



To: Dwelling Place Board  
From: Dennis Sturtevant, CEO  
Re: Business Plan Adoption – One Year Later  
Date: April 7, 2021

On February 5, 2020, the Dwelling Place Board adopted a plan to establish a new line of business for affordable homeownership called the Dwelling Place Regional Community Land Trust (DPCLT). In just over one year since that kickoff, much has been accomplished and much has been learned in forming this new affordable housing program. We have learned, for example, that we need to make some adjustments in CLT sales prices to make the rental conversion units more accessible for purchase to current residents. We also now see that increasing costs to produce new CLT homes will require more creativity in looking for alternate sources of dependable capital subsidies to bring our CLT program to scale as quickly as possible.

The Real Estate Development/Asset Management Committee and the Dwelling Place Regional CLT Board have already had an opportunity to review the accomplishments listed below and they have taken action to recommend adoption of the changes we are proposing for the CLT Business Plan. Since Dwelling Place is financing and guaranteeing the startup of this new line of business, it is vital to secure approval for the changes from the Dwelling Place Board. Please review the recommended changes outlined in this memo in preparation for a discussion at the April Board meeting. If anyone would like a full copy of the Business Plan markup or a clean copy with all of the proposed changes incorporated, please let Zoe know and she will send you one or both copies. We will also maintain a copy of the most current business plan on our board portal which is accessible to you at any time.

## ACCOMPLISHMENTS

1. Dwelling Place has secured \$210,000 of grant funds for consultation, organizational development and staffing costs. These include:
  - a. NeighborWorks (3 grants totaling \$110,000)
  - b. DGRI (1 grant of \$100,000 for organizational development and some Martineau renovation costs)
  - c. Huntington Bank (1 grant for \$10,000 for organizational development)
2. Dwelling Place hired David Develder as our CLT Director in May of 2020.
3. With consultation from Michael Brown, a renowned national CLT expert at Burlington Associates and Tim Orlebeke, our corporate counsel, Dwelling Place:
  - a. Formed a new Dwelling Place affiliated, nonprofit tax exempt entity called the Dwelling Place Regional Community Land Trust (DPCLT) with an initial board composed of Dwelling Place Board members.
  - b. Submitted an application for approval of tax exempt status under Section 501c3 of the Internal Revenue Code.

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- c. Created and adopted a CLT Land Lease, a Homebuyer Selection Policy and a Stewardship Plan, all of which meet national CLT standards for approval by Fannie Mae and Freddie Mac.
4. Dwelling Place has identified 3 lenders to originate CLT mortgages. These include Huntington Bank, Opportunity Resource Fund and Land Home Financial.
5. Dwelling Place has engaged in peer to peer consultation with City of Lakes Community Land Trust (CLCLT), a 20-year-old organization based in Minneapolis with nearly 400 CLT units.
6. Dwelling Place has secured commitments from the Michigan State Housing Development Authority (MSHDA), the Community Economic Development Association of Michigan (CEDAM) and 3 of the 7 NeighborWorks affiliates in Michigan (more are expected to join this effort) to work with other community development groups across the state to expand the use of the community land trust model and home repair programs for homeownership.
7. Forty-six (46) Dwelling Place residents and other community members have expressed interest in purchasing a home through the CLT program.
8. Thirty-three (33) CLT orientations have been completed with interested homebuyers.
9. Dwelling Place has established Memorandums of Understandings (MOUs) with Habitat Michigan and ICCF to provide HUD certified Homebuyer education programs. To date, nine (9) households are currently receiving or have recently completed this training.
10. Three (3) homebuyers have been approved for CLT mortgage financing to date and four (4) are working with Huntington Bank or Opportunity Resource Fund on mortgage preapproval.
11. Four (4) homebuyer applications have been received to date. Two of the four homebuyer applications are recommended for proceeding with CLT home purchase. The two remaining homebuyers include one who has income over our 110% AMI threshold, and the other is working on their mortgage preapproval with Huntington.
12. In January of 2021, following a CLT presentation with Spectrum Healthier Communities, Dwelling Place was invited to submit a grant request for \$600,000 to support implementation of our business plan. Spectrum Healthier Communities has requested that we provide some intensive outreach to households of color to help to reduce racial disparities in home ownership. Our Spectrum Health grant includes funding for outreach programs targeting households of color, down payment assistance and development subsidies for construction of 32 new single family homes and our 45-unit rental conversion initiative. We expect a final decision regarding the grant before the end of March 2021.
13. Other sources for down payment assistance are also being identified through MSHDA, Habitat Michigan, lenders and philanthropic sources.
14. In February 2021, after several meetings initiated by Grand Rapids Public Schools (GRPS), we received verbal support from GRPS leadership staff to submit a proposal to purchase the former Alexander Elementary School site to build up to 30 new CLT homes. The option agreement would provide for a purchase price based on its appraised value. This site is a full city block, located on Grand Rapids southeast side in a “tipping point” neighborhood at Alexander SE and Fisk SE. This would be the third time we have collaborated with GRPS on a housing project. Previously, we purchased the former Pine Elementary School for Pine Avenue Apartments and more recently we have been working closely with GRPS in the Plaza Roosevelt

