

# THE PRIVATE COMMUNITY LAND TRUST

## model for a high-growth community

by Dan Sullivan

last revised 9-17-91

The private community land trust is an alternative method of private land development. Its essential difference is that parcels of land are leased, rather than purchased, from a land owning corporation. In a high-growth trust, a portion of the ground rent is returned to the community in order to provide incentives for development, or to remove obstacles.

There are distinct advantages to this model for landowners, developers, leaseholders and residents. Some of these are detailed in this paper.

The land trust is based on the premise that, because land values of individual parcels depend on the vitality of the whole community, it is economically preferable for land ownership to be retained by a large entity and not fragmented. This particular model was designed according to the following principles:

1. Power to solve a problem is best vested in those who are directly involved in and affected by the problem.
2. Decisions concerning use of particular parcels of land are best made by persons paying fair market rent on those parcels.
3. Decisions concerning community policies are best made by members of the community.
4. The landowner's only function is to insure that land is made available according to the terms of the lease, and to collect ground rent.

### How the high-growth trust operates

#### Acquiring land

An investment corporation is formed to acquire and subdivide a large tract of land. The best tracts are those which are large enough to be substantially subdivided, with development potential which is unlikely to be realized by conventional development schemes. To increase rentability, the corporation may establish common property and provide

amenities for prospective residents.

#### Leasing land

The corporation systematically leases parcels until all land within the trust is either leased or made common to the leaseholders. Leases are fully transferable and perpetually renewable. Lease rents are adjusted annually according to periodic reassessments. Leases include guarantees that the trust will function to fulfill promises made to lessees.

#### Entrusting land

Before any leases go into effect, the entire tract of land is placed in a trust, presided over by representatives of the corporation and by representatives of the leaseholders. The function of the trust is to make it impossible for the corporation to dispose of land in violation of lease agreements. If the trust is ever dissolved, ownership of the land reverts to the corporation. The corporation must then offer to sell each parcel at fair market value to the leaseholder of that parcel.

#### Assessing ground rent

Initial ground rents are determined by contractual agreement between each leaseholder and the corporation. After that time, rents are adjusted, within limits, to reflect fair market appraisals. Leases are renewed annually at the adjusted rents. Appraisals are made periodically by independent appraisers and based on standard market principles.

In addition, appraisers are provided with information from financial transactions involving trust properties. Lease transfers and rentals of ground and facilities shall not be valid unless registered with the corporation. Lessees will also be provided with various tax rebates from lease rental revenues (see below). Information provided to qualify for these rebates may also be used to improve appraisal accuracy.

If government (property tax) appraisals are of sufficient quality, the corporation and the

leaseholders' association (see below) may mutually agree to use these in lieu of independent appraisals.

#### Limiting ground rent increases

In order to attract lessees, it is wise to guarantee that ground rents will not abruptly and dramatically increase. Lessees are then able to make improvements with greater security.

A percentage of the ground rent charge is passed on to taxing bodies in the land component of the property tax. The corporation cannot safely guarantee that this portion will be held within limits unless the government makes a similar guarantee. The limits therefore do not apply to that portion of the rent that is passed on through land value tax.

The remaining portion of the ground rent charge can be held within limits, regardless of variations in appraisals. A reasonable limit is 9% over the previous year's charge.

The lessee receives a statement containing five items:

**Market rent** is the total appraised rental value of the parcel.

**Taxed rent** is that portion of the market rent used to pay land taxes.

**Gross untaxed rent** is the portion of market rent that would accrue to the corporation if there were no limits.

**Net untaxed rent** is what the lessee is actually charged.

**Abated rent** is the difference between the gross untaxed rent and the net untaxed rent.

The rent limit is provided only to guarantee the lessee security of his or her improvements, and does not apply to lessees holding unimproved parcels.

Furthermore, when the rent abatement exceeds the appraised rental value of improvements, full abatement is not offered. The lessee's options are to accept a rent abatement equal to rental value of the improvements, to sell the improvements to the

corporation at their appraised value, or to not renew the lease.

