

**Community Land Trusts And Limited Equity Cooperatives:
A Marriage Of Affordable Homeownership Models?**

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Abstract

Since 2008, many have questioned the efficacy of conventional homeownership, particularly for low-income households. Advocates champion shared equity homeownership as an alternative, including community land trusts (CLTs) and limited equity cooperatives (LECs); yet, they too have limitations. CLTs offer ongoing homeownership support, but require conventionally “bankable” households. LECs can offer low-income households autonomy and limited asset building, but often require fiscal and organizational support to succeed. This paper explores an innovation in shared equity—the merger of CLTs and LECs to address challenges and maximize collective strengths. Set within the context of the benefits and limits of CLTs and LECs as independent organizations, the paper examines five CLTs with LEC projects. It considers the CLTs’ motivations for pursuing LECs and appraises the characteristics of hybrid projects. While CLT-LEC projects are small in number, they illustrate an emergent practice in the field and speak to the organizational adaptability of the broader shared equity model.

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Community Land Trusts And Limited Equity Cooperatives: A Marriage Of Affordable Homeownership Models?

Introduction

Homeownership has been a cornerstone of US housing policy since the Great Depression (Shlay 2006). Its normative value is steeped in visions of white picket fences and manicured lawns. An economic preference for homeownership over other tenure types is embedded in the federal budget: In 2008, direct federal expenditures targeted \$40.2 billion towards low-income renters, reaching seven million households; in contrast, 155 million homeowners qualified for homeownership entitlements, including mortgage tax deductions, that exceeded \$171 billion (Schwartz 2010).

Despite a housing policy bias towards homeownership, some are actively challenging the status quo (Davis 2012; Li and Yang 2010; Saegert, Fields, and Libman 2009). For these scholars and advocates, homeownership does not represent a goal unto itself. There is simply insufficient evidence that its benefits (and risks) are uniformly extended to the most vulnerable households. Yet, even in the wake of the Great Recession, the economic argument for homeownership remains strong, with homeowners claiming significantly more wealth than renters (Boehm and Schlottmann 2008). Some argue that rather than perpetuating homeownership as a singular benefit, housing policy must separate *sustainable* homeownership from the more risky forms that exacerbated the foreclosure crisis (Wyly 2013; Santiago et al. 2010; Calem, Wachter, and Courchane 2009).

Shared equity models represent one sustainable alternative to conventional homeownership; they include community land trusts (CLTs) and limited equity cooperatives (LECs). At their core, shared equity models are defined as follows: resale-restricted, owner-occupied housing where the “bundle” of property rights is divided between the homeowner and the community. The subdivision of building and land rights allows households to access affordable ownership opportunities and enables the community—via a non-profit steward—to retain a stake in the land, maintaining permanent affordability and mitigating speculative market forces.

In a CLT, a household retains ownership of its dwelling unit—typically a single-family home, while the CLT, as a non-profit organization, retains title to the underlying land. A ground lease connects the homeowner to the CLT and is used to enforce the shared equity affordability controls. The constant presence of a non-profit steward provides support at all phases of homeownership, including access to pre-purchase education and non-predatory financing options, ongoing maintenance training, and pre-foreclosure counseling to help homeowners avoid defaulting on their loans. Yet, while CLTs can provide stability and access to affordable homeownership, they often require households to qualify for conventional loans, which can exclude segments of the low-income population.

In an LEC, several households collectively own multiple dwelling units—usually in a multi-family building—via a cooperative corporation (co-op). Each household purchases one share of

the co-op, entitling them to a dwelling unit and a vote in the co-op's governance; the share also enforces the co-op's limited equity (i.e., affordability) controls. Low-income tenants often pursue this model of ownership when their landlords threaten them with eviction and/or building disrepair. An LEC provides a means for low and very low-income households to gain autonomy over their housing circumstances, preserve affordable rents, and earn very modest equity. It also, however, requires a significant amount of fiscal and organizational capacity to maintain the co-op; many LECs risk dissolution over the long term.

This paper explores an innovation in the shared equity field: The merger of CLTs with LECs to respond to their individual challenges and leverage their strengths. The research draws from case studies of five CLTs, representing fifteen LECs, across the US and asks: are emergent CLT-LEC projects able to fill the gaps left by CLTs or LECs alone? It considers the motivations for a CLT to pursue an LEC (or vice versa) and appraises the characteristics of hybrid projects. While the number of CLT-LEC projects is limited, the cases illustrate an emergent practice in the field and speak to the organizational adaptability of the broader shared equity model.