collaborative where our apartment community was built adjacent to their new Spanish Immersion High School.

15. The City of Grand Rapids and the State Land Bank have approved the sale of a large lot on Lincoln NW which was acquired through the foreclosure process. The purchase price is approximately \$14,000. This lot and a second lot already owned by Dwelling Place just south of Wealthy SE on Fuller SE will allow construction of two new CLT homes to be built in conjunction with homes at the Alexander School site.
16. The Grand Rapids Brownfield Authority has agreed to consider our proposal for use of Brownfield TIF to close a significant portion of our financing gap between the discounted sales price of new homes and the actual cost of development. Jared Belka at Warner Norcross and Judd and George Larimore of Colliers International have been engaged to assist with preparation and submission of this proposal and the financing plan to the Brownfield Authority.
17. Northern Trust has been approached to consider an investment role in development of our Community Land Trust model by purchasing the brownfield TIF stream and/or by purchasing an allocation of New Markets Tax Credits through Michigan Community Capital (MCC). Three meetings have been held thus far and we have now been invited to present a proposed structure for a New Markets/Brownfield TOF transaction to build and sell 20 – 30 new CLT homes. Our planned structure would provide 100% of the subsidy needed to complete this project.
18. Stephen Wooden has been leading a statewide effort to seek changes in state law that would create a form of property tax rebate for low-income CLT homeowners. Under current law, while CLT homeowners are eligible for a homestead property tax exemption on the improvements they own, they must pay full ad valorem property tax rates for the land since this is owned by the CLT and not the homeowner. If passed into law, this legislation could help more households qualify for CLT mortgage financing.

## **RECOMMENDATIONS**

What we have learned during our first year of planning for the DPCLT suggests that some course correction will be needed over time to ensure success. What follows is a summary of lessons learned and recommendations for some alterations in our business planning as a consequence.

After meeting with current residents in our rental conversion properties and completing an in depth analysis of incomes and costs associated with owning a CLT unit, evidence is building that indicates most current residents will find it difficult to qualify to purchase their apartment/home, even with a discount of 25% of the appraised value on the sale. Insufficient income is a primary factor as CLT homebuyers must meet all of the financial requirements to qualify for a mortgage beyond just the mortgage payment. Other costs of CLT homeownership include a \$50 ground lease fee, a \$50 replacement reserve fee, insurance costs, taxes and in the case of New Hope Homes and Martineau Apartments, condo fees. While this is not entirely a surprise to us, it is disappointing, especially for those residents who have long tenures as residents in Dwelling Place housing. We think there is a way to make some adjustments in our financial planning to increase the percentage of residents who could qualify for CLT homeownership, even with their current income. Adopting Recommendations 1 and 2

would help to mitigate this problem for some of our residents. Since Dwelling Place owns and controls all of the equity in the rental conversion projects, it is possible for us to grant further discounts to current residents based on their tenure as residents. There would be no financial harm to Dwelling Place because the lower sale price would limit resale proceeds if and when a CLT homebuyer decides to sell their home to an amount equal to their original purchase price plus 25% of the appreciation from the point of purchase to the point of sale. DPCLT retains the discounted equity in perpetuity.

