

European Community Land Trust Network

Title: Financial barriers to growth + opportunities

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Financial barriers to growing the Community Land Trust movement

This paper sets out the main financial barriers to scaling up the Community Land Trust (CLT) model in Europe. The paper:

1. Surmises extensive work on financial barriers to growth carried out by the Global Fund for City Development (FMDV) as part of the Sustainable Housing for Inclusive and Cohesive Cities (SHICC) project.
2. Sets out opportunities for addressing these barriers throughout the CLT lifecycle.
3. Highlights specific opportunities for the European CLT network.
4. Includes a specific section on CLTs access to the mortgage market, setting out both the barriers and opportunities.

1. Financial barriers

As part of the European SHICC program, and with the support of its European partners, FMDV released a [Financial Guide](#) for CLTs development in Europe. It presents an operational response to some of the major financial barriers existing along the financial chain and which impede CLTs ability to sustainability thrive in Europe. To accompany this guide, FMDV prepared an in-depth analysis of [six case studies](#) covering the United Kingdom, Belgium, and France, to reflect the diversity of financial models developed by the CLTs to develop affordable housing. The following table is a summary of the barriers, and proposed financial instruments, for each phase of the CLT lifecycle.

Phase	Financial barrier identified	Instrument presented
GROUP Creation	Lack of readily available financial support	Start-up fund
	Lack of technical and professional assistance	Local hubs
SITE Access to land	Land not available	Call for projects
	High initial land cost	Long-term land loans
PLAN Planning	High costs associated with a risky planning phase	Municipal funds
		Repayable loans
BUILD Construction	Difficulty in accessing affordable financing for construction	Real estate crowdlending
	Challenge to ensure the quality and energy efficiency of the building	Energy cooperatives
LIVE Access to housing	Low household creditworthiness	State-subsidised loans
		Affordability allowances
LIVE Operation	Lack of structural income for CLT/OFS operation	Capital raising
		Ground rent
		Sharing capital gain
ALL Cross-cutting	Lack of cross-cutting programmes covering the entire financing chain	National programmes
	Difficulty in ensuring funding sustainability	Revolving funds

Table 1: Summary of the instruments analysed in this *Financial Guide* (FMDV, 2019)

2. Financial opportunities throughout the CLT lifecycle

The Guide sets out the following opportunities at each stage of the CLT lifecycle:

- **Group - creation:** innovations such as Local Enabling Hubs which offer technical assistance or specific Startup Funds which enabled British CLTs to jointly mobilise funding and technical assistance at preliminary phases.
- **Site - Access to Land; Plan - Planning:** the role of local and regional governments in enabling access to land through a call for projects and long term land loans.
- **Plan - Planning:** derisking the planning phase through the implementation of municipal funds which provide financial support in the form of loans and/or grants (e.g. London Community Housing Fund, New York Community Land Trust capacity building initiative).
- **Build - Construction:** tools such as real estate crowdlending or looking to partner with energy cooperatives to produce good quality homes at affordable costs. (e.g. CLTGhent - ResCoop partnership where the energy co-operative pre-finances the cost difference between the use of ordinary and energy-efficient materials. The cooperative would then be reimbursed based on what households would save on their energy bills each month.)

- **Live - Access to Housing:** affordability allowances and subsidised loans investigating to what extent these mechanisms can favour access to homes for lower-income households. A more detailed discussion on mortgages can be found in the next section of this paper.
- **Live - Operation:** how CLTs have been able to generate revenues through ground rent (though this comes at additional cost to households), resale formulas and capital increase (community shares, community bonds).

It concludes with an analysis of several cross-cutting instruments such as the Community Housing Fund in the UK or other revolving funds. At each stage, the Guide questions the replicability of these instruments in different contexts and their impact.

