term ground lease with the owners of any buildings on their land, a two-party contract that protects the right of the buildings' owners to occupy the land, while allowing the CLT to regulate uses, improvements, financing, and resale of the buildings; and
- CLTs serve as the watchful steward for affordably priced homes (and other buildings) long after they are developed, ensuring they stay affordable, they are kept in good repair, and their occupants get the support they need to "stay put" in good economic times and bad.

Early in 2017, the Urban Land Conservancy (ULC) made a decision to work in partnership with members of the GES Coalition and with local philanthropies to assess whether a CLT program serving the neighborhoods of Globeville, Elyria, and Swansea could be expediently created – and what it might realistically cost. ULC never intended to implement or to operate such a program by itself. Nor did ULC want to bypass the constructive conversation already underway in GES among activists and residents who are investigating the possibility of incorporating a community-led CLT of their own. ULC simply sought to determine the parameters under which a CLT program serving GES might be financially feasible and sustainable.

Burlington Associates in Community Development, a consulting cooperative with extensive experience assisting CLTs, was hired to conduct this feasibility assessment and to develop a business plan for implementing a possible CLT program. The consultants conducted stakeholder interviews with public entities (Denver's Office of Economic Development; North Denver Cornerstone Collaborative; Denver Housing Authority; West Denver Renaissance Collaborative; and CHFA); nonprofit housing development organizations (ULC; Habitat for Humanity of Metro Denver; and the Colorado Community Land Trust); philanthropic institutions (the Piton Foundation; the Denver Foundation; Gates Family Foundation ; and the Colorado Trust) and community representatives (Globeville residents; Elyria/Swansea residents; Project Voyce; and GES Right to Livewell). The consultants also reviewed many publications documenting present conditions and future plans for GES, as well as neighborhood data compiled by the Shift Research Lab.

Drawing on these interviews and materials, the consultants were asked to assess the organizational capacity that would be needed to operate a CLT program serving GES. They were also asked to construct a set of editable spreadsheets that would then be used to analyze the financial requirements for such a program and to make recommendations addressing the following questions:

- ❖ How many units of permanently affordable housing should be added each year in order to assemble a portfolio large enough to make a difference in mitigating displacement in GES, while making steady progress toward the day when this portfolio might cover most of the costs of stewardship out of its own revenues?
- ❖ What mix of housing by tenure and type should a pilot program include in its portfolio?
- ❖ What strategies should be employed in building this portfolio?
- ❖ How much equity would a CLT program need over a five-year period to assemble this portfolio of permanently affordable housing?
- ❖ How much staffing would a CLT program need in order to perform its essential functions – and what sort of operating subsidies would be required to cover the cost of performing these essential functions?

Recommended Portfolio for a CLT Pilot Program

The consultants analyzed a number of financial scenarios for a possible CLT pilot program, concluding that such a program *could* be made to work in the short run and *could* become sustainable over time. But this initiative would have to be quickly started and heavily subsidized. These conclusions are interrelated. The longer the delay in launching a CLT program, the more it will cost to acquire land, to provide affordably priced housing, and to serve a GES population whose household incomes are roughly half the average those for Denver as a whole.

With sufficient project subsidies and operating subsidies, a CLT pilot program could be readied for launch in 2018 with the goal of assembling a diverse portfolio of **150 units of permanently affordable housing by the end of 2022**. Concentrated within the core residential areas of GES and composed entirely of scattered-site, single-family houses, duplexes, and Accessory Dwelling Units, this "model" portfolio would provide a flexible balance of tenures and types of housing. Half of the portfolio would be sold as resale-restricted ***owner-occupied*** housing, priced to be affordable to existing GES households earning between 50% and 60% of Denver's Area Median Income (AMI); and half would be operated as rent-restricted ***tenant-occupied*** housing, serving existing GES households earning between 30% and 60% of the AMI.

Alternative portfolios of similar composition but with fewer units – or with twice as many – were modeled. In the final analysis, a medium-sized pilot program of 150 units was recommended as being large enough to establish an equitable beachhead in GES, while requiring a level of subsidization that seemed attainable.

	Slow-Growth, Small-Scale Portfolio (50 units)	**Steady-growth, Medium-Scale Portfolio (150 units)**	**Fast-growth, Large-Scale Portfolio (300 units)**
PROJECT subsidies	**$4,704,143**	**$13,527,014**	**$27,218,082**
OPERATING subsidies	**$720,504**	**$315,291**	**$89,501**
TOTAL subsidies needed for a 5-year pilot program	**$5,424,647**	**$13,842,305**	**$27,307,583**

Recommended Strategies for Assembling a CLT Portfolio

A CLT pilot program concentrating exclusively on the core residential areas of GES would need to be flexible, varied, and opportunistic. Five different strategies should be pursued if a portfolio of 150 units of permanently affordable housing is to be assembled by the end of 2022.

