The Role of Community Land Trusts in Preserving and Creating Commercial Assets: A Dual Case Study of Rondo CLT in St. Paul, Minnesota and Crescent City CLT in New Orleans, Louisiana

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The Role of Community Land Trusts in Preserving and Creating Commercial Assets: A Dual Case Study of Rondo CLT in St. Paul, Minnesota and Crescent City CLT in New Orleans, Louisiana

A Thesis

Submitted to the Graduate Faculty of the University of New Orleans in partial fulfillment of the requirements for the degree of Master of Urban and Regional Planning

By

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BA Macalester College, 2004

August, 2012
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Abstract

As the community land trust (CLT) movement in the United States approaches its 50th anniversary, CLT members, practitioners and researchers are exploring and pushing the boundaries of the model. CLTs offer an alternative model of land use tenure that permanently removes properties from the speculative market for the ongoing common good of the community. Most frequently associated with the provision of affordable housing in strong real estate markets, several CLTs across the country are now expanding into the commercial realm. This thesis compares the incipient commercial development efforts underway in St. Paul, Minnesota and New Orleans, Louisiana in order to better understand the potential role of CLTs in helping communities preserve and create commercial assets under a wide range of market forces.

Key Words: Community land trusts, Commercial development, Community control, Weak market city
I. Introduction

Neighborhoods are constantly changing. Stores open and close, families move in and out and buildings are built and rebuilt to adjust to the changes around them. While neighborhood change is inevitable, it is still stressful as current residents wonder where and if they will find a niche when the dust settles. Community land trusts (CLTs), through their emphasis on long-term community control of assets, can help residents “navigate the change that is happening in their neighborhoods rather than scream into the abyss” (Schwartz, 2012). Already a proven and trusted method for expanding homeownership opportunities to low- and moderate-income households, CLTs are beginning to experiment with the different roles that they can play in preserving and creating various types of community assets through a model that encourages development without displacement. The purpose of this thesis is to expand the discussion of community land trusts to their applicability in weak market cities as well as into the commercial realm. To do this, I ask the fundamental questions:

- What does CLT commercial development look like and entail?
- What do CLTs hope to gain from expanding into the commercial realm?
- How are CLTs adapting their commercial initiatives based on the strength of their market?

Several researchers (Corey, 2009; NeighborWorks, 2008; Cornerstone Partnership, 2011) have documented the various roles that CLTs can play in helping to stabilize neighborhoods hit hard by the 2007 foreclosure crisis. It is important to note, however, that one in six cities worldwide experienced population loss even before the 2007 mortgage crisis (Pallagst, 2007) and of the twenty largest US cities in 1950, sixteen have since lost population (Hollander et al, 2009). These weak market cities are struggling from systemic economic stagnation and have a different set of needs than those that are suffering from the episodic impact of the foreclosure crisis.

Weak market cities are under-populated and overly burdened with abandoned and blighted properties that cannot be absorbed by the market. Remaining residents, generally disproportionately low-income, struggle to meet their basic needs as retailers and service providers relocate to suburban communities perceived to have more purchase power. Public officials must find ways to continue providing high quality services to a scattered population while coping with the budgetary stress of maintaining and mitigating thousands of abandoned properties. To do this, city officials are looking to innovative land use models to help guide and inform public policy.

One proposed innovation is to explore community land trusts as a way to provide high quality shelter, maximize public investment and stabilize neighborhoods. Creating “neighborhoods of choice” requires a holistic approach where housing, commercial and vacant land initiatives are clustered and coordinated (Mallach, 2005). CLTs—through their non-market, community based approach to land tenure—are uniquely positioned to help neighborhoods gain control of and develop all types of neighborhood assets.

In Chapter II, I begin with a literature review on community land trusts and their role in assisting low- and moderate-income families attain and retain quality affordable homeownership. With more than 200 CLTs operating in 45 states as well as the District of Columbia, CLTs have provided more than 7,000 homeownership opportunities to households of modest means (Thaden, 2012). I then connect the literature on CLTs to the academic and professional discussion on weak market cities and propose ways that the CLT model, through its emphasis on community control, can be an effective model for revitalizing communities. In this chapter, I also present the concept of commercial CLTs. While there is little existing literature on the role of CLTs in preserving and revitalizing commercial assets, I draw from the well-established discussions of community regeneration and retail gentrification to reimage the role of the CLT in the commercial realm.
In Chapter III, I introduce my two case study cities and my research methodology. St. Paul, Minnesota and New Orleans, Louisiana are both on the precipice of establishing commercial CLTs. St. Paul is categorized as a strong market city; the metro area is expected to grow by one million people over the next ten years (Ko and Cao, 2010). New Orleans, on the other hand, is categorized as a weak market city that has suffered from significant and long-term population decline even before Hurricane Katrina in 2005. The different market forces in these two examples allow me to explore how CLTs adapt their activities based on the very different needs of preserving assets versus creating assets.

In Chapter IV, I describe the efforts of the Rondo Community Land Trust in St. Paul, Minnesota to preserve low-cost commercial spaces for low-income entrepreneurs along the new light-rail line that, when it opens in 2014, will connect downtown St. Paul to downtown Minneapolis. Research on similar light-rail development in Minneapolis found that commercial rents within a quarter-mile of station areas experienced a 38% increase value after the light-rail opened (Ko and Cao, 2010).

In Chapter V, I turn to the Crescent City Community Land Trust (CCCLT) in New Orleans, Louisiana and its struggle with revitalizing commercial assets along Broad Street, a historic main street that has suffered from disinvestment and decline since New Orleans began losing population in the 1970s. The CCCLT and its partners are charged with “making the market” (Schwartz, 2012) by attracting new businesses to the neighborhood.

Chapter VI includes a discussion and comparison of the two case studies along with implications and lessons to be learned from the two organizations’ planning efforts. As no residential CLT has yet to create and operate a commercial CLT, this chapter highlights the hopes and intentions of the model as well as the challenges and barriers that the two groups are facing in attempting to get the commercial CLTs off the ground. Finally, by way of conclusion, chapter VII returns to the fundamental question of what the CLT model has to offer communities seeking to preserve or create commercial assets. I also describe where I see the commercial CLT movement headed and further research needs that lie outside of the scope of this thesis.

II: Community Land Trusts: A Different Way of Doing Business

*The Great Balancing Act*
DeFelippis (2002, pg. 3) describes the “fundamental contradiction” in community development work as the significant risk that successful housing or commercial development efforts in an area will price out long-time community residents. He argues that low-income residents are forced to choose between living in areas suffering from disinvestment or becoming displaced by neighborhood improvement. The “false choices” of disinvestment or displacement, as DeFelippis calls them, are a result of land tenure policies in the United States that treat residential property as a commodity that is individually owned, resulting in wealth and control being consolidated in a few individual hands. This land tenure model is failing large portions of the population in communities all across the country. More than 50% of low-income, first-time homebuyers, when entering this individualistic and capitalistic system, transition back to renting within five years of purchasing a home (Temkin et al, 2010) because they are not able to manage unforeseen repair costs, predatory mortgages or rapidly escalating property taxes and insurance.

In contrast, shared-equity programs, particularly community land trusts (CLTs), promote community control over assets (DeFelippis, 2002) meaning that the risks and benefits associated with property ownership are shared amongst individuals and the greater community. Unpacking the CLT name illustrates how community land trusts increase community control of assets.
• **Community.** CLTs operate within set geographic boundaries and offer membership to any resident living within the CLT catchment area. The board of trustees, elected annually by the full membership, balances diverse community interests by allocating seats equally among CLT leaseholders, non-leaseholding community members who reside in the CLT’s service area and professionals representing the public interest (Davis, 2010 A). In this way, community members will always hold a 2/3 majority of the board.

• **Land.** CLTs permanently remove land from the speculative market and place it in communal ownership for the common good. While the land is never resold, it can be placed in service by “leasing out individual parcels for the construction of housing, the production of food, the development of commercial enterprises, or the promotion of other activities that support individual livelihood or community life” (Ibid, pg. 4). A ground lease governs the relationship between the non-profit landowner and the individual homeowner, farmer, business owner or community group. It “gives the owners of these structural improvements the exclusive use of the land beneath their buildings, securing their individual interests while protecting the interests of the larger community” (Ibid, pg. 4).