#### Appealing ground rent charges

In order to challenge a ground rent charge, the lessee has the burden of clearly establishing;

that the appraisal upon which that charge is based is substantially inaccurate, or

that the procedure of appraising was improper, or

that agreed upon limits had been violated.

#### Non-renewal of leases

Leases on improved property extend for a period of years, according to the value of the improvements on the lease. Leases are renewed on the first year. Each lease is therefore superseded every year by a new lease.

A lessee who is unwilling or unable to meet the requirements of renewal has the option of allowing the lease to run at its current rate until it expires.

The lessee has the option of renewing at a later date, but must pay the money withheld by failure to renew on schedule, plus penalties and interest as specified in the lease.

#### Collecting ground rent

The first year's ground rent is paid in advance. Subsequent ground rents may be paid monthly, quarterly or annually, with incentives for early payment. Ground rents are collected by an agent of the corporation, accounted for and placed in a fund for distribution.

#### Distributing ground rent

All taxes accruing to land values are paid first. Administrative fees for appraisal and rent collection are paid next. The remainder is divided into a corporate fund and a community incentive fund.

#### The corporate fund

The corporate fund is sent to the director of the corporation. According to decisions of the

board, it is allocated to pay dividends, acquire more land, administrate the corporation and invest in community improvements.

With approval of the stockholders, the board may allocate a larger share of the rents to the incentive fund and a smaller share to the corporate fund. However, if the share returned to the incentive fund is raised on a permanent basis, it cannot be reduced without permission of the leaseholders' association.

### Community incentive fund models

The incentive fund is paid back to leaseholders and residents of the community according to the contractual model incorporated in the particular trust.

#### The local tax rebate model

Under this model, revenues are used to pay as great a percentage as possible of any municipal taxes generated by activities on the trust. When revenues remain, they are used to pay school and special district taxes, county, state and federal taxes, in that order. If all taxes are rebated and revenue still exists, it is paid to residents on a per-capita basis.

Local taxes are generally smallest and easiest to deal with first. Eliminating a small tax is psychologically more powerful than reducing a large tax by an equivalent amount. The corporation, the leaseholders and the residents are also better able to appeal to local officials for favorable tax treatment.

#### The targeted tax rebate model

The targeted tax rebate model differs from the local tax rebate model in that it gives rebate priority to specific taxes in order to promote specific qualities. For example, rebating income taxes may attract high-income residents. Rebating employee compensation levees may attract industries that have large payrolls. To promote rapid all-around development, construction fees and property improvement taxes are given high rebate priority.

#### The limited tax rebate model

If rebates are given based on income, there is a danger that one multi-millionaire could locate on the trust and collect the lion's share

of the rebates. Similarly, a skyscraper could usurp too much of the property tax rebates. To promote a stable community, and to assure modest developers a reasonable share of the rebate pie, limits can be placed on the amount of taxes that can be rebated. For example, a limit can be placed on the building-to-land value or income-to-land value that is eligible for rebate. These ratios can be fixed to be, say twice or three times that of the community average.

### The quasi-government model

Under this model, the incentive fund is returned to the leaseholders' association. The leaseholders allocate the funds to provide amenities to the trust community, and/or to abate taxes. Funds are administered by a quasi government, which is employed by the residents of the community.

While stockholders have a financial investment in increasing land value, leaseholders and residents have a personal investment in increasing the quality of the community. Since land value is an economic reflection of that quality, these interests are quite compatible.

Leaseholders will opt for amenities and tax abatements which complement improvements on their leaseholds. Residents will want funds administered in a way that complements their personal investment in the community. By giving financial discretion to those who have made financial commitments and administrative discretion to those who have made personal commitments, stockholders are assured a higher quality community than they could expect to create by making community decisions from the boardroom.

### Mixed models

A well designed model can incorporate advantages of each of the above models. Funds beyond a certain limit can be allocated to the quasi government, or a percentage of funding can be so allocated. Certain taxes can be targeted for priority treatment, then phased into normal treatment after a number of years.

