Beacon Hill Lane, Block Island, Rhode Island—an affordable housing development that made use of environmental finance.

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Environmental Finance for Affordable Housing

Among communities concerned about funding affordable housing, a new approach is getting attention. It's called **environmental finance.**

Environmental finance is often defined as the process of making money more readily available and using it more efficiently to pay for environmental goods and services. It is applied in a wide variety of organizations, agencies, and disciplines, and may be accomplished through activities not conventionally termed finance.

For example, municipal leaders may convene a group of stakeholders to determine how to address the lack of capital available for local water infrastructure. The process of coming up with a financial solution that has broad public support involves working toward an agreement about how dollars will be spent on the environment—in this case, water.

For years, wealthy landowners have benefited from environmental finance—through conservation easements, for example, that preserve land and reduce tax burdens. Today groups that serve low- and moderate-income households also are tapping into it.

Environmental finance categories of potential benefit to lower-income people include sewer- and water-affordability finance and brownfield-redevelopment insurance finance. But a discussion of land-conservation finance may offer the best opportunity to illustrate the larger set of possible benefits. In New England, where open space is getting scarce, the link between land conservation and affordable housing is especially germane.[1]

Conservation Development

A concept known as *conservation development*—preserving land as part of a housing development—has been gaining adherents in recent years. In nearly all cases, it has not been the result of regulation but is a grassroots, volunteer-driven trend. And increasingly, conservation developments are focused on affordable housing.

One reason is that there is a new understanding among land trusts, state agencies, municipalities with open space bond funds, and other conservation entities of the need for a more holistic approach to land conservation and housing. Conservationists are recognizing that affordable housing is needed in rural as well as urban areas and that it is possible for different groups to meet mutually beneficial goals. More organizations are approaching developers with progressive ideas about how to combine conservation, housing development, and other community goals as land becomes available.

The interest in conservation-based affordable housing is a response to escalating housing prices and their impact on communities—fewer young people staying in town, fewer public employees living locally, and so on. Many conservation groups are finding that they can protect land while creating town meeting places, fostering a sense of community, and conserving farming, forestry, and rural character.

Conservation leaders and municipal officials in these communities have observed that providing adequate financial resources for land conservation can help create affordable housing on the same parcels. An additional impetus for conservation-based affordable housing, especially in urban and coastal areas, is that land has soared beyond the pocketbook of the local conservation organization. Combining conservation monies with funds reserved for affordable-development has become a land-protection option.

Photographs by Sandra M. Kelly

Three New England Examples

The following three communities have pieced together the funding for conservation-based affordable housing.

Block Island, Rhode Island

About 15 years ago, a conservation-minded landowner with an interest in helping low- and moderate-income households on the island made a 12-acre parcel available to conservation and affordable-housing-development partners at a bargain price of $275,000. The majority of the funds came from the Champlin Foundation. Additional funds were generated when the Block Island Land Trust (a municipal agency authorized to protect open space) purchased the conservation easement using funds from a 3 percent real estate transfer fee. In what became known as the Beacon Hill Lane project, seven of the acres were permanently protected; the remainder were developed with seven single-family homes at initial prices of $133,000.

Benefits to low- and moderate-income households were immediate. On an island where rising real estate values had made buying land a significant burden for many families, seven new homes suddenly were within financial reach. Mechanisms were established to keep the units affordable, including limiting their resale value for as much as 30 years.

Although several willing partners are necessary for this type of arrangement, the example illustrates that mainstream land-protection mechanisms can help provide housing for low- and moderate-income families. For any such approach, trust among prospective partners is an essential ingredient.[2]

Jay, Vermont

In 2005, the Vermont Land Trust sold the town of Jay two parcels totaling 282 acres and donated 20 additional acres outright. The town identified three main goals: to protect land for public recreation, deer wintering, and town forestry; to provide affordable housing in response to rising home prices; and to promote careful, deliberate growth patterns. Roughly 240 acres were placed in permanent protection, to be managed for wildlife habitat and forestry objectives.

Thirty-five acres were conserved for intensive community recreational use, and 20 acres were apportioned for affordable housing. The housing proposal had two market-rate units and four affordable units with an initial sales price of $100,000, well below market rate. The price was made possible by a collaboration that included the Vermont Housing Finance Agency, the Neighborhood Reinvestment Corporation, and the Gilman Housing Trust, which together enabled substantial subsidies for the affordable homes.

Although only a few affordable units will be brought to the market, the project illustrates the strictly local nature of many efforts in applied environmental finance. That is, in order to make significant changes in housing options for low- and moderate-income households, a local, parcel-by-parcel focus and an aggressive use of partnerships can make more money available.

South Burlington, Vermont

In South Burlington, 48 apartments were built in a multifamily complex on a 22.7-acre parcel. Thirty-eight of the apartments are affordable, providing below-market-rate rents to income-eligible households at several income tiers. Ten acres on the parcel were protected as a natural area for purposes of flood control, rare and unusual habitat, and a trail for hiking and river viewing (dramatic limestone bluffs with 100-foot drops).

Density of the units helped control costs and lessen impact on natural features of the site. This complex project was financed through at least six significant funding sources (including the Vermont Housing & Conservation Board, the Lake Champlain Housing Development Corporation, the U.S. Department of Housing and Urban Development, a low-income housing tax credit equity, the Vermont Housing Finance Agency, and a developer loan), illustrating the need for sophisticated financial management and multiparty coordination on projects that aim simultaneously to protect land and provide affordable housing.

It is clear that, in the arena of land-conservation finance, low- and moderate-income households stand to benefit from the recent innovations. Environmental finance is a tide that can lift many boats. In the case of affordable housing, it lifts people who have been priced out of regional housing markets.

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Endnotes

[1] The examples are excerpted from K.J. Breichle, *Conservation-Based Affordable Housing: Improving the Nature of Affordable Housing to Protect Place and People* (Arlington, Virginia: The Conservation Fund, 2006), http://www.conservationfund.org?article=3192&back=true.

[2] For more information on trust in partnerships, see http://efc.muskie.usm.maine.edu/Trust_and_Risk.htm.