• **Trust.** *The Community Land Trust Handbook,* published for the second time in 1982, declared that the CLT’s role in serving the common good extends beyond placing land into communal ownership. In addition, CLTs are to steward the public’s investment by retaining and recycling subsidies invested in a project and to capture any “unearned” appreciation in real estate value (Institute for Community Economics, 2010). It further declared that CLTs had an “affirmative obligation to use and develop its assets for the primary benefit of individuals who were socially and economically disadvantaged” (Davis, 2010 A, pg. 24).

Early advocates of the CLT model lived and worked in urban neighborhoods where 75 percent of land and housing were owned by absentee landlords, and in rural areas where small farmers and their families subsided on leased-land owned by giant timber, fuel and agricultural corporations (Davis, 2010 A). The Institute for Community Economics (2010) dissected and documented the inherent tensions that emerge when land is privatized and controlled by a small number of individuals.

<table>
<thead>
<tr>
<th>Figure 1: Inherent Tensions in Private Land Ownership</th>
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<tbody>
<tr>
<td><strong>Land</strong></td>
</tr>
<tr>
<td>Space exists independently of human activity and is treated as common heritage.</td>
</tr>
<tr>
<td><strong>Public Land</strong></td>
</tr>
<tr>
<td>Land or assets are held, generally by a governmental agency, for the common good.</td>
</tr>
<tr>
<td><strong>Community</strong></td>
</tr>
<tr>
<td>Ensure long-term access to resources for current and future generations.</td>
</tr>
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</table>

The Institute, like DeFelippis (2002), argues that many of the inequities in modern communities emerge from policy positions that favor private property over public land and, thus, the individual over the community. The Institute does not, however, argue that individual interests are less legitimate than those of the community. Instead, it offers the community land trust model as an alternative land tenure model that acknowledges, embraces and balances these divergent interests by combining individual ownership of property (the structure) and communal ownership of the land that runs underneath (Institute for Community Economics, 2010).

While CLTs are by no means the mainstream model of land tenure in the United States, as of 2011 there were more than 200 CLTs operating in 46 States as well as the District of Columbia (Thaden, 2012). Most seek to expand the homeownership market to low- and moderate-income households as evidenced by more than 7,139 CLT homes nationwide. However, a survey of 96 CLTs determined that while the majority of CLTs provide affordable and market-rate homeownership opportunities, a significant number also include rental units, commercial spaces and access to green space within their CLT portfolios (Ibid).

Almost all of the literature that exists on CLTs emphasizes their role in helping low- and moderate-income households attain and retain homeownership as well as the model’s unique strength in preserving affordability in strong real estate markets. While my research focuses on exploring the potential role of CLTs in preserving and creating commercial assets in a variety of markets, it is helpful to begin with a summary of the well established residential model in order to illustrate how CLTs function.

**The Residential CLT Model**

CLTs legally separate structural improvements (in this case, a home) from the land underneath. The CLT retains ownership of the land in perpetuity and sells the improvements to an income eligible household. The legal separation of the land from the structure enables low- and moderate-income households to attain homeownership because they only have to borrow enough to purchase the structural improvement which results in a “significantly smaller mortgage than if they had bought both the home and the land in the conventional market” (Thaden, 2012, pg 1). The relationship between the CLT and the homeowner (and the land and the structure) is governed by the ground-lease (Davis, 2006) which, amongst other things, establishes resale procedures and pricing formulas as well as the rights and responsibilities of both the homeowner and the CLT.

Low-income, first-time homebuyers who purchase a home through a CLT tend to be significantly more successful than similar households who purchase a traditional home on the open market. More than 91% of CLT homebuyers are found to still be homeowners after five years compared to 50% of other low-income first-time homebuyers (Temkin et al, 2010). Most researchers attribute this success rate to CLT’s “backstopping” or stewardship practices that help low- and moderate-income first-time homebuyers retain homeownership (Davis, 2006; Thaden, 2012). CLTs support their homeowners in a number of ways including “pre-pre-purchase education, post-purchase education and assistance; monitoring and supporting sound maintenance; and facilitating sales and resales” (Thaden, 2012, pg. 17).

CLTs, like almost every other affordable housing program and model in the country, draw upon various public subsidies to fill the gap between what it costs to construct or renovate a home and what a low- or moderate-income family can afford to buy. In markets where home prices rise faster than incomes, this gap poses a public policy challenge as the amount of subsidy required to help individual families become homeowners increases exponentially. In these cases, the growing affordability gap means that in order to continue serving households at the same general income level, the public sector must either invest more subsidy per family or serve fewer families (Jacobus and Lubell, 2007). Phrased differently, decision makers must determine when it becomes unfair to “provide a windfall to a few lucky families who are selected to receive a subsidy when numerous other families are falling further and further behind on their
quest for homeownership” (Ibid, pg. 3). Jacobus and Lubell designed an “Asset Building/ Affordability Continuum” as illustrated in Figure 1 to help policy makers answer this question.

**Figure 2: Asset Building/ Affordability Continuum**

![Asset Building/ Affordability Continuum](source: Jacobus and Lubell, 2007, pg 5)

At the far left hand side of the continuum is traditional homeownership and subsidy forgiveness. In this scenario, a low- or moderate-income homebuyer receives a subsidy to help them purchase their home. They do not return the subsidy at any point and realize an equity return on the full value of the home when they sell. On the far right hand side of the continuum is “affordable rental” where one hundred percent of the subsidy provided to create the affordable housing opportunity remains in the property and, like all rental programs, the occupant is unable to build wealth through equity.

What is most interesting about this continuum is the full spectrum of housing tenure options that Jacobus and Lubell (2007) highlight between traditional homeownership and rental. These “shared-equity” models strike a balance between maximizing asset creation (that only benefits a small number of families) and maximizing continued affordability (that prohibits families from realizing equity development).

CLTs share equity by attaching the public subsidy to the home (or, more specifically, the land) rather than to the homebuyer. The initial homebuyer is able to take advantage of the subsidy through a reduced first mortgage, just as they would in a traditional affordable homeownership program. However, they also agree to resale restrictions on their equity appreciation so that when the initial homebuyer sells, the house will again be affordable to the next generation of low-income buyers. The result, and what sets CLTs apart from other affordable housing models, is that homeowners are able to build transformational wealth through (albeit limited) real estate appreciation and the CLT is able to retain and recycle one-time subsidies to serve multiple generations of homebuyers in perpetuity (Davis, 2006).

Most of the literature on CLTs shared-equity homeownership is favorable but there are concerns and criticisms that must be addressed in order for the model to move into the mainstream. Most significantly, critics ask: does shared-equity constitute homeownership and is it ethical to limit a low-income persons’ ability to build wealth (Jacobus and Sherriff, 2009)?

Davis (2006) argues that shared-equity homeowners possess many of the same “sticks” in the bundle of rights as any other homeowner. For example, they have the right to hold the title to their property and earn equity upon resale. They have the responsibility to maintain their property in good repair and can borrow against its value to do so. However, some sticks are removed from the shared-equity
homeowners’ bundle. For example, absentee ownership is prohibited as is selling their home on the open market for its maximum appraised value.

While it is true that CLTs and other models of shared-equity homeownership prevent individual “homeowners from realizing the full wealth-creation benefits associated with traditional homeownership,” (Jacobus, 2007, pg. 2) it is important to note that CLT homeowners still accumulate transformational wealth. As Temkin et al.’s (2010) study demonstrates, half of low-income first-time homebuyers who purchase on the open market will not accumulate any wealth from homeownership because they quickly transition back to renting. The fact that the vast majority of CLT homeowners remain homeowners means that they actually have the potential to realize a return on their real estate investment. Jacobus (2007) compared the initial investment return on purchasing an unrestricted home in a modest growth market (33%) with purchasing a shared-equity home in the same market and found that even with equity restrictions, shared-equity homeowners still realize between a 28 and 29% return on their investment. He writes,

   a savings account might offer the same family 1% or 2% interest per year; a Certificate of Deposit could offer 3% or 4%. Mutual funds, still the middle class investment strategy of choice, have historically earned their investors an 8%-9% annual return. There is simply no other reasonably safe investment that provides the kind of return on investment that shared-equity housing offers—except, perhaps, unrestricted homeownership (Ibid, pgs 35-36).

