



TITLE

Tiny Solutions

CONCEPT

A proposal for a joint project of Greenspace, NCR and Neighborhood Associates to increase the availability and viability of affordable housing across the U.S. by deploying tiny houses on community land trusts.

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DEDICATED TO

The National Capital Region's Green Real Estate, Economic & Community Development

CONTACT

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Tiny Solutions¹

Overview

America is on the verge of an unprecedented housing crisis. Even before the COVID-19 pandemic, communities across the country were seeing expanding numbers of homeless, car dwellers, and couch surfers. Millions more, less visibly, were unsustainably spending more than half their incomes on housing and unable to meet other critical expenses like food, health care, and transportation. In no state could a person earning the federal minimum wage full-time afford a two-bedroom apartment at fair market rent. That was before.

COVID-19 has now set off an economic tsunami of unemployment, bankruptcy, and poverty not seen since the Great Depression of the 1930s. Millions of Americans will lose their homes, with the burdens falling disproportionately on the poor, the elderly, the disabled, and people of color. This new housing crisis will reach the middle class as well. The heroes of the pandemic who could barely afford a modest one-bedroom apartment before the crisis now—food service workers, cashiers, grocery clerks, personal care aides, and medical assistants—are in danger of losing their housing altogether.

For any community willing to tackle this problem creatively and comprehensively, Tiny Solutions is prepared to offer tools to help. Tiny Solutions is a joint project of Greenspace and Neighborhood Associates that aims to increase the availability and viability of affordable housing across the United States by deploying cutting-edge solutions like tiny houses and community land trusts (CLTs). We are committed to making it cheap, easy, and quick for communities to start their own CLTs, build tiny houses *en masse*, find overlooked places for new housing, and overhaul archaic public policies that stand in the way.

Tiny Solutions aims to solve several critical problems that have limited the ability of CLTs to “scale,” including scarce capital, houses, land, and expertise. It does this through a CLT design that: adds a community investment fund to generate grassroots capital (which was previously unavailable for affordable housing projects); incorporates tiny houses to increase the number, affordability and sustainability of housing units; works with client communities to rezone and acquire parcels of land that have been largely overlooked; and provides the technical support to make start-up relatively easy. Especially important to our design is a commitment to work only with jurisdictions that have taken the necessary and potentially politically difficult steps to make enough land available to make a significant dent in its affordable housing challenge.

Tiny Solutions is currently structured as a nonprofit program of Greenspace, based in Washington, DC. We are currently looking for \$85,000 to prepare a business plan and lay the foundation for at least one pilot in the Washington DC metro area. Once our concept is proven, we plan to evolve the project into an independent, self-financing enterprise.

¹ Tiny Solutions is a placeholder title for the initiative. We plan to engage a more rigorous review of various titles with our emerging Advisory Board.

Background: Community Land Trusts

For almost a century, CLTs have been effective, yet limited in scale, providers of affordable housing. The classic design of a CLT is that a community-based nonprofit owns land in perpetuity and offers 100-year leases (sometimes renewable) for houses built on it. When a unit is resold, any gains in the home's value are split between the resident and the trust. This model has historically conferred three important benefits on residents:

- *Affordability* – Because a purchaser is buying just the house, not the land, the price is lower. The discount is spelled out in the CLT agreement and remains in perpetuity throughout future sales.
- *Ownership* – The purchaser still enjoys the benefits of ownership, including the deductibility of mortgage interest on income taxes. Being an owner also means the resident has a greater incentive for upkeep and maintenance.
- *Lower Risk* – While the potential upside of appreciation is lower, so is the potential downside of depreciation. During the 2008 financial crisis, for example, residents of land trusts were significantly less likely to lose their homes.

Most CLTs are nonprofits. This enables them to avoid taxes on the collectively held land, especially onerous property taxes. Nonprofits also offer flexibility in forming a board blending the interests of residents and the community.