On a vacant, urban, residential tract, for example, I would give top priority to construction and property tax rebates, followed by state or local income tax rebates up to the

income level of residents we would be trying to attract. Beyond that point, I would want to see 25% of the incentive fund allocated to the quasi-government and 75% allocated to rebating taxes (local taxes first). As the community matured, I would want an increasing percentage of the fund allocated to the leaseholders' association. They could provide the rebates or have the quasi-government spend the money on amenities.

In a rural area, where taxes are low and services are few, I would allocate more of the incentive fund to the quasi government from the beginning.

If the trust is to be a set up as a commercial or industrial park, targeted tax abatements might prove the best way to go. Still, these parks benefit from amenities such as ground keeping and security. Since there is no such thing as residency in such a park, the leaseholders' association might well be the quasi government.

### Specialized models

A community with a specialized purpose can target rebates to encourage that purpose. For example, a community that wants to escape the public school system can issue educational vouchers from the fund. A community that wants to attract writers or authors or craftspeople can specifically rebate taxes on income derived from those endeavors.

A land trust community can also levy charges to discourage behavior it does not like, but the right to levy such charges must have been established in the leases. For example, a community that wants to consume fewer resources or to be relatively free of pollution can charge for use of those resources and for polluting activities. A community might, for example, put a surcharge on electricity use or levy a fee for each automobile or each parking space. However, it is generally better to encourage desired behavior than to discourage undesired behavior.

### Advantages of the high growth model

This land trust model provides strong incentives for efficiently using land within the trust, without the blight of speculation or the drain of productivity taxes. By starting with a tract of land that is grossly underutilized, and

by offering simple incentives for optimal land use, we can encourage the development of a community that would not have developed otherwise. When this happens, there is greater wealth for all parties involved to divide.

The key to this model's success is that each party benefits substantially from this increased wealth, in ways that directly reflect that party's contribution. Also, participants are given relative freedom under this model, and have the power to make decisions about their own involvement without interfering with the involvement of others.

### Advantages to landowners

This is an ideal investment for someone who wants to hold land without being actively involved in its development and use.

Conventional land speculation (holding land for future development) yields little or no rental income during the time the land is held. It also means that development of the land (and enhancement of land values which accrue from development) depends on outside forces. If land values fall, as they have been falling recently, the investor loses money.

Developing land by traditional methods is expensive and risky. Leasing land to a central developer is also risky. The landowner loses control over the situation, but is tied to the lease for decades to come. This is an especially difficult position now when development is generally less profitable. Selling leased land is an involved process, as potential buyers must carefully scrutinize lease relationships and analyze the development.

With the land trust, landowners become stockholders. Asset value is periodically re-established, and landowners can liquidate their holdings simply by liquidating stock. Such activity is not disruptive to lease relationships, and therefore does not jeopardize land values.

Owners of the land trust get rental income, high growth and easy liquidity. They also get the benefit of owning land that is self-developing. It is difficult to imagine real estate investors faring better without close personal supervision of their investments.

### Advantages to developers

This model is also advantageous to the small developer. He does not have to purchase land at today's outrageous prices. He can, therefore, allocate more of his funds to the development itself. Second, he does not have to cover a high land price in his selling price. Third, he can promote the advantages of low-tax living to prospective buyers or renters of his properties.

The developer does have to consider efficient land use more, but will be in a community of small developers with similar considerations. This creates more of a natural harmony between developers. Centralized planning occurs naturally as a matter of mutual self interest, reducing the need for authoritarian planning.

### Advantages to leaseholders

Leaseholders benefit immediately by not having to purchase land. Their mortgages and interest payments are only on their improvements. Land rent is equitable, with guarantees against abrupt increases.

Taxes, on the other hand, are most inequitable, and can increase abruptly on a particular taxpayer. Because much of the rent is used to shelter leaseholders from arbitrary taxation, they are financially more secure than they would be owning land in a community funded by taxation.

### Advantages to residents

Because all of the privately held land has rent to pay, it is rarely left idle or underused. Also, rebates on improvement taxes make leases more attractive to people who intend to build fine buildings. Residents can expect to never find slums developing in these communities. Rebates on income taxes make leases more attractive to professionals and others with high incomes. Rebates on business taxes make leases more attractive to businesses that generate high taxes--those that hire the most people and sell the most products.