Jacobus admits that returns on market rate homes are, of course, better than those on a shared-equity property. However, shared-equity programs serve households that “have no realistic ownership alternatives” and so the comparison is moot (Ibid, pg 33).

Balancing an individual household’s desire to enjoy the rights, responsibilities and transformational wealth associated with homeownership with the community’s desire to retain control over neighborhood assets is at the heart of the residential CLT model. The role of CLTs in strong markets where land costs are prohibitively expensive is relatively straightforward as the model is a proven method for preserving community assets and expanding opportunities to low- and moderate-income households that would otherwise be excluded from the for-sale market. However, the role of CLTs in weak market cities is less intuitive. The purpose of this thesis is to take a closer look at how CLTs can serve as a proactive force for creating both residential and commercial assets when land prices are negligible and increased property values are desired rather than feared.

The CLT in Different Markets
Weak market cities, defined as cities experiencing a high degree of systemic economic distress (Furdell and Wolman, 2006), struggle with a different set of challenges than those affecting strong market cities. These cities lost jobs and saw anemic growth in payrolls and new businesses between 1990 and 2000, even as strong market cities gained jobs and saw strong payroll growth and business creation (Furdell and Wolman, 2006, pg. 5). Most, but not all, have suffered from substantial population loss, which has resulted in thousands of abandoned and blighted properties that the market cannot absorb (Mallach, 2005). Blight is a significant public safety hazard (National Vacant Properties Campaign, 2005), costs cities millions of dollars each year in maintenance and increased fire and police protection costs (Ibid) and reduces surrounding home values by approximately 18% (Hollander, 2009). In short, local governments in weak market cities are faced with increased financial stress as their tax revenue decreases.

Researchers who specialize in weak market cities (Hollander et al, 2009; Hollander, 2010; Rybczynski et al, 1999; Mallach, 2005; Schatz, 2008) suggest that even in light of all of the significant challenges facing weak market cities, there are opportunities for them to become smaller and more equitable at the same
time. Just as the pattern of population loss is geographically uneven, with strong and declining areas interwoven (Rybcznski et al, 1999), population loss is demographically uneven. Shrinking cities are disproportionately poor and struggle to grow, retain and attract middle class residents. While many market based revitalization strategies emphasize the importance of using public resources to recruit and retain the middle class, Mallach (2005) argues that decision makers need to be cautious in determining if and when it is appropriate to subsidize middle-income families given the number of low-income families in need. Here, again, is where the CLT model’s emphasis on the balance between individual and community benefits can be a helpful tool in guiding public policy.

Thirty-three percent of existing CLTs are located in weak market cities as defined and identified by Furdell and Wolman (2006) and as shown in Figure 3. These CLTs are strategically located to help local governments target and steward investments in ways that will revitalize neighborhoods and increase quality of life for all neighborhood residents—both new and old.

**Figure 3: CLTs in Strong, Moderate and Weak Cities**

<table>
<thead>
<tr>
<th>Market Type</th>
<th># of CLTs</th>
<th>% of CLTs</th>
<th>Locations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>32</td>
<td>36%</td>
<td>Flagstaff AZ; Tempe, AZ; Tucson, AZ; Boulder, CO; Denver, CO; Colorado Springs, CO; Fort Lauderdale, FL; Athens, GA; Atlanta, GA; Iowa City, IA; Lawrence, KS; St. Cloud, MN; Rochester, MN; Missoula, MT; Wilmington, NC; Durham, NC; Santa Fe, NM; Las Vegas, NV; Portland, OR; Austin, TX; Seattle, WA; Spokane, WA</td>
</tr>
<tr>
<td>Moderate</td>
<td>28</td>
<td>31%</td>
<td>Anchorage, AL; Santa Cruz, CA; Oakland, CA; Sacramento, CA; San Diego, CA; San Francisco, CA; Melbourne Bay, FL; Savannah, GA; Lexington, KY; Roxbury, MA; Grand Rapids, MI; Ann Arbor, MI; Minneapolis, MN; St. Paul, MN; Duluth, MN; Great Falls, MT; Albuquerque, NM; New York, NY; Columbia, SC; Greeneville, SC; Nashville, TN; Houston, TX; Yakima, WA</td>
</tr>
<tr>
<td>Weak</td>
<td>29</td>
<td>33%</td>
<td>Los Angeles, CA; San Bernadino, CA; Washington, DC; Miami, FL; Chicago, IL; New Orleans, LA; Baltimore, MD; St. Louis, MO; Albany, NY; Schenectady, NY; Syracuse, NY; Rochester, NY; Youngstown, OH; Cincinnati, OH; Cleveland, OH; Bethlehem, PA; Philadelphia, PA; Providence, RI; Richmond, VA</td>
</tr>
<tr>
<td>Total</td>
<td>89</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

Author’s figure using data from Furdell and Wolman (2006) and Thaden (2012).

The Northern Community Land Trust (NCLT) to in Duluth, Minnesota, for example, invests in a moderate market city but, more specifically in weak market neighborhoods that would otherwise continue on their 20-year trajectory of decline (Corey, 2010). Neighborhood leaders complained of stagnant home values and high rates of properties owned by absentee landlords. They hoped for gentrification and increased owner occupancy rates. NCLT, listening and responding to the community, focused on kickstarting the market by constructing and renovating more than 83 homes that were sold to owner-occupants (Ibid).
As this example demonstrates, CLTs can stabilize and create neighborhoods of choice by encouraging long-term owner occupancy and discouraging absentee speculation. CLT development and homeowner support results in high quality property maintenance that counters the negative trends documented by the National Vacant Properties Campaign and may increase neighboring property values. While weak market cities do not struggle with the ever-increasing affordability gap that Jacobus (2007) describes, they do face a diminishing tax base that severely strains municipal budgets. In this environment of scarcity, the CLT model’s retention and recycling of existing subsidies creates a unique opportunity for local governments to meet the needs of more than a small handful of low-income buyers.

As the earlier sections of this chapter illustrated, one of the most unique qualities that CLTs have to offer weak market cities is their flexible and community based model of land tenure. Revitalizing neighborhoods and creating vibrant spaces requires more than a high quality housing strategy (Mallach, 2005). Weak market cities first and foremost need resident commitment to stay and invest time and money into their neighborhoods. Secondly, they need strategies and plans that facilitate, link and leverage all aspects of neighborhood life. I propose that CLTs, many of which are already strategically located in weak market cities, may be uniquely positioned to assist weak market-cities expand community control of assets, typically housing, into the commercial realm.

The Commercial CLT Model

Vibrant cities, whether they have strong or weak markets, consist of vibrant neighborhoods that contain “attractive, well-maintained open spaces, schools and other community amenities, all working together to create the quality of life that makes people of diverse incomes and backgrounds want to live there” (Mallach, 2005, pg. 17). All too often, however, these community amenities, including retail, locate in the most affluent parts of the city leaving other neighborhoods underserved. Even in these underserved neighborhoods, commercial development and revitalization can be a contentious topic for local decision makers and neighborhood residents. Sullivan and Shaw (2011) write,

In cases where new retail offers basic goods and services at an affordable price, residents are likely to see the benefits since it means that they no longer have to shop outside their neighborhood. The majority of new retail, however, reflects the social class divide within gentrifying neighborhoods. Businesses such as galleries, yoga studios, clothing boutiques, and restaurants appeal to the discretionary tastes and incomes of newcomers and non-local consumers (pg 415).

Trujillo (2009) discusses the loss of social space that residents can experience if long awaited commercial development caters exclusively to new, typically higher-income, households. Corner stores and barbershops not only provide needed goods and services, often on informal credit, they are a place to share community news. Commercial CLTs, just like their residential counterparts, can offer neighborhoods control over community assets so that long-time residents can advocate for development without the fear of displacement.