CLTs began in the United States during the Civil Rights era, with the Albany Project in Georgia. Today, nearly 300 CLTs operate in North America and provide 12,000 units of affordable housing and 25,000 renter-occupied units. Some CLTs also oversee commercial leases. The largest CLT in the country, the Champlain Housing Trust in Burlington, Vermont, has 2,765 homes and was started with a \$200,000 municipal bond approved by then Mayor Bernie Sanders.

Unfortunately, when compared with the scale of the affordable housing need in the United States—again, many millions are without homes or spending too much of their disposable income on housing—the entire movement of CLTs has been disappointingly small. While many factors have limited the spread of CLTs, four are particularly vexing:

1. *Scarce Capital* – As nonprofits, CLTs generally only can grow through donations or the sale of appreciated properties. To the extent that they receive municipal subsidies, they are competing with a range of housing projects and developers. For-profit housing companies and other, more traditional, nonprofit housing developers, in contrast, can more easily attract capital from lenders and investors.

2. *Few Affordable Houses* – CLTs generally include traditional homes in high-demand areas, few of which are available for acquisition. The slow growth of a CLT means that it can only address a small portion of the local affordable housing challenge.
3. *Limited Land* – A related issue is the absence of land in dense urban areas where the housing crisis is especially acute. Few residential properties are available or affordable for new construction, and when they materialize, private developers have the resources and clout to capture them ahead of competing CLTs. To the extent that developers are willing to build affordable housing, they are incentivized by federal and state programs to build multi-family dwellings for rent, not ownership.
4. *Startup* – It's exceedingly difficult for a new organization to solve any of these problems, let alone the many other technical issues they must face. For example, a CLT often has trouble finding a banking partner in the region prepared to offer the special kinds of mortgages required.

Tiny Solutions tweaks and supplements the classic CLT model to help client communities solve each of these challenges.

1. We Solve the Challenge of Inadequate Capital with a Community Loan Fund

Tiny Solutions equips CLTs, at the outset, with a community investment fund. New kinds of community loan funds are now being deployed to solve a wide range of community problems including affordable housing.² These funds allow grassroots and accredited investors to participate and pay a modest rate of return (typically 3-4%).

The potential for grassroots investors to contribute to affordable housing has significantly expanded since the last financial crisis in 2008. Investment crowdfunding, legalized in 2016, has injected more than a billion dollars of new finance into local companies and projects. A notable trend in investment crowdfunding now is that risk-sensitive investors are preferring local real estate. The precipitous plunge of the stock market during the current COVID-19 crisis is likely to increase the number of grassroots investors who may be willing to consider backyard investment options that seem safer, more real, and more meaningful than global stocks and bonds.

While many designs of community investment funds are legally possible, the most common is for a nonprofit to run the fund. The legal costs of allowing unaccredited investors to participate are modest³, since nonprofits are exempt from the Investment Company Act of 1940. Another

² Brian Beckon, Amy Cortese, Janice Shade, and Michael H. Shuman, *Community Investment Funds: A How-To Guide for Building Local Wealth, Equity, and Justice* (monograph, Pioneer Valley, MA: Solidago Foundation, January 2020).

³ Technically, Title III crowdfunding is not available for any fund relying on the exemptions in section 3(c) of the Investment Company Act, which includes the charitable exemption. But a charitable fund might be able to rely on

exemption exists for funds investing in real estate. Either design could work for a fund managed by a CLT.

With a community investment fund at its core, a CLT can raise capital from both grassroots investors and high-net-worth donors, allowing it to acquire land and provide more units of affordable housing more efficiently. These investment opportunities could be enhanced in low-income areas through New Markets Tax Credits and Opportunity Zone Tax Credits. Investors excited by the project could move their pension investments into the fund through Self-Directed IRAs and Solo 401(k)s.⁴ The locality where the fund operates also could legislate property tax credits to incentivize local investing into the fund.

The legal costs of setting up a community investment fund still can be a hundred thousand dollars or more. But by doing the paperwork once, on behalf of all future clients, Tiny Solutions will give client communities the ability to set up funds quickly and begin raising capital for their CLTs inexpensively.