Strategy #1: Acquisition, rehabilitation, and resale. The program should acquire existing single-family houses in GES and rehabilitate as needed, bringing all of them up to code while adding improvements for energy efficiency. After severing title to the land and buildings, ownership of the rehabilitated houses would be sold to a lower-income household able to qualify for a mortgage from a private lender, subject to provisions embedded in the ground lease to protect the affordability, quality, and security of these homes.

Strategy #2: Acquisition, demolition, and replacement at higher density. The program should acquire existing single-family houses in GES that are deemed, after inspection, to be too dilapidated and costly to rehabilitate. After acquiring the property, the building would be demolished and replaced by housing constructed on the same site. Depending on the size of the site, replacement housing would add a maximum of two units for every one demolished. Replacement housing would either be sold under the dual-ownership arrangement of the "classic" CLT or sold with a deed covenant under a condominium regime.

Strategy #3: Addition of accessory dwelling units. The program should add an Accessory Dwelling Unit to some of the houses being acquired, rehabilitated, and resold under Strategy #1. The program could also add an ADU to the replacement housing being constructed under Strategy #2. Another variation might be tailored to residents of GES who are already homeowners, with the CLT program providing the funds to add an ADU in exchange for a preemptive option to purchase the property for a below-market price down the road. Under all three scenarios, the main house would be owner-occupied and the ADU would be renter-occupied.

Strategy #4: Provision of scattered-site rental and lease-to-purchase housing. In addition to providing ADUs, all of which would be operated as rental housing, the program should offer for rent (or rent-to-purchase) a large percentage of the houses and duplexes that are brought into its portfolio. This recommendation recognizes the three-fold reality that a high percentage of the current residents of GES are renters, many of these households have incomes that are too low meet standard mortgage requirements for purchasing a home, and the immigration status of many households would make them ineligible for a conventional mortgage.

Strategy #5: Stewardship of resale-restricted, owner-occupied housing in multi-unit projects built by other developers. Any CLT program serving GES should be prepared to take advantage of opportunities to provide stewardship services for public agencies, for-profit developers, and nonprofit developers. Offered on a fee-for-service basis, the CLT would permanently protect the affordability, quality, and security of resale-restricted homes either financed with public subsidies or mandated by the city's inclusionary housing ordinance.

Required Subsidies for Supporting a Five-Year CLT Pilot

A CLT pilot program serving GES would require ***project subsidies*** for the acquisition of land and the development of housing, as well as ***operating subsidies*** to ensure adequate staffing of the program during its first five years, 2018-2022. A low-end estimate of the cumulative total of project subsidies needed to subsidize a "model" portfolio of 150 units, combining homeownership and rentals in a scattered-site, low-density portfolio of single-family houses, duplexes, and ADUs, would be **$13.5 million**. If no fee-for-service stewardship units were added to the portfolio, however, forcing the CLT program to subsidize and develop those units itself, an ***additional*** **$2 million** in equity would be required.

A low-end estimate of the cumulative operating subsidies needed by a CLT program with a staff increasing from one to four to keep pace with the portfolio's growth would be **$315,291**. The major assumption underlying this estimate, however, is that a CLT program would be able to secure outside rental assistance for all of the tenant-occupied housing in its portfolio. Should this assumption prove unrealistic at a time when vouchers are already in scarce supply and federal cutbacks are likely, a CLT program would need additional operating support to serve low-income tenants living in GES. If half of the rentals in the CLT's portfolio are unable to receive project-based or tenant-based assistance, for example, the amount required to subsidize the program's operations during the first five years would soar to **$758,850**.

Required Decisions in Launching a Five-Year CLT Pilot

The recommendation of the consultants is to jumpstart a CLT program by taking advantage of an organizational infrastructure that already exists to perform the essential functions of a CLT on an interim basis. Three nonprofit housing developers in Denver have the most relevant experience and expertise in this regard: the Colorado CLT, Habitat for Humanity of Denver Metro, and the Urban Land Conservancy. Each has expressed an interest in supporting a CLT program serving GES, should adequate funding become available to subsidize the program's projects and operations, but many decisions remain to be made, including whether the leadership of these organizations would choose to participate in an interim CLT collaborative; whether these organizations (or others) would have the backing of leaders and residents of GES in operating a CLT program within their community; and how the essential functions of a CLT program would be allocated and coordinated among multiple nonprofits.

The consultants also recommend creating a new nonprofit, a joint ownership entity (JOE), to hold all of the program's real estate assets, either temporarily or permanently. Representatives from GES should be included on the JOE's governing board. If a community-led CLT is eventually established and fully staffed in GES, a partnership agreement should be negotiated between the JOE and the GES-CLT, specifying the working relationship between the entities, planning for the future disposition of land and buildings held by the JOE, and describing any professional services each entity might perform for the other.