At least twelve CLTs nationwide have supplemented their residential portfolios with commercial projects (Thaden, 2012). Champlain Housing Trust, for example, developed “Bus Barnes,” a mixed-use development in Burlington, Vermont consisting of twenty-five affordable housing units and several neighborhood commercial spaces such as the Good News Garage—an organization that repairs donated cars for low-income families (Champlain Housing Trust, 2011). Anchorage CLT serves a neighborhood with several established and high quality affordable housing providers but few community development corporations (National CLT Network, 2011). Rather than duplicate residential efforts, the CLT acquires and develops strategic commercial properties that improve the quality of life and further develop the community’s arts and business district (Anchorage CLT, 2012). Members of the Sawmill CLT in New
Mexico want the residential CLT to develop a building that provides space for businesses and community functions which, in turn, subsidizes CLT operations (Axel-Lute, 2011).

CLT sponsored commercial development is different, however, from developing a commercial CLT. The differences arise out of two distinct approaches to commercial activities: the master lessor model and the nonprofit commercial CLT.

1. **Master Lessor.** In this model, the CLT purchases and retains ownership of a commercial structure and the land underneath. Businesses lease individual spaces from the CLT much as they would in a normal transaction. The end result is stable and predictable costs for business owners based on the operating costs of the property rather than the market value. But, there is no opportunity for wealth creation “through equity participation in the real estate itself” (Donjek, 2012, pg. 4).

2. **Nonprofit Commercial Land Trust.** In this model, commercial CLTs, like their residential counterpart, legally separate the commercial structure from the land underneath. The CLT retains ownership of the land and issues a ground lease to a non-profit organization or business who owns and operates the commercial structure (Brown, 2012). Like the master lessor model, nonprofit commercial land trusts offer stable and predictable costs to business owners. However, the nonprofit CLT model also offers wealth creation opportunities associated with owning real property (Donjek, 2012).

There are advantages and disadvantages, challenges and limitations to each of these models. For example, the master lessor model is relatively simple as commercial developments routinely separate the land from the structural improvements. However, the model becomes more complex during operations as the CLT will need to build the capacity to directly own and manage commercial real estate. The nonprofit CLT, on the other hand, is a more complicated development deal with more partners involved but it allows the CLT to serve in its traditional stewardship role rather than as asset manager.

In the master lessor model, the CLT has direct control over the commercial tenancies and, thus, the “common good” provided by the project. In the nonprofit CLT model, the relationship between the CLT and the goods and services provided to the community may be more removed. In some cases, the CLT may sell the structural improvement to one business owner and so the relationship is clear and direct. In other cases, the CLT may sell the improvement to one organization or company that then subleases space to a number of businesses. In either case, the ground lease will, among other elements, stipulate uses, give the CLT authority to approve sub-tenancies, structure rent or resale escalations to ensure ongoing affordability, dictate the monthly ground lease fee, and grant the CLT the right of first refusal to purchase the structure (Albright, 2011; Temple, 2012).

Both these models increase community control over and ownership of commercial spaces. The most obvious and important distinction between the two is that the nonprofit CLT offers businesses a gateway into property ownership and all of the wealth creation associated with appreciating real estate values. As in a residential CLT, the potential profit earned upon the resale of a commercial structure will be shared between the outgoing business owner and the CLT (Donjek, 2012).

While the common good in the residential model is clear (high quality affordable homeownership opportunities that last in perpetuity), it is a much fuzzier concept in the commercial model (Brown, 2012). In some cases, where real estate values are prohibitive to small start-up businesses, the common good may be the preservation and provision of low-cost retail spaces for small local businesses (Finzell, 2012). In other cases, it may be creating new commercial spaces that attract businesses to an underserved neighborhood—even if those businesses are national chains (Temple, 2012).
The role of CLTs in supporting small businesses is particularly interesting given the precarious position of many entrepreneurs. The Small Business Administration reports that there were 26.8 million small businesses nationwide in 2009, which represents over 99% of all employers. The vast majority of these businesses, approximately 78%, had fewer than 20 employees (SBA, 2011). While more small businesses opened than closed in 2010 (Ibid), the data also indicates that approximately 85% of all small businesses do not survive their first year (Ritholtz, 2012) because of insufficient capital, lack of experience, low sales and other business related hurdles. While risky, small businesses are important to our economy and community. Studies performed by Civic Economics demonstrate that local businesses produced “an average of 70 percent more local economic activity than chains on comparable revenue” (Houston and Eness, 2009, pg. 2) and that local businesses tend to be more grounded and committed to their communities than regional or national chains. Much like low-income, first-time homebuyers, small-scale entrepreneurs need help attaining and retaining their businesses. CLTs, through their shared-equity model of land tenure, would allow business owners to share both the risks and rewards of their operations. In doing so, CLTs may be able to expand and stabilize the commercial real estate market to entrepreneurs who would otherwise be excluded.

III: Research Design

In selecting case studies for this thesis, I looked for CLTs that were embarking on commercial activities in a variety of neighborhood and market settings. First, I chose to study the Rondo CLT (Rondo) in St. Paul, Minnesota. By Furdel and Wolmans’ (2006) definition, St. Paul is a moderate market city located within a strong metropolitan area. Rondo, a well-established residential CLT located in a historically low-income neighborhood, is expanding into the commercial realm in order to preserve low-cost commercial space along the new Central Corridor light-rail transit line for local entrepreneurs. I also chose to examine the Crescent City Community Land Trust (CCCLT) in New Orleans, Louisiana. In contrast to St. Paul, Furdell and Wolman characterize New Orleans as a weak market city. The CCCLT, a new citywide organization, is seeking to cluster residential and commercial investments along with vacant land stewardship techniques in strategic neighborhoods. The organization’s intention is to create opportunities in neighborhoods still struggling from historic disinvestment and still recovering from Hurricane Katrina. Comparing Rondo and the CCCLT allows me to examine the potential role of commercial CLT development in preserving and creating commercial assets for community use as well as the different ways that CLTs tailor the model in practice to reflect specific market forces. As this is a new field with no existing commercial CLTs, my research focuses on the intentions and expectations of the model rather than on its existing outcomes.

I used a variety of techniques throughout my research to collect and analyze information about these two CLTs. Firstly, I conducted open-ended stakeholder interviews with CLT board members, staff and advisors in both St. Paul and New Orleans, which led to a better understanding of why these organizations started to consider the CLT model as a commercial development tool in their communities and what sort of outcomes they hope to achieve. Secondly, I reviewed all available organizational documents including relevant board meeting minutes, studies, reports, plans and messaging materials in order to shed light on the processes that the organizations used to discuss and plan for commercial investments. Thirdly, archival material from newspapers and other support organizations such as the National Community Land Trust Network provided context for how the CLT initiatives were conceived. Finally, through direct participation in the Crescent City CLT board and commercial stewardship committee meetings throughout the fall and winter of 2011 as well as the spring of 2012, I gained a deep understanding of the different factors and considerations that contribute to the CCCLT’s planning and implementation process.
The Rondo Community Land Trust began, in part, as a response to a series of governmental actions that consistently and systemically disempowered and displaced residents from the historically African-American and low-income Rondo Community of St. Paul. In 1956, despite community protests, the federal government destroyed hundreds of homes, businesses and neighborhood spaces in order replace Rondo Avenue, the neighborhood commercial corridor, with Interstate 94 (St. Paul Branch of the NAACP et al vs. United States Department of Transportation et al, 2010). In the 1970s, the community was further displaced due to incomplete urban renewal projects (Ibid), which razed the community and left the neighborhood substantially vacant, blighted and poorer.

City planners and Rondo community members, during a neighborhood planning process in the late 1980s and early 1990s, expressed desire to increase the number of affordable housing units in the community as well as to increase mandatory affordability restriction periods beyond the city’s five-year threshold. The housing committee researched best practices for creating lasting affordable homeownership opportunities and adopted the CLT model because they believed it, “evened out the inequities in land ownership and offered a mechanism to take back control of decision making” (Finzell, 2012). Since its inception, Rondo has extended its geographic boundaries to include all of St. Paul. It has approximately 60 homes in its portfolio—half of which are located in the Rondo community (Ibid).