**Recommendation 1 - *We are recommending an amendment to our current business model to allow for current residents to receive a further discount on the sales price beyond the first 25% that would equal 1% for every year of occupancy as a Dwelling Place resident.***

Martineau Apartments will require monthly condo fees of approximately \$300 a month. This fee, combined with other fees and a larger tax burden caused by higher values for downtown properties, will make it difficult for current residents to afford to purchase these units. Under the current financial model, a Martineau homebuyer would need to have an income of at least 75% of the area median income to qualify to purchase a Martineau condominium unit, after adding other fees. Most current residents have incomes well below that amount. We think we could mitigate some of these income barriers to homeownership at Martineau Apartments by offering to discount the sales price to as low as 50% of the appraised value for each unit. The extent of the added discount would be limited to the amount needed to qualify for a mortgage with a sale price floor of 50% of the appraised value. This change should make it possible for some of our current residents to qualify for mortgage financing and make it easier for DPCLT to sell vacant units to households closer to 80% AMI or lower in order to remain within IRS safe harbor income targets. IRS safe harbor rules suggest that a tax exempt housing organization should be serving low income households in order to maintain their tax exempt status. DPCLT has agreed to limit CLT sales to households at or below 110% AMI but we need to find ways to maintain an overall average homebuyer income that is at or below 80% AMI. Another way to view this recommendation is that Dwelling Place is proposing to use a larger portion of its equity in these projects for down payment subsidies for CLT homebuyers. This “assistance” is still permanently retained as DPCLT equity in the home.

**Recommendation 2 – *For Martineau Apartments only at this time, we are recommending an amendment in the business model to reduce the discounted sale price from 75% to 50% of appraised values for all units but only if needed to meet lender qualifications for a mortgage.***

We are offering a third recommendation to adopt and incorporate an Affirmative Fair Housing and Marketing Plan (AFHMP) as part of our Business Plan. Dwelling Place has always maintained a strong commitment to advancing fair housing principles in all of our housing programs. Incorporating a strong commitment to fair housing in our CLT homeownership program is a natural extension of this commitment. This AFHMP outlines concerted plans for outreach to protected classes. This will become especially important to achieve some of the targeted outcomes Spectrum Healthier Communities has in addressing racialized outcomes in homeownership with the funding we expect them to offer for our CLT program.

**Recommendation 3 – *We are recommending the incorporation of an Affirmative Fair Housing Marketing Plan (AFHMP) as an appendix to the Business Plan.*** The plan is similar to the kind of plan we use in rental housing which describes, in detail, our planned efforts to ensure that information about how to access affordable housing opportunities reaches protected classes as defined by Fair Housing statutes and regulations. If anyone would like a copy of that plan, please let Zoe know.

The fourth and final recommendation we are offering reflects a need to inform and update the Dwelling Place Board, DPCLT Board and our Real Estate Development and Asset Management on projected budgets and timelines following a full year of planning. These projections would be attached to a revised and updated Business Plan that assumes the approval and adoption of all of the recommendations in this memo.

**Recommendation 4 – We are recommending the formal adoption of a revised 7-year budget for DPCLT which reflects current expectations for CLT revenue and sales in both rental conversions and new home construction. The proposed budget revisions and sales projections are attached.**

## **SUMMARY**

While we are pleased with progress to date in the formation and development of the Dwelling Place Regional Community Land Trust, there is still much more for us to do in bringing this innovative demonstration project to scale. We are poised to see our first CLT sale occurring later this month. Several others are pending with hopes for closings later this month or in April. Rental conversion sales are likely to outpace new home sales for the foreseeable future because these homes already exist. Even with the substantial price discounting being recommended for the rental conversion units, sale proceeds will be sufficient to reimburse Dwelling Place for current receivables and any out of pocket costs to renovate the homes for sale. In addition, similar to the original projections, sale proceeds will also fund an Operating and Replacement/Loss Reserve sufficient to carry the DPCLT to self-sufficiency within a seven year to ten-year period.

In the meantime, we will continue to focus on development of a scalable model for new home construction using brownfield TIF financing combined with some other form of development subsidy from philanthropy, New Markets Tax Credits and/or some other form of financing to eliminate any remaining financing gaps.