3. Financial opportunities for the European CLT network

The guide raises a number of questions and opportunities for the Europe CLT network specifically:

- How can viable infrastructure be maintained that allows accredited experts to support the emergence of new experiments while guaranteeing the involvement of citizens in the projects? This point in particular brings up questions of:
 - start-up funds
 - technical assistance hub networks
 - making sponsorship activities and peer-to-peer exchanges sustainable.
- Develop and standardise the loan offer for CLT and their beneficiary households with ethical banks and lenders.
- How to channel EU funds (structural, investment and sectoral programmes) as well as institutional and citizen-based funds, notably through the creation of a financial intermediary, a project aggregator or an investment platform. Indeed, there is a growing need to facilitate transnational investments and to release short and long-term loans and guarantees.
- The relevance of developing a solidarity/revolving fund for CLT that would include components such as guarantees as well as grants to facilitate access to land, cover planning risks and lower project-exit prices.

4. Focus on mortgages: ensuring household accessibility to housing

Context

One of the challenges for CLT, is to ensure the marketing and/or allocation of housing to households and to guide them in this process until they move in. Doing so avoids possible vacancy costs for the CLT after completion of the work. Upstream, the CLT must finalise the building's operating procedures so that the occupants can anticipate the ongoing charges they have to cover. Indeed, the occupants must know about management methods, sinking funds, monthly charges and property taxes.

The next step is for the organisation to take care of allocating the housing. In the event of home ownership, the CLT can facilitate access to home loans. As the market is still underdeveloped, the loan offer, often non-standardised, is still low. To represent the diversity of the CLT model it is important to note that not all CLTs involve home ownership. In the case of social rentals, CLTs can partner with local authorities and support the signing of contracts.

Barriers

A number of barriers are identified in relation to residents accessing mortgages:

- Immaturity in the banking sector: lack of knowledge of the sector, difficulty in assessing risks. This leads to additional administrative costs and high interest rates.
- A preference amongst lenders for mass products which they can deploy at volume, as opposed to bespoke instruments such as for CLTs.
- Low household creditworthiness (difficulty in providing a down payment and in covering notary fees, taxes, and occasional additional costs).
- Where CLTs own the land, a lack of collateral/guarantee for banks to lend against.

Community Land Trust delinquency/foreclosure compared to conventional market-rate housing

These barriers exist despite research (Thaden, 2011¹) showing that mortgage delinquency and foreclosure rates among the owner-occupants of resale-restricted houses and condominiums in CLTs across the United States was lower than the delinquency and foreclosure among the owner occupants of conventional market-rate housing reported by the Mortgage Bankers Association's National Delinquency Survey (MBA).

¹ Thaden (2011). Research available here: https://www.lincolnst.edu/sites/default/files/pubfiles/1936_1257_thaden_final.pdf

While the affordability offered by the CLT model to low-to-moderate income households who enter home ownership helps to explain the low rates of delinquency and foreclosure in CLTs, the research found that the stewardship activities and policies of CLTs also contribute to these superior outcomes. Many CLTs oversee loan acquisition, educate and support their homeowners during both the pre-purchase and post-purchase periods, interact and intervene with mortgage lenders, and intervene with homeowners at risk of foreclosure.

Opportunities

Opportunities do exist, some of these are national-specific, but others could be tackled at the level of the Europe CLT network.

Nation-specific opportunities:

- Subsidised loans or social loans (public) - e.g. In Belgium, social mortgage loans were opened up to first time-buyer residents of CLT depending on their income . They are granted by social housing companies (e.g. Housing Fund, VMSW), and are funded and supervised by regional governments. The standard terms are 20-30-year loans at variable rates of 1 to 3%. They can cover up to 100% of the costs (including VAT in Flanders) for a maximum of around €200,000- €300,000.
- Affordability allowance - financial contributions brought by third parties that enable low-income households an easier access to a home (i.e. contribution to the down payment) or the possibility to renovate their house. Under that scheme, the principal is repaid in a single installment at maturity (home sale).

Opportunities for the European CLT network:

- Loans from commercial or ethical banks - also option to subsidise loans with traditional mortgage loans and thus diversify the credit offer. Opportunity for Europe CLT network to work with lenders, such as Triodos, who operate in a number of countries, to standardise the loan offer.
- Group savings collective - enable pooling of individual savings and collective guarantee. Savings can be withdrawn to pre-finance loan advances, notary fees or guarantees. Opportunity for Europe CLT network to form this communal guarantee/ collective.
- Heighten awareness, demonstrate household creditworthiness. Opportunity for Europe CLT network to commission research on mortgage defaults similar to that undertaken in the US.