Rondo residents and businesses are again at risk of displacement due to residential and retail gentrification anticipated because of the new light rail line being constructed along University Avenue—the northern most boundary of the Rondo community. According to the Metropolitan Council (Met-Council), the regional planning organization for the Twin-Cities seven-county area, the metropolitan statistical area is expected to grow by one million people over the next ten years (Metropolitan Council, 2010). In order to alleviate existing highway congestion and plan for future growth, the Met-Council approved a multi-line light rail system. The Hiawatha Line, the first to be constructed, opened in 2004. Construction on the 11-mile Central Corridor line, the second line which will connect downtown St. Paul to Downtown Minneapolis, began in 2010 and is expected to open to riders in early 2014.

The Central Corridor line will have eighteen stations, serve over 40,000 riders daily and cost close to $1 billion (Ibid). In St. Paul, the light rail line passes almost exclusively down University Avenue, described as a bustling commercial corridor that is home to some 60,000 people “including the second largest Hmong population in the United States, a large Somali refugee population as well as Rondo, a historic African American community” (PolicyLink, 2011, pg. 6). Furthermore, of all businesses along the corridor, eighty-three percent are small businesses, twelve percent are owned by minority entrepreneurs (Ibid), and ten percent own their current spaces (Donjek, 2012). While the new light rail line provides exciting opportunities for connecting low-income corridor workers to jobs via transit and increased foot traffic for small businesses, it is unclear whether existing residents and businesses will be able to survive the gentrifying effects of the planned transit-oriented-development.

The University of Minnesota (Ko and Cao, 2010) analyzed the impact of the existing Hiawatha Line on commercial and industrial market values in Minneapolis. The study found that commercial properties within a quarter-mile of station areas experienced a 38% increase in value after the light-rail opened. Though the Central Corridor line is still under construction and not yet operational, University Avenue is already experiencing additional market stress. Four months after construction began on the line, the University Avenue Business Association and U-Plan, a community planning organization, conducted an inventory of storefronts along the transit corridor. The team found that University Avenue experienced a “net loss of 50 occupied storefronts” which “represents a loss of 11.7% of the businesses along the
corridor” (UABA, 2011, pg 1). While the team acknowledges that the location and rates of store closings indicate that construction rather than loss of affordability was the main driver of business closings, they did notice an 8.8% net loss of businesses along stretches of the corridor that were not yet under construction which, the authors believe, indicates that commercial space values are already increasing in expectation of the light rail. They also state, “of the 63 businesses that have closed, a majority were clothing stores, full-service restaurants, general retail or provided a professional service” (Ibid pg. 3).

These are exactly the type of community owned businesses that the Rondo Community Land Trust seeks to preserve. A recent commercial CLT feasibility study commissioned by the Rondo Community Land Trust describes University Avenue as historically having matched entrepreneurial people with available space, central location, ease of access and proximity to employees and other businesses. The street has long anchored neighborhoods in both cities... and been home to African-American residents and new Americans including those of European decent in the early 1900s and those of Southeast Asian descent in the late 1900s and early 2000s (Donjek, 2012, pg 1).

However, PolicyLink (2011) reported that while many residents are looking forward to benefiting from the new transit line and the increased public and private investment, they are also concerned that they may ultimately be involuntarily displaced due to increased housing and business costs, and that large-scale community changes may lead to cultural and social disruption.

These fears echo the retail gentrification that Sullivan and Shaw (2011) documented in their study of Portland, Oregon. They also highlight the tensions that DeFilippis (2002) describes in his studies of the Lower East Side: residents are forced to choose between neighborhood improvements and almost guaranteed displacement or neighborhood neglect and the almost guaranteed right to remain.

While some local businesses and community organizations have sued the Met-Council and the Department of Transportation in order to halt, or at least stall, light rail construction (St. Paul Branch of the NAACP et al vs. United States Department of Transportation et al, 2010), Rondo CLT is looking for innovative ways for community residents and businesses to reap the benefits of the transit corridor without fear of displacement. Through their existing community control of residential land, the well-established CLT can ensure ongoing affordable homeownership opportunities as their portfolio of homes exists outside of the speculative market and will not be affected by any real estate appreciation caused by the light rail. The new commercial CLT, like the residential model, will also permanently remove commercial properties from the speculative market so that the CLT can offer small businesses operating space at cost.

Rondo CLT is primarily considering the master lessor model for their commercial activities. As part of their feasibility study, Rondo staff, board members and consultants conducted a series of stakeholder interviews with local business owners on and around University Avenue. They learned that unlike low-income renters who typically see personal advantages in transitioning to homeownership, business owners are more hesitant about becoming property owners (Donjek, 2012; Finzell, 2012). Business owners cited difficulty locating appropriately sized spaces and a tentativeness about becoming landlords to other businesses. They viewed the responsibilities of being landlords as requiring a different set of expertise beyond their interest and capacity (Finzell, 2012). They also described having limited access to capital and borrowing capacity that would allow them to make a down payment and finance a mortgage on the property (Donjek, 2012). Therefore, the master lessor model seems to be the best fit for small business community—it gives them stable and predictable monthly costs based on the real costs of operating the
space rather than the market value. Rondo does intend, however, to keep the ownership door open to businesses so that they can purchase sometime in the future if they so desire (Finzell, 2012).

Both Finzell (2012) and Commers (2012) expressed a desire to bring new stakeholders with commercial development expertise into the commercial development planning process. The core group of professionals involved in the commercial activities currently consists of representatives from Rondo and another neighborhood CDC, a representative from the local business community, a Met-councilmember and the mayor’s director of policy. Finzell wants to expand the group to include stakeholders with commercial development experience as well as those with expertise in lending technical assistance to small business owners. Commers (2012) recognizes Rondo’s expertise in stewardship of community assets but questions who amongst the core group has the organizational capacity to champion the development. Both sets of concerns bring Brown’s (2012) fears about the capacity of residential CLTs to stretch their development expertise into the commercial realm to the forefront of reality.

Concerns about capacity aside, Commers argues that the Central Corridor light-rail provides an opportunity for commercial CLTs that cannot be missed. There is an almost certain guarantee that commercial property values around station areas will increase dramatically. There has been an exponential increase in business advocates interested in preserving affordable commercial space along the corridor and University Avenue currently holds the attention of the Mayor, the Met-Council and more than a dozen national funders including the Ford Foundation in a way that would have been unimaginable ten years ago. Zoning changes along the corridor are currently underway to promote dense development—including mixed use—around station areas and the Met-Council has one-time resources available for pre-development work along key corridors in the Twin-Cities (Commers, 2012). The challenge will be whether or not Rondo can mobilize quickly enough to purchase a number of properties for their commercial CLT demonstration program before escalating real estate values begin to price out the project.

V: Making the Market: A Case Study of the Crescent City Community Land Trust, New Orleans, Louisiana

The Crescent City CLT (CCCLT) emerged out of a deep desire to retain and preserve the one-time recovery investments coming into New Orleans after Hurricane Katrina so as to serve the city and its residents generation after generation (Cowan, 2011; Clark Cambria, 2012). New Orleans, post-Katrina, faced an unparalleled crisis of quality and affordability of the available housing stock. The storm and its subsequent flooding displaced more than one million people in the New Orleans metropolitan area and damaged more than 70% of all occupied homes (134,000 units) in the city. In providing temporary relief and long-term recovery, the federal government invested $150 billion in the Gulf Coast region and was matched by $6.5 billion from the philanthropic sector (GNOCDC, 2011 A).

The sheer magnitude of the disaster brought unprecedented financial resources to the area as well as a culture of innovation and experimentation. Local and national leaders considered best practices from across the country to see what could help locally on the ground. The Ford Foundation, channeling resources through the Greater New Orleans Foundation (GNOF), had already invested millions of dollars in the New Orleans metropolitan area. At the same time, they were, and continue to be, a national leader in promoting and funding the CLT movement. In an effort to maximize their philanthropic investment, the Ford Foundation, in partnership with the National CLT Network, commissioned a feasibility study of New Orleans to learn if a possibility existed to preserve one-time subsidies through a shared-equity model (Cowan, 2011; Clark Cambria, 2012). The results were positive. The study found that in New Orleans, there was a “deep and broad support for establishing community land trust operations among the
community stakeholders” (National CLT Network, 2009, pg 3) which included local community leaders, government officials and foundation staff.