A community where all the members are encouraged to make productive use of all of the resources and is likely to be a dynamic and prosperous community. Such a community would have more job opportunities, better

housing, a better selection of products and services, and a healthier, more cooperative spirit. It would remain relatively free from blight, crime and poverty. It would also be a compact, efficient community as developers would tend to use less land and to rely more on common areas for recreational space.

The advantages of a compact, dynamic, efficient community include lower per capita costs for municipal services; especially for road and infrastructure maintenance, police and fire protection services, and school transportation systems. Because permanent incentives are built into the land trust model, the community does not have to spend tax money on giveaway programs to attract development. Because land trust revenues are available to pay municipal services, the need for a municipal tax-collecting bureaucracy is substantially reduced.

The result is a combination of high productivity and low taxes in an intelligently designed community with adequate services. It is an ideal community to live in, to conduct business in, to develop and to own stock in.

*Dan Sullivan has been involved with land economics advocacy since 1978. His primary efforts, as director of the Pennsylvania Fair Tax Coalition, have helped thirteen Pennsylvania cities replace property taxes and other regressive taxes with land value tax. All of the cities had been depressed due to loss of industry. Those which have had land tax reforms in place for three years or more enjoyed more construction activity after adoption of land tax than for the prior three year period. Sullivan was featured in the 1983 Fortune article, "Higher Taxes That Promote Development."*

*Sullivan is also a past president of the School of Living, which has been publishing Green Revolution since 1944. The school is dedicated to promoting holistic lifestyles and decentralist intentional communities.*

*For more information about this model, write to Dan Sullivan at 631 Melwood Avenue Pittsburgh, PA 15213 or call (412) 687-6663. To learn more about land trust communities in general, write to the School of Living, RD1 Box 185A, Cochranville, PA 19330.*

# Community ; Partnership

## Government Land Taxes

Assessing, Billings + Collection

Building Tax Rebates

Common  
Services  
+  
Amenities

Other  
tax  
rebates

Dividends

Expansion

Grants  
Community

# We Need a Shining Example

by Dan Sullivan

John Berger from Minnesota was told us a story with a moral about how hard it is to lead people.

It seems a tree crashed to the ground outside a farmer's window during a late night storm. Birds had taken shelter in the tree and were thrown from it when it crashed. In a panic, the birds began hurling themselves at the farmer's window, trying to escape the storm. They no doubt hurt themselves in the attempt, but they kept flying into the window, over and over, while the storm raged outside.

Troubled by this, the farmer hoped to help the birds find shelter in his nearby barn. He waved his arms at them, but they ignored him. He went outside and tried to shoo them toward the barn, but they flew right around him and into the closed window. He decided he could not lead them unless he could become a bird himself—then they would understand him and follow him to the barn.

Becoming a bird might have worked, had it been possible—not because they would have understood him, but because he would have understood them. By understanding them he would have found the solution. I found the farmers solution from an actual experience similar to his own.

One stormy night at a friend's house, a tree fell next to the kitchen window. When we turned on the kitchen light to see what had happened, a cardinal began crashing into the window. We opened the window and let it in. The bird was panicked by the experience and terrified of us. It flew wildly from place to place. We turned out the light and it stopped flying.

A few hours later the storm ended. It was warm and peaceful outside, so we decided to send the cardinal out. We opened the window and turned on the light. The bird started flying around again. Waving towels, we tried to shoo him out the window. No go. It was terrified of us, and no doubt terrified of its strange surroundings. Still, it would not go near the window. We finally decided to turn out the light and let it spend the night.

At dawn there came the sound of our bird crashing against the window again. We opened it and the bird immediately flew into the early morning light.

Here lies an answer to the farmers' problem—an answer he would have found immediately had he become a bird. Birds cannot see in the dark! They couldn't have flown to his

barn because they couldn't see it! Our cardinal couldn't even fly back outside, and we are confident that it wanted out in the worst way.

All the farmer had to do was to put out the light in his house and light a light in the barn. The birds would have flown to the only thing they could see. He didn't see the answer because he didn't try to understand the birds. He was too involved in trying to get the birds to understand him.