2. We Solve the Challenges of Too Few and Too Costly Affordable Houses with Tiny Houses

Tiny Solutions solves the problem of too few affordable homes by encouraging CLTs to develop “tiny houses.” In recent years a revolution has quietly been occurring in the construction of houses. Rather than building a house on a new site—a process that can require orchestrating multiple construction crews around many months of unpredictable weather—it’s now possible to mass produce small houses in a factory and install them on a site in a matter of days. A typical tiny house ranges from as small as 80 square feet to as large as 700 square feet. Often resembling studio apartments, these homes can be crafted in many styles and customized to personal tastes.

Although tiny homes have limited space, they are big enough to include sleeping area(s), bathrooms, a modern kitchen, storage space, and spots for eating and relaxing. In most cases, the structures are aesthetically pleasing (some have even earned photo spreads in glossy housing magazines). While most tiny homeowners live alone, the structures can be built to accommodate couples and even families. Multiple units can be assembled next to one another, or stacked on top of one another, to provide multi-family dwellings.

Unlike typical houses, many tiny homes are built to have high sustainability standards. Some are designed to avoid utility hookups by incorporating alternative energy systems, composting toilets, and rainwater capture systems. Others, including re-used shipping containers and factory produced modular homes, use sustainable materials and are built with very high levels of energy and water efficiency. In addition, the labor savings in construction are significant,

some other exemption strategy. For example, it could use intrastate crowdfunding. And if the fund is only making loans secured by real estate, it could take the position that it is not investing in securities.

⁴ Michael H. Shuman, *Put Your Money Where Your Life Is: How to Invest Locally Using Self-Directed IRAs and Solo 401ks* (San Francisco: Berrett-Koehler, 2020).

because of the size and the modular design. Some factory-produced units can be assembled in under a day with only the trades, finishes, and appliances left to be installed. They can also offer mobility options with wheels.

Perhaps the most significant advantage of a tiny home is its low cost, to purchase, operate and maintain, thanks to the combination of mass production, quick assembly, portability, size and simplicity of systems (think of along the lines of a Volkswagen Bug). More than a dozen companies offer a wide variety of “off the shelf” options, some under \$50,000 (e.g., the work of the Rural Studio in Alabama). Luxury versions are in the \$100-200,000 range. To put this in perspective, a 30-year mortgage on a \$160,000 model, at today’s interest rates (just under 4%), would cost \$750 per month—a huge bargain in many metro areas.

Other advantages of tiny homes include:

- They sometimes can be deployed on land that cannot be zoned for regular homes.
- They have significantly lower maintenance and operations costs than large homes.
- Many require about a tenth of the energy as regular homes and can be designed to be even more efficient.

By combining the benefits of tiny homes with CLTs, Tiny Solutions can offer communities a new way to provide more affordable housing for millennials, retiring baby boomers, people with low-incomes, and others who simply want a simpler or more modest lifestyle.

3. We Solve the Challenge of Scarce Land with Creative Land Uses

CLTs face two common kinds of land scarcity—physical and legal.

Tiny Solutions helps solve the first problem by working with client communities to look for unusual places to build. Among the promising sites we will explore with partners are:

- New upper floors of large buildings, especially municipally-owned buildings.
- Unused or under-used parking lots that could be re-purposed.
- Obsolete commercial areas, like old shopping malls, that could be re-zoned for residential use.
- Infill opportunities for deploying tiny homes in backyards and alleys, which are almost everywhere.
- Airbnb units no longer being rented in the COVID environment;

- Unfinished commercial development projects that no longer have viability;
- Brownfields, which could be purchased inexpensively, remediated for several years while generating solar power where feasible, and then opened for residential use.

The second kind of scarcity is caused by obsolete zoning. While tiny home developers have had no difficulty finding sites in rural areas—in un-zoned areas, for example, or in former RV parks—locating suitable sites in major urban areas has proven more difficult. Neighborhoods often oppose efforts to permit deployment of more “auxiliary dwelling units” (ADUs) on or between existing properties, fearing that this could change the character of the neighborhood, overburden existing infrastructure, and bring down property values. Efforts to rezone non-residential properties into residential ones can take years of political wrangling.