From conception, the Crescent City CLT has been concerned with promoting comprehensive community revitalization and putting neighborhood residents at the forefront of community development decisions. The organization wants to balance economies of scale with neighborhood control over key decisions—a guiding principal that was an important element in hurricane recovery planning (Clark Cambria, 2011). The CCCLT adopted a “central server” structure that will, hopefully, allow the CLT to do all of these things.

The central server model balances “empowered neighborhood control and accountability while, at the same time, assuring that the strategy [is] cost-effective and sustainable over time.” It is specifically charged with supporting and building “capacity for successful CLT operations at the neighborhood (and multi-neighborhood) level” and assuring that “the functions and responsibilities that are essential to effective CLT operations would be managed successfully” (New Orleans CLT Advisory Group, 2010). In terms of functionality, this means that the CCCLT plays a number of different roles and relates to groups (and land) in different ways:

1. Where there are groups on the neighborhood level that have the interest in and capacity to become a residential CLT, the CCCLT provides training and technical expertise to the neighborhood based CLT. The CCCLT will not be a direct landholder in this relationship.
2. Where there are neighborhood groups interested in CLT homeownership but do not have the capacity to incorporate as a CLT, the CCCLT will provide direct land stewardship.
3. The CCCLT intends to be a direct investor in and landholder of any commercial deal.
4. The CCCLT also intends to directly acquire, hold and manage strategic vacant properties for up to five years in neighborhoods where it is also investing in residential and commercial projects.

The central server model allows the CCCLT to defer planning and decision-making authority to neighborhood based organizations while still retaining some economies of scale in terms of stewardship and development portfolios. Its intention is to support and nurture existing capacities without duplicating efforts or competing with established organizations for financial resources (Temple, 2012; CLT Advisory Group, 2010).

While the CCCLT is a citywide organization, it is impossible and undesirable for the start-up organization to invest in isolated projects spread throughout various neighborhoods. A decentralized strategy would spread limited staff capacity too thin and inhibit meaningful results. But, by clustering CLT development in a small handful of neighborhoods, the CCCLT could use each investment to leverage the value of the others. This strategy, however, raises the difficult question of how to choose between neighborhoods which, it must be noted, rubs against the philosophy and purpose behind the central server model.

In practice, the CCCLT selects partner neighborhoods in a couple of different ways. First, as a weak market city recovering from a massive disaster, the CCCLT is forced to consider neighborhood viability. A report by the University of New Orleans (2012) encourages the CCCLT to prioritize neighborhoods with either high rates of repopulation (and so the CLT would preserve community assets) or moderate rates of repopulation (and so the CLT would stabilize the neighborhood and create community assets). The report also suggests that the CCCLT invest in neighborhoods designated by the City of New Orleans as “placed based strategy areas” which are set to receive concentrated public investment in infrastructure, education and public institutions (Ibid). Given the CCCLT’s limited staff capacity and financial resources as a start-up organization, it has also decided to further narrow potential neighborhoods by the availability and willingness of existing organizations to partner with the CLT on development deals.
The CCCLT intends to partner with several established neighborhood-based groups in several different ways in order to effectively cluster its investments and begin to rebuild the neighborhood market. First, the CCCLT will partner with Jane Place Neighborhood Stabilization Initiative (JPNSI), an emergent neighborhood-based CLT, in order to renovate blighted residential properties and convert them into single-family homeownership and multi-family cooperative and rental units on CLT held land (Nice, 2011; Temple, 2012). Second, the CCCLT will partner with the Tulane City Center in order to land bank several vacant and overgrown lots. The concept is to acquire several strategic lots and make cosmetic improvements that: (a) improve the streetscape and limit the negative impact of the vacancy; (b) minimize maintenance and carrying costs overtime; and (c) in no way inhibit the future development of the parcels. The CCCLT intends to hold the properties for three to five years before engaging the community in a discussion of what common good should be provided onsite (Temple, 2012). Finally, the CCCLT will partner with Broad Community Connections, a Louisiana Main Street organization, in order to acquire and convert a blighted grocery store into a fresh food hub. The ReFresh project is strategically located in the neighborhood on the corner of Broad Street—an official Main Street commercial corridor—and the Lafitte Greenway—a future linear park and bike path that will connect the Mid-City neighborhood to the French Quarter (Schwartz, 2012; Temple, 2012). The commercial deal has been in progress for several years and intends to use New Market Tax Credits (NMTCs) among other public and private sources to finance the deal.

The CCCLT is pursuing the nonprofit CLT model in its partnership with Broad Community Connections. The CCCLT will acquire and retain the land underneath the ReFresh project and BCC will own and operate the structural improvement which includes serving as landlord to tenants such as the new grocer. A ground lease will govern the relationship between the two organizations (Schwartz, 2012; Temple, 2012). BCC has a strong desire to have an ownership stake in the development and believes that the wealth creation opportunities will strengthen the organization’s financial position and, thus, enable them to expand their operations. They furthermore appreciate the programmatic safeguards that the CCCLT offers. In the case that BCC ceases operations for any reason, the CCCLT will be able to ensure that the ReFresh project continues to fill community needs (Schwartz, 2012). As the lead developer on the project, BCC is not concerned about the ability to leverage capital in order to purchase the structural improvements and they will pass along the cost of the monthly ground lease fee to their commercial sub-tenants (Ibid).

The overall hope is that the CCCLT residential, commercial and vacant land initiatives, clustered together in one neighborhood, will help kickstart the market, increase quality of life and create new opportunities for existing neighborhood residents without the fear of displacement. In the medium term, the CCCLT and Mid-City neighborhood would like to see an influx of new businesses and middle-class families. In
the long term, as the neighborhood market rebounds, the CCCLT will transition into an organization more focused on preserving assets than creating them.

VI: Moving from Theory to Implementation

The Rondo CLT and CCCLT case studies demonstrate the flexibility of the CLT model and it can be adapted and molded to do just about anything that the community determined to be a common good. In this section, I enumerate a number of findings, or lessons learned, from these two case studies. I differentiate between findings that relate to the commercial CLT model in theory from those that are associated with implementation so as to better highlight the strengths and challenges of the model as opposed to the opportunities and limitations in actual cities with real world actors.

Commercial CLTs in Theory

Finding 1: CLTs can support neighborhoods of choice by preserving and creating commercial assets, not just houses.

CLTs, by expanding into the commercial realm, play a role in creating the kinds of vibrant neighborhoods that Mallach (2005) describes by linking commercial and residential activities in order to enhance and strengthen the value of each. For example, while the approximately thirty CLT homeowners are well positioned to enjoy the light rail development without fear of displacement, local business owners are not so lucky. Historically, the University Avenue corridor has been home to low-cost commercial spaces that house neighborhood oriented businesses such as corner stores, mechanics, ethnic restaurants and second-hand bookshops (Donjek, 2012). The anticipated increase in commercial and industrial property values along the corridor (Ko and Cao, 2010) means that these sorts of businesses will be priced-out of their spaces along University Avenue. The fear is that not only will existing business owners lose their income, but that their spaces along the corridor will be filled by enterprises that cater to a new, higher-income, demographic (Sullivan and Shaw, 2011). This dichotomy hardly matches the description of a neighborhood of choice as only a portion of the residents will be able to meet the majority of their needs within their neighborhood boundaries. By preserving commercial spaces for neighborhood businesses and encouraging a mix of retail along the corridor, the Rondo CLT is ensuring that neighborhood residents—both new and old—will be able to benefit from the neighborhood gentrification.

The Crescent City CLT, on the other hand, is primarily concerned with creating neighborhoods of choice. New Orleans suffers from long-term economic depression paired with Hurricane Katrina’s quick and massive devastation. The city’s greatest concern is ongoing population loss and as Mallach (2005) is careful to note, increasing the quality of life within a city so as to retain existing residents and attract new families requires more than a thoughtful housing strategy. New Orleanians, displaced by the storm, cannot come home if there is no neighborhood school, grocery or bank. New families are not going to choose to relocate to the city if neighborhoods are plagued by abandoned and blighted properties. The CCCLT, through both commercial and residential development, recognizes that regenerating New Orleans’ neighborhoods “requires equal attention to both making housing investments and to building and preserving neighborhood amenities” (Ibid, pg 3). In this way, the CCCLT is not necessarily focused on providing opportunities to small businesses. Instead, the organization is looking to recruit new retailers that can provide much needed good, services and employment opportunities to neighborhood residents (Temple, 2012).