People are like these birds in that they are not going to fly into anything they can't see, no matter how bad their circumstances or how often they have hurt themselves trying things that don't work.

More importantly, we are like the farmer. For over 100 years we have been waving our arms and trying to shoo the public away from what they see before them and into a dark unknown. It is all the more frustrating because we are people like they are, or at least we think we are—so why don't they understand us?

Again, the real question is, "Why don't we understand them?" The key is in looking at the difference between us and them. The most fundamental difference is that we see the light and they don't.

It is a strong light, but it shines from far away. It shines from abstract theory and from high aspirations and values. We see it because we have put a great deal of effort into seeing it, because others have put a great deal of effort into showing it to us, and because we had the patience, logical ability and imagination to look at something abstract and see something real.

Most people put their efforts elsewhere. They have been subjected to many a theoretical rap from socialists, libertarians, free-lovers, righteous Christians, Krishnas, Moonies, and people with real estate in Florida. Finding people with the patience, imagination and ability our light is like finding birds that can fly by starlight.

What we need is a good, safe, attractive barn that lights up so all the birds can see it.

Single-Tax communities like Arden and Fairhope do prove something. They prove that you can build solid communities around watered down Georgism if given free land to do it with. But we can prove much more by building profit-making communities that collect full land rent. We can prove not only that land tax works, but that adopting it is in the landowners' interests.

from **Success Through a Positive Mental Attitude [PMA]**, by Napoleon Hill and W. Clement Stone, Simon & Schuster, pp 88-

**It takes only one idea, followed by action, to succeed where others fail.** In 1939 on Chicago's North Michigan Avenue, in an area now known as The Magnificent Mile, office space was going begging. Building after building had empty floors: one that was half-rented was considered lucky. It was a bad year for business and NMA [negative mental attitude] hung over Chicago real estate like a cloud. You heard such comments as, "No sense in advertising, there just isn't the money around," or "What can you do? You can't fight the times." Then into this gloomy picture came a building manager with PMA. He had an idea. And he got into action!

This man was hired by Northwestern Mutual Life Insurance Company to run a large building on North Michigan Avenue which they had acquired in a mortgage foreclosure. When he took the job the building was only ten per cent occupied. Within one year it was 100 per cent rented, with a long waiting list. What was the secret? The new manager accepted the problem of no-demand-for-offices as a challenge rather than a misfortune. Here is what he did as he explained in an interview.

I knew precisely what I wanted. I wanted to have the premises 100 per cent occupied with choice, substantial tenants. I knew that under the prevailing conditions it was likely that the offices would not be rented for possibly several years. I therefore concluded that we had everything to gain and nothing to lose by doing the following:

1. I would seek out desirable, prospective tenants of my choice.
2. I would stimulate the imagination of each prospect. I would offer him the most beautiful offices in the city of Chicago.
3. I would offer him these superior offices at a rental no higher than the one he was now paying.
4. Furthermore, I would assume responsibility for his present lease, provided he paid us the same monthly

rental under a one-year lease.

5. In addition to all this, I would offer redecoration without cost to the tenant. I would employ creative architects and interior decorators and remodel the offices of my building to suit the personal taste of each new tenant.

I reasoned:

1. If an office were not rented during the next few years, we would receive no income from that office. So we had nothing to lose by going into such arrangements as are above described. We might come out at the end of the year with no income, but we would be no worse off than we would have been if we had not acted. And we would be better off because: we would have satisfied tenants who would in future years supply dependable rentals.

2. Furthermore, it is an established custom to rent offices on a one-year basis only. In most cases there would be only a few months left to run on the old lease of my new tenant. Promising to assume these rentals was therefore not too great a risk.

3. If a tenant should vacate at the end of his year, it would be comparatively easy to re-rent in a well-filled building. The redecoration of his office would not be money lost, as it would have increased the equity value of the entire building.

The result was marvelous. Each newly redecorated office seemed to be more beautiful than the one that had preceded it. The tenants were so enthused that many expended additional sums. In one instance, a tenant spent an additional \$22,000 in remodeling.