Our position with client communities is clear: *We will only work with you if you are serious enough about your affordable housing crisis to make available and re-zone the necessary properties for our project.* We are also prepared, on a fee-for-service basis, to help a community identify promising properties, but we will only proceed with creating the CLT after the land is made available and zoning barriers to tiny houses have been lifted. Put another way, Tiny Solutions will only work with communities seriously committed to significantly increasing affordable housing.

Additionally, we are prepared to work with client communities

Given the post-COVID world, we are not swimming upstream. A growing number of states and communities are stepping up and removing zoning barriers to expand affordable housing options: Minneapolis now allows duplexes and triplexes on what were formerly single-family-only lots. Oregon allows duplexes, triplexes, fourplexes, and "cottage clusters" on formerly single-family lots in cities with populations over 25,000. California permits a detached second home on formerly single-family lots and the conversion of a portion of an existing home to a third unit. Up-zoning legislation has also been introduced or passed in Washington, DC, Seattle, Nebraska, Virginia, and Maryland. Even the federal government has expressed interest in pressing local governments to relax zoning laws that prohibit multi-family housing. As recently argued by Ingrid Gould Ellen, Katherine O’Regan, and Sophie House, “Major housing policy reforms have historically grown out of health crises.”⁵

4. We Solve the Startup Challenge through Licensing Agreements

Tiny Solutions offers client communities a model that simultaneously ensures their long-term independence but also lightens the start-up burden. We are inspired by Bendigo Bank, which has provided rural communities in Australia a turn-key model for community banking. Once

⁵ Ingrid Gould Ellen, Katherine O’Regan, and Sophie House, “Housing Policy Must Change in Wake of COVID-19,” *Shelterforce*, 24 March 2020.

communities raise a critical mass of preliminary funding and put together an expert board, Bendigo provides software, training, and support to open a local bank quickly. This model has been adopted in more than 250 communities in rural Australia. The lesson is this: Provide as many start-up services as possible through the “mothership,” and then prepare the client to spinoff as an independent entity in a few years.

By partnering and subcontracting with other experts in the CLT field, such as the Grounded Solutions Network, we envision providing each partner with documents and legal skills necessary to:

- Create a nonprofit entity with needed bylaws and approvals.
- Create a community investment fund, with all the needed documents.
- Engage the participation of local banks.

In return, we will charge a modest licensing fee for five years. This arrangement will make it quick, easy, and inexpensive for a community to get up and running within a matter of months. It’s worth emphasizing that our baseline model is a starting place with clients. We anticipate providing clients with many different designs of CLT boards and leases, different types of community investment funds, different fund-raising strategies, different models of tiny houses, and different structures of tiny house communities. We also are prepared to work with clients who prefer other land structures besides a CLT or a diverse mix of housing options, as long as *long-term* affordability of the units is assured.

Next Steps

The mission of Tiny Solutions is to spread CLTs rapidly across the country and provide affordable housing for every American over the next decade. It’s a bold vision. But we believe that only by mixing and matching new and old solutions—CLTs *and* tiny houses *and* grassroots finance *and* creative land uses—can we solve this problem.

To get from here to there, we propose a simple five-month work plan. Specifically, we will:

- Share our design with potential partners and advisers for suggested improvements.
- Prepare a business plan for the enterprise.
- Develop a partnership with one jurisdiction and one developer for a pilot. For the jurisdiction, we will work with it to identify a critical mass of properties for zoning clearance. (We’ve already begun conversations with housing officials in DC and Montgomery County).

- Pick two or three of the most promising tiny house models to incorporate into our pilot and develop a partnership with at least one manufacturer.
- Prepare a budget for a pilot (likely in the \$50 million range).
- Craft a fundraising strategy for the pilot that will likely involve a mix of public subsidies, philanthropists, impact investors, and grassroots investors.