Finding 2: CLTs offer community control of assets and neighborhood change.

Community land trusts acquire properties with the intention owning them in perpetuity. While residential CLT initiatives tend to be relatively straightforward—a house will provide shelter and, generally, a gateway into homeownership for eligible households in perpetuity—commercial initiatives are more complex. While a CLT may collaborate with a business owner to open a grocery store on CLT owned

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land, there is no guarantee that the grocery will remain open in perpetuity. Rather, what the CLT model offers is a mechanism for communities to exert long-term control over CLT owned properties to ensure that changes in use continue to meet the wants and needs of the community.

Just as the future uses of the commercial space are unknown, the future community is equally abstract. As neighborhoods change, the governing board of the CLT will also change to reflect. The democratic nature of the CLT model will help neighborhood residents—whoever they are over time—manage the change that is happening around them.

**Finding 3:** The “community” and “common good” in commercial CLTs are less defined than in their residential counterparts.

Up to this point, “community” has referred to the collection of residents who live within the CLT boundaries. This makes sense in residential initiatives as both the “community” and the initiative (high quality homes) are geographically rooted. Defining community in a commercial CLT development is more complex and dependent on the end goals of the initiative. In some cases, the community will still refer to a collection of residents as the commercial developments are intended to provide new and needed goods and services. In other cases, the community may be better defined as a collection of business owners who need access to low-cost commercial spaces but who may or may not provide community oriented services.

The tension here is essentially that supporting “business” is different from supporting “business owners.” For example, the CCCLT is supporting business by attracting a national grocer to an underserved neighborhood. The main emphasis is on providing access to fresh food for neighborhood residents rather than on creating opportunities for local businesses. Rondo, on the other hand, wants to ensure opportunities for local businesses to open and expand their operations. The emphasis here is on providing otherwise unattainable access to commercial space for local entrepreneurs rather than on community oriented retail. Of course, in an ideal venture, both the CCCLT and Rondo would like their commercial initiatives to create community-oriented retail by supporting local entrepreneurs (Temple, 2012; Finzell, 2012).

These tensions are not an inherent limitation on the model. Rather, the CLT governing structure is designed to be able to manage and mitigate diverse interests through its system of checks and balances. Whether by formally setting aside a specific number of board seats for business owners or informally recruiting business owners to fill some of the seats reserved for community members, CLTs will need to be cognizant of representing the needs of businesses on the board of trustees.

**Finding 4:** Commercial CLTs are different from CLTs that pursue commercial activities through a master lease.

The survey of CLT activities (Thaden, 2012) demonstrates that CLTs are interested in pursuing commercial development, though none have yet to develop a commercial CLT (Brown, 2012). While this seems like a theoretical distinction (and it is), it is one that is already playing itself out as both Rondo and the CCCLT move towards implementation.

Interviews with small business stakeholders in St. Paul (Donjek, 2012; Finzell, 2012) revealed that property ownership is not necessarily the next step that business owners want to take in further developing their operations. Instead, they described a great need for stable, predictable and affordable monthly costs (Commers, 2012). Thus, Rondo CLT is pursuing the master lessor model of commercial development. In this case, Rondo will serve as landlord to the small businesses—a markedly different expertise from the residential stewardship role that they have developed over the past several decades. Rondo will be responsible for property management, rent collection and, in the worst case scenario,
eviction proceedings against business owners who are unable or unwilling to meet the requirements of their lease.

The CCCLT, on the other hand, is partnering with an organization who is willing and able to assume ownership of the commercial structure and so it is pursuing the nonprofit CLT model. In this case, BCC will serve as landlord to the commercial tenants and will be responsible for property management. The CCCLT will steward the property by ensuring that BCC is meeting the responsibilities outlined in the ground lease and will be most involved if and when the structural improvements change hands. Like the backstopping measures on the residential side, the nonprofit CLT model should also include the provision of technical assistance and training to commercial owners so as to ensure that the commercial operators will be able to retain their ownership status. This commercial support expertise is very different from the landlord expertise that is required in the master lessor model.

As already discussed in chapter II, both of these models result in community control over commercial assets as well as stable and predictable costs for business owners. While each of the models comes with their own set of strengths and challenges, the distinction that only one is technically a CLT may not be significant. However, as CLTs begin to think about expanding into the commercial realm, it will be important for them to assess which model best accommodates the wants and needs of their business partners while maximizing their internal strengths as an organization. It is possible that a CLT commercial portfolio will incorporate both models of ownership—and others—as each commercial deal is different.

Finding 5: Commercial CLTs may be perceived as giving an unfair advantage to partner businesses. Before the mortgage crisis hit in 2007, it was generally accepted that providing affordable homeownership opportunities to low- and moderate-income households was beneficial. Even since 2007, providing subsidies and support to low-income households can be justified as housing—the need for shelter from the elements—can be considered a human right. Commercial CLTs, however, may be perceived as, and criticized for, giving an unfair advantage to certain businesses (Donjek, 2012). For example, in St. Paul, the CLT will use some, yet to be identified, subsidy in order to make commercial spaces affordable for small businesses. This subsidy will be passed along to business owners through below market rate rents or sales prices which raises the question of whether or not the CLT will enable and support a for-profit business that would otherwise not be viable (Brown, 2012). If this is true, the subsequent concern would be how to select which business gets to participate in the CLT which is the same, following this logic, as determining which business will succeed and which will fail. Others argue, however, that commercial CLTs, like residential CLTs, do not give an unfair advantage but rather level the playing field for small businesses that have historically been unable to access capital (Finzell, 2012).

But, what then happens when the goal of the CLT is not to support small businesses but rather to attract major retailers like in the CCCLT’s ReFresh project? In this case, the CCCLT will provide a subsidy that will be used, in part, to attract a major national grocer by offering them below market-rate rents. Weak market cities in general, and the ReFresh project specifically, have to “make the market” (Schwartz, 2012) because low-income and under-populated neighborhoods are perceived as not having the inherent purchase power required to support retail (Mallach, 2005). Many community development corporations argue that the market studies used to make such determinations often fail to collect data on the full range of the market as, for example, cash transactions, do not register (Schwartz, 2012). Thus, in order to catalyze a neighborhood market, community developers like BCC have to entice businesses to make a leap of faith and set up shop. The advantage of the CLT model is that even if the initial subsidy used to make the project a reality benefits a national chain, the full amount is retained in the project. As time passes and the community defines a different common good for the site, that subsidy will still be available to be recycled and repurposed as they see fit.
Moving towards Implementation: Opportunities

**Finding 6:** Commercial development projects routinely separate the land from the structural improvements.

One of the reasons that the residential CLT model has struggled to scale up to the mainstream is because of its atypical separation between the land and the house. Some homebuyers are hesitant to purchase homes where they don’t own and control the land underneath and some banks are hesitant to lend to CLT homeowners because of the additional restrictions that are associated with ground leases. Separating the land from the structural improvements, however, is routine in commercial developments. CLT practitioners see opportunity in being able to structure a commercial deal as a community land trust with relative ease and do not anticipate needing to do substantial educational outreach to development partners and lenders in order to be able to move forward (Schwartz, 2012).

**Finding 7:** Community economic development is an underserved sector that is gaining public and philanthropic attention.

St. Paul and New Orleans are set to be the first cities to expand CLT operation to the commercial realm in part because of the mega-projects underway in both cities. These projects have attracted unprecedented levels of attention and financial investment on the part of local, state and federal actors. In St. Paul, the Funders Collaborative, consisting of local and national philanthropies, have dedicated resources to ensure that small businesses survive the light-rail construction period and thrive afterwards (Commers, 2012). The Met-Council has set aside resources to provide University Avenue businesses with technical assistance, grants and low-interest loans to support them through this transition phase. In Louisiana, the New Orleans Redevelopment Authority (NORA) has a specific fund set aside for revitalizing distressed commercial assets—especially those located along key corridors such as Broad Street (Schwarts, 2012).