So at the end of the year the building which had started off only ten per cent rented was 100 per cent rented. None of the tenants wanted to leave after his lease expired. They were happy with their new, ultra-modern offices. And we gained their permanent goodwill by not raising rents at the expiration of their first one-year, s lease.

Time after time the pattern repeats itself: problems and difficulties turn out to be the best things that could have happened to us--**provided** we translate them into advantages.

# Potential Benefits of a Land Trust to Redevelopment Efforts in Polish Hill

The land trust is a system of land tenure that separates land ownership from land use. The land is owned by a single corporation, which grants long-term or perpetual leases to land users. The land is held in "trust," meaning that the corporation cannot sell it or alter the trust agreement without consent from the association of leaseholders. The sole function of the corporation is to see that leases are enforced and that a fair rent is collected.

Well designed trusts have been so successful that rents would be expected to climb rapidly as the value of the community improves. To protect residents, special provisions limit the amount rents can increase.

Most of the lease rents are put into a community fund. This fund is used to serve people living on trust property and give incentives to attract people who will be good for the community. Some trust benefits for Polish Hill are as follows:

## **Attract better landlords and occupants.**

A land trust can rebate property improvement taxes from its rent funds, attracting the kind of landlords who improve their property. Rebating wage taxes attracts tenants who work. The business taxes a land trust chooses to rebate influences the kind of businesses the trust attracts.

## **Positive incentives instead of restrictions**

Traditional methods of community development sell property below cost and put severe restrictions on who can buy, because the community knows it will no longer exert influence over the property once it is sold. Land trusts substitute mild, perpetual, positive incentives for harsh initial restrictions. This makes marketing properties easier without inviting future problems.

## **Write your own zoning laws.**

Although land trusts cannot override municipal zoning restrictions, they can write additional restrictions into lease agreements, making arrangements possible that are not possible

elsewhere. For example, you could get municipal zoning to allow a convenience store but still limit hours of operation, and you could write your own community maintenance obligations into the lease.

## **Designed to run without bureaucracy.**

Trusts can be designed to run with little bureaucratic discretion. When discretion is called for, as when community funds grow beyond initially specified expenses, an association of lessees decides how to apply these surpluses within limits written into the trust.

For example, the trust could issue education vouchers to attract families with children. People who send their children to public schools could accumulate their vouchers for higher education. This approach would indirectly support Immaculate Heart of Mary Church, which plays a vital role in Polish Hill's cohesiveness. It would also encourage Polish Hill's other two churches to undertake educational or child-care activity. This requires no more bureaucracy than to identify children living on trust property and issue the vouchers.

## **Works best in insulated communities**

Insulation from surrounding communities gives Polish Hill unique economic dynamics well suited to land trust incentives. It is affected less by changes in nearby communities and more by internal changes. Subtle development incentives are more effective here than in other neighborhoods. The land trust, in turn, is more successful when the surrounding community improves with it.

## **Opportunity for title pooling**

Everyone in Polish Hill would be invited to bring their properties into the trust, either by selling their land and taking leases or by exchanging land for stock in the trust. Elderly people without can sell their properties to the trust and continue to live in them. Such an arrangement enhances the trust and provides advantages for Polish Hill property owners.

### **Targets people other programs do not reach.**

The land trust appeals to segments of the market that are ignored by other neighborhood programs, such as people who want minimal contact with government agencies, people who want to do as much of their own work as the building codes allow, and people who are particularly put off by city taxes.

### **Attractive for owner-built homes**

The western end of Polish Hill is a wonderfully wooded and isolated area with a fine view and large parcels of vacant land. It can attract people who would build custom homes, provided that some of the woods are kept as commons. As access limitations make this area unsuitable for commercial or high-density residential development, it seems wise to target the area for moderately high-income occupants. Again, the land trust model can attract such occupants. People who want to build their own homes are a market segment that does not respond well to traditional development programs.

### **Compatible with conventional programs**

All grants and programs available to the community can be pursued whether or not the beneficiaries are members of the trust. Traditional programs are generally applicable to properties on trust land, and should be applied when advantageous.