Budget

We are seeking a preliminary budget of \$85,000, with four line items:

| Cost | Item |
|-----------------|--------------------------------|
| \$45,000 | Patty Rose, 5 months PT |
| \$25,000 | Michael Shuman, 5 months PT |
| \$ 5,000 | Graphic Designer, contractor |
| \$10,000 | Overhead, Legal, Accounting |
| \$85,000 | TOTAL (Greenspace, NCR) |

The Partner Organizations

Greenspace, NCR, aims to inspire, energize, and achieve groundbreaking programs, and through innovative partnerships, bring vibrant green communities to life. It works with developers, governments, and advocates to advance green affordable housing, and led a collaborative effort to pass the DC Green Building Act. The greening of buildings, sites and communities is often sporadic and not coordinated with other priorities, such as economic development. Greenspace, with Patty Rose as their Executive Director, aims to discontinue this “wild west” approach by demonstrating through the development of a series of Land Trusts we can create affordable places to live, work and play that address our environmental and economic challenges.

Neighborhood Associates Corporation (NAC) has more than two decades of experience working to advance thoughtful and collaborative ideas from which communities can develop safe, green, healthy, prosperous, and culturally relevant solutions for neighborhood resilience. [NAC](#) is an equal member of a unique association which includes the [Telesis Corporation](#), an affordable housing developer, and the [CT Group](#) property management firm. Together, we form Neighborhood Partners LLC (NPLLC) serving 6,000 residents living in 10 urban housing communities nationwide. Among the key people in NAC: *Marilyn Melkonian* is the chair of NAC’s board , she also the CEO of Telesis and served as a former HUD Deputy Assistant Undersecretary of HUD; *Dr. Bobby William Austin* is the President of NAC, author of *Repairing the Breach*, and a pioneer in articulating the concept of “parallel economies;” and *Michael Shuman* is NAC’s Director of Local Economies Projects, he is the author of five widely used books on local economic development.

Key People

Michael H. Shuman is an economist, attorney, author, and entrepreneur. He's Director of Local Economy Programs for Neighborhood Associates Corporation, and an Adjunct Professor at Bard Business School in New York City. He is also a Senior Researcher for Council Fire and Local Analytics, where he performed economic-development analyses for states, local governments, and businesses around North America. He is credited with being one of the architects of the 2012 JOBS Act and dozens of state laws overhauling securities regulation of crowdfunding. He has authored, coauthored, or edited ten books. His most recent book is *Put Your Money Where Your Life Is: How to Invest Locally Using Solo 401ks and Self-Directed IRAs*. A prolific speaker, Shuman has given an average of more than one invited talk per week, mostly to local governments and universities, for the past 30 years in nearly every U.S. state and more than a dozen countries.

Patty Rose is a collaborative leader with more than thirty years of experience who drives marketplace change. Patty has served as the Executive Director of Greenspace, NCR for the past fifteen years. She was a leader in creating and passing the 2006 DC Green Building Act and its successful implementation by educating thousands of development and construction professionals and in a policy capacity, as an eight-year mayoral appointee to the DC Green Building Advisory Council. Her more recent projects include a new program, greenUP, supporting nonprofit property owners in retrofitting their buildings, designing and managing the District's Smarter DC Challenge program to green the operations of District businesses and buildings, and developing the Five-Year Strategic Plan for the District's General Services Sustainability and Energy Division. Patty has served on the leadership teams of organizations from the nonprofit, business and public sectors: as the Executive Director's Special Assistant and the Deputy Secretary of the Board of Commissioners for the St. Louis regional transportation and development agency, as the Assistant Director for an experimental College of Design, Art and Architecture in Santa Monica, CA and as the co-founder of Mindsai, a Seattle-based multi-media edutainment production company. Patty holds a degree in architecture from the University of California at Berkeley.

Audrey Dumentat has 30+ years' public outreach experience. In various Department of State leadership positions, Audrey increased respect and accountability through EEO and anti-harassment compliance programs, and coordinated press relations and promoted American society and values at Embassies overseas. Her background also encompasses grants management, procurement, contracting, law enforcement foreign assistance, and fiscal planning. Her diplomatic career included positions in the Department of State in D.C. and at U.S. Embassies in three continents. She holds an MA in International Relations from Boston University and a BA in Journalism from Eastern Illinois University.