CLT advocates in both St. Paul and New Orleans believe that the public, non-profit and private sectors will all welcome CLT commercial activity (Commers, 2012; Clark Cambria, 2012). This is primarily because there are far fewer community based actors in the economic development field than in the affordable housing sector (Schwartz, 2012). CLTs could be seen as “increasing the pie” rather than making each slice smaller through competing for limited resources (Cowan, 2011). CLT activity is also welcome because it is perceived as being able to leverage additional resources. Subsidy retention is a fiscally conservative policy and so some potential CLT partners believe that public funders will be more willing to give greater subsidies because of the long-term stewardship role of the CLT (Schwartz, 2012; Temple, 2012). Others see the CLT model as having the full support of major national funders, such as the Ford Foundation, behind it (Albright, 2012). While there are many different tools that could be used to preserve and create commercial assets, community developers will align themselves with the model that seems to have the most momentum behind it (Clark Cambria, 2012).

In this regard, the commercial initiatives in New Orleans gained traction and moved along faster than residential CLT development. Given the substantial attention paid to housing related issues post-Katrina, early CLT stakeholders identified economic development as a key gap in the city’s recovery efforts (Ibid). They viewed the commercial initiatives as a non-competitive and non-threatening way to provide a much needed service as well as to “grease the wheels” for future CLT developments across the city (Ibid).

Moving towards Implementation: Challenges

**Finding 8:** Commercial initiatives are risky.

CLTs like Rondo and the CCCLT are exploring commercial initiatives because they believe that community oriented retail is part and parcel with their mission of providing ongoing control of resources for the common good. Other CLTs may see commercial developments as a new line of business for organizations that have historically provided housing but are suffering from reduced access to federal funds and credit due to the 2007 foreclosure crisis (Temple, 2012). Practitioners leading the CLT
expansion into commercial initiatives (Commers, Finzell, Temple, Brown) all caution that commercial—particularly retail—developments are risky for a number of reasons.

First, small businesses are especially risky partners. Like low-income first-time homebuyers who purchase a home on the open market, small businesses that survive their first five-years of operation are only 50% likely to remain in business in the long-term. That said, 85% of small businesses are projected to close during their first year of operation alone (Ritholtz, 2012). This risk of failure increases the CLT’s liability because it results in unpredictable income streams as the business either struggles to meet its monthly costs or is forced to abandon the space. Rondo, like the Champlain Housing Trust, is looking to temper the risk of commercial investments by seeking to develop mixed-use properties where the steady and predictable residential income can offset the risk of ground-level retail (Finzell, 2012).

Second, commercial assets are riskier than residential assets. When a CLT purchases or builds a home, it can be relatively sure that there will be an initial, and subsequent, homebuyer who is interested in that particular property. When a CLT purchases or builds out a commercial space, on the other hand, the initial and future uses of the building are limited because of the unique spatial needs of individual businesses. Bakeries tend to remain bakeries and auto repair shops tend to remain auto repair shops because of the significant cost in altering commercial uses. This greatly increases the potential liability for each commercial deal. For example, what would the CCCLT do if, five years in the future, Broad Community Connections fails and the national grocer at the ReFresh project decides not to renew its lease? The CCCLT would be stuck trying to retrofit and manage 56,000 square feet of commercial space (Brown, 2012).

**Finding 9:** Public resources and subsidies for commercial CLT development are not yet identified. As the case studies in St. Paul and New Orleans demonstrate, commercial CLTs, like their residential counterparts, rely on public subsidies to achieve their end goals of preserving and creating community controlled commercial assets. On the residential side, CLTs have become savvy at using a variety of public resources such as community development block grants, HOME funds and specific state and local grants to provide the initial subsidy that allows them create affordable housing opportunities. The parallel resources for community based commercial development—CLT and non—have yet to be identified (Brown, 2012). Rondo and its partners are considering tapping into a one-time $35 million pre-development fund from the Metropolitan Council as well as increased brownfield redevelopment resources (Commers, 2012). The CCHLT and BCC are submitting a New Market Tax Credit application and applying for funds from NORA’s commercial fund. But stakeholders in both cities expressed a general lack of funding and financing opportunities on both the project scale and for individual businesses (Finzell, 2012; Crescent City CLT, 2012).

One of the key challenges that CLT stakeholders noted in developing community based commercial assets is the weak balance sheets associated with small businesses. Rondo CLT is particularly interested in partnering with local businesses that have historically been denied access to capital and thus the CLT sees its role as helping to level the playing field (Finzell, 2012). However, the CLT will be challenged in obtaining financing for the project if the tenants are perceived as un-bankable (Crescent City CLT, 2012). Similarly, given that the CCHLT intends to pursue the nonprofit CLT model of commercial development, the organization will be challenged if the business partners are unable to access credit so as to be able to purchase the structural improvements (Donjek, 2012). The commercial CLT model is not designed to fill the commercial lending gap for small businesses. Instead, the CLT is one part of a larger policy needed to support local business development through increased access to credit, guarantee funds, etc (Crescent City CLT, 2012).

**Finding 10:** CLTs need to build new capacity as a sector because commercial development and stewardship is, in practice, different from their residential counterparts.
Finally, it is important to recognize that commercial development and stewardship is very different from residential development and stewardship. Brown (2012) fears that CLT operators will too quickly jump into commercial activities with the expectation that their years of residential development expertise will serve them in the commercial realm.

In addition to the importance of selecting an appropriate commercial asset, CLTs must be careful when selecting commercial partners. Residential CLT operators have years of experience identifying low- and moderate-income households that will be able to successfully convert from renting to owning. They know what to look for in terms of savings and credit history and how to connect them with secure mortgage products. These resident selection skills will not directly translate to commercial development. CLTs pursuing commercial activities will need to develop the capacity to review business proposals and balance sheets and learn which small businesses have the greatest chance at being successful (Ibid). Once businesses are selected to partner with the CLT, they will require ongoing education and technical assistance to ensure that they are able to retain their companies. However, the expertise needed to support small businesses and entrepreneurs is very different from supporting new homeowners.

**VII: Conclusions**

Commercial CLTs expand the spectrum of tools and techniques available to communities that are interested in development without fear of displacement. Their inherent flexibility and emphasis on community control means that CLTs are an applicable model for a wide range of markets as they can be tailored to each unique situation.

There is no definitive description of what commercial CLT development looks like and entails, as each deal will be different based on the needs of the community and the business partner. In some cases, the deal will be structured so that the CLT retains ownership of both the land and the improvement as in the master lessor model. Other times, the deal will be structured as a more classic nonprofit commercial CLT where the CLT retains ownership of the land but a business assumes ownership of the property. Some CLTs will partner with established retailers in order to provide new goods and services to an underserved neighborhood while others will partner with local entrepreneurs to create new business opportunities. Most CLT commercial portfolios will incorporate a mix of all of these variable but the unifying factor will be long-term control of community resources even as the community and resources change over time.

This thesis contributes to the existing literature on community land trusts in a number of ways. First, I extend the substantial existing literature on residential CLTs into the commercial realm. Second, I argue that CLTs can be a useful tool in both strong markets, where they *preserve* access to commercial assets, and in weak markets, where they *create* commercial assets. Third, the detailed case studies of the Rondo CLT in St. Paul, Minnesota and of the Crescent City CLT in New Orleans, Louisiana highlight not only the potential role of CLTs in commercial development but also some of the tensions and challenges that they will face as they move towards implementation.

In closing, there are many interesting questions that lie outside of the scope of this thesis that deserve to be mentioned. First, my research has focused on the theoretical role of the CLT model as to date there are no commercial CLTs in existence. As Rondo and the CCCLT move forward, additional research comparing the model in action to the model in theory would be a wonderful addition to the literature. Finally, it is important to note that commercial CLTs are not the only tool in the toolbox. While this thesis theorizes what the commercial CLT model would look like, additional research would be able to compare it against other community oriented commercial development methods and discuss the differences, pros and cons between the models.
Bibliography


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Vita

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