### **Helps race relations.**

Because the trust rebates wage taxes, it automatically appeals to the best tenants—the ones with jobs. The trust can effectively reach black tenants without danger of attracting people the Polish Hill community would fear. This will help integrate the community and reduce racial tensions.

### **Less Gentrification**

Land trusts are less susceptible to rapid gentrification than programs that give properties away to those home buyers with enough money or credit to fix them up. If the community wants to further reduce the gentrification danger, it can put a cap on the amount of income it will shield from wage tax. It might, for example, rebate wage taxes on up to \$30,000 per family.

### **Better ads and free press**

The land trust approach has inherent public relations and advertising value. The fact that someone can live in the heart of the city and pay *no* wage tax is news in itself, and signs to the effect that Polish Hill is a tax-free haven can be fresh, exciting and powerful.

### **Interest from HUD**

Several high-ranking HUD officials are interested in linking the land trust approach with the enterprise zone concept. We should be able to get further benefits from HUD on grounds that this approach can be a model for future HUD projects.

### **Special sources of funding**

A number of foundations also support the land trust concept. These foundations can be sources of funding, technical support, and investment. Individuals who believe in land trusts are also willing to invest with lower return expectations in order to promote land trustery.

### **Sweat equity for Polish Hill participants.**

The land trust is a perfect vehicle for accommodating "sweat equity." People who help renovate or market properties can be paid with vouchers that are applied to future lease rents. The vouchers would be fully transferable, so people who do not choose to live on trust land can still redeem their vouchers by trading with trust lessees. By issuing vouchers, we can pay neighborhood people for their help without spending money up front. This approach is also more workable in close-knit neighborhoods like Polish Hill.

### **More independence from government sources**

As the trust provides ways to attract private investment, the community is less dependent on government funding sources that might either dry up or come with conditions that are unacceptable to the community.

*For further information of the value of land trusts as a development tool, contact Dan Sullivan, 631 Melwood Avenue, Pittsburgh, PA 15213, or call (412) 687-6663.*

# Potential Benefits of a Land Trust to Mill Site Redevelopment in Homestead

The land trust is a system of land tenure that separates ownership from use. Land is owned by a single corporation that grants long-term or perpetual leases to land users. The land is held in "trust," meaning that the corporation cannot sell it or alter the trust agreement without consent from the association of leaseholders. The corporation sees that leases are enforced and that ground rent is collected and distributed in accordance with the leases.

Well designed trusts have been so successful that rents would be expected to climb rapidly as the value of the trust land grows. To protect tenants, special provisions limit rent increases.

Most of the lease rents are put into a community fund. This fund is used to serve people renting trust property and give incentives to attract people who will be good for the trust.

One of the most powerful advantages of a land trust is that it can provide services from the land rent without levying taxes. The rent fund can even be used to rebate trust taxes levied by taxing jurisdictions of which the trust is a part.

Of course, in the aggregate, the land rent costs as much as the taxes would cost. Still, there are development advantages that flow from this approach. Some of the possible benefits for Homestead are as follows:

## Automatically attract better tenants

Land rent does not discourage productivity on the part of tenants. Offering lower rents attracts lower-energy tenants to whom rent is a prime factor. Offering tax rebates attracts high-energy tenants who anticipate generating higher taxes. These high-energy tenants in turn make the location more desirable for other tenants, driving up rents. Homestead, which has very low taxes and is located right across the river from the most affluent area in high-taxing Pittsburgh, is a perfect location for such an approach. For example, by rebating Homestead's 1% wage tax, you can appeal to city residents who are paying nearly 3%.

## Tailor your rebates for the tenants you want

If you want to attract retail merchants, rebate part of the sales tax. (I would normally

recommend starting with the mercantile tax, but Homestead doesn't levy one. Again, you are in the perfect location for this approach.) If you want to attract employers, rebate unemployment compensation payments. I personally recommend a mix that is primarily retail oriented. Retail has the highest impact on adjacent land values, followed by offices.

## People respect high rents but hate high taxes

We once studied rent changes for the time period when city wage taxes increased to 4%. We compared apartment complexes in Scott Township with those just across the border in the City of Pittsburgh. The rent differential for comparable apartments was actually *more* than the cost of the wage tax for most tenants. The owner of Crane Village, just inside the city line, made this observation:

"I get prospective tenants who come into the rental office and ask, 'Is this apartment complex in the city?' If I say yes, some of them walk out without even giving me a chance to explain that our rents are so much lower that the wage tax really comes out of our pockets, not theirs."

When people are asked to pay high rents, they are more likely to assume they will "get what they pay for," but high taxes are seen as a pure rip-off.

## No giveaways to anchor tenants

The conventional way to develop a site is to attract a few prestigious tenants by making major concessions to them. It was a sound strategy when first employed, but now these tenants have become spoiled, as developers outdo each other to win them as anchor tenants. This approach will attract a high caliber of tenant whose drawing power is not so obvious as the normal prestige tenant, but who can nonetheless generate the economic activity you need to make the site attractive.

## High Visibility

The land trust approach has inherent public relations and advertising value. The fact that someone can live across the river from Squirrel Hill and pay *no* wage tax is news in itself, and signs to the effect that your property is a tax-free

haven can be fresh, exciting and powerful. For example, a big "5% sales tax" banner can appear at the shopping area entrance. Naturally, every merchant will also place a similar sign on every cash register. On certain days, as the rent fund surpluses permit, merchants can offer 4% sales tax.

### **Points with Homestead political mainstream**

The land trust will automatically call attention to the tax advantages of Homestead, too. This proposal can be pre-sold to Homestead leaders. It might also help you drive a wedge between the people who want to control development and the rest of the community.

### **Sell the buildings, rent the land**

Although you might initially build buildings and rent space, the trust would ultimately want to sell the buildings. As building taxes would be rebated from the rent fund, tenants could be more easily depended upon to maintain and improve their buildings.

### **Designed to run itself**

Trusts can be designed to run with little bureaucratic discretion. When discretion is called for, as when community funds grow beyond initially authorized expenses, an association of lessees decides how to apply these surpluses within limits written into the trust. This leaves the landholding corporation free focus on collecting the rent and acquiring more land.

### **Opportunity for title pooling**

Everyone in Homestead would be invited to bring their properties into the trust, either by selling their land and taking leases or by exchanging land for stock in the trust. Merchants along Sixth, Seventh and Eighth Avenues are most likely to do so, especially if sales tax is a prominent feature in the rebate package. Such an arrangement is worthwhile to the trust, as the effects of the incentive program are geometrically proportional to the size of the trust.

### **Targets people government programs do not reach.**

The land trust appeals to segments of the market that are ignored by other government redevelopment programs, such as people who

want minimal contact with government agencies, people who want to do as much of their own work as building codes allow, and people who are particularly put off by taxes. Homestead is in a market dominated by government redevelopment programs. Insulating your tenants from government has real marketing advantages here.

### **Compatible with conventional programs**

All grants and programs available to the community can be pursued whether or not the beneficiaries are members of the trust. Traditional programs are generally applicable to properties on trust land, and should be applied when advantageous.

### **Interest from HUD**

Several high-ranking HUD officials are interested in linking the land trust approach with the enterprise zone concept. We should be able to get benefits from HUD on grounds that this approach can be a model for future HUD projects. Essentially, this is an enterprise zone of our own making.

### **Special sources of funding**

A number of foundations also support the land trust concept. These foundations can be sources of funding, technical support, and investment. Individuals who believe in land trusts would also be willing to invest with lower return expectations in order to promote land trustery.

### **Issue the equivalent of money**

The land trust does not have to rebate taxes with cash. It can simply issue vouchers good toward future rent. These vouchers would be fully transferable, so that a resident on the trust could use them to buy from a trust merchant, and merchants could use them to pay residents. Eventually the voucher is used to pay land rent. Until that time, it serves like an interest-free loan. You can also issue vouchers as a payment for services to whoever will accept them. Prospects are quite good for getting local businesses and residents to accept vouchers as they would accept money.

*For further information of the value of land trusts as a development tool, contact Dan Sullivan, 631 Melwood Avenue, Pittsburgh, PA 15213, or call (412) 687-6663.*