While the research assesses the organizational framework of CLT-LEC partnerships, the subject is rooted in homeownership, broadly, and shared equity homeownership, specifically. The paper begins with a review of debates surrounding low-income homeownership. Subsequently, it delves into shared equity homeownership as an alternative; this includes in-depth discussions of the CLT and LEC models, including their independent strengths and weaknesses. These sections provide the basis for exploring CLT-LEC partnerships through comparative case studies.

Data and Limitations

There are more than 250 CLTs in the US; to date, only a handful of these organizations have elected to include LECs in their portfolios. There is no comprehensive listing of CLT-LEC partnerships, but the researcher identified fewer than ten CLTs with active LEC projects in their portfolios or in pursuit of LEC projects. One explanation for the limited reach of shared equity models overall, as well as the emergent CLT-LEC model discussed in this paper, is their lack of familiarity to developers, elected officials and municipal departments, and homeowners. The subdivision of property rights between an individual and the community, represented by a non-profit steward, does not reflect the conventional approach to property. Despite its adaptability to existing financial and property regulations, shared equity homeownership is fundamentally based on a non-market ideology. For some, the novelty of shared equity models makes them appear risky; others perceive their non-speculative tenets as subversive. Further, as non-profits dedicated to stewarding perpetually affordable housing, there are often fiscal constraints that limit the scale and scope of shared equity portfolios.

This study used a snowball sampling method to identify CLTs with LEC projects in their portfolios. The researcher identified eight potential CLT-LEC projects and, upon further examination, selected five established CLT-LEC partnerships for the study. Each case examined the circumstances and motivations that led a CLT to pursue a CLT-LEC merger, as well as the physical, fiscal, and organizational characteristics of the projects (Table 1). Collectively, the CLTs represented fifteen LEC projects comprised of nearly 600 dwelling units.

Table 1. CLTs and affiliated LEC projects included in the study

CLT	LEC Project	Type	Number of Units
Lopez CLT Lopez Island, WA	Morgantown Coop	New Construction, Single-family LEC	7
	Coho Coop	New Construction, Single-family LEC	7
	Innisfree Coop	New Construction, Single-family LEC	8
	Common Ground Coop	New Construction, Single-family LEC	11
	Tierra Verde	New Construction, Single-family LEC	4
San Francisco CLT San Francisco, CA	Columbus United Cooperative	Rehabilitation, Multi-family LEC	21
	Purple House Cooperative	Rehabilitation, Multi-family co-housing LEC	10
Northern California CLT San Francisco, CA	Addison Courts	Rehabilitation, Multi-family LEC	10
	Fairview House	Rehabilitation, Multi-family co-housing LEC	9
Champlain Housing Trust Burlington, VT	Flynn Avenue Cooperative Homes	New Construction, Multi-family LEC	28
	House of Hildegard Cooperative	Rehabilitation, Multi-family LEC	3
	Thelma Maple Cooperative	New Construction, Multi-family LEC	20
	Queensbury Cooperative	New Construction, Duplex LEC	18
	Rose Street Artists' Cooperative	Rehabilitation, Multi-family LEC	12
Cooper Square Mutual Housing Association New York, NY	Cooper Square Mutual Housing Association	Rehabilitation, Scatter-site multi-family LEC (21 buildings)	328

To explore CLT-LEC partnerships, the study engaged CLT executive directors and staff. The case studies focused exclusively on the organizational framework of CLT-LEC projects; they did not include the perspectives of LEC board members or shareholders, nor did they extend to the experience of individual households within a CLT-LEC project. They examined the framework at all phases: conceptual development and feasibility assessment; financing, construction, and incorporation; and long-term maintenance and stewardship.

CLT representatives participated in two ways. First, they responded to an online survey about the CLT and its portfolio. In addition to situating LECs within the total asset holdings of the CLT, it also contributed to a physical and financial profile of each co-op. Subsequently, CLT representatives completed a 60-minute, semi-structured phone interview. The interviews expanded the LEC profiles and explored the formal and informal dynamics between CLTs and LECs.

The case studies illustrate the physical diversity of LEC projects across each of the CLTs, as well as the range of circumstances that led a CLT to innovate with LECs. In each instance, the physical shape of LECs was heavily influenced by its regional context and the corresponding housing demands. Yet, beyond their physical characteristics, the five case studies show consistency within each CLT, as well as across CLTs, with respect to the adaptation of shared equity principles and the organizational exchange between a CLT “manager” and its LEC project.

Homeownership: One Size Fits All Solution?

For decades, homeownership has been characterized as a black and white, “one-size-fits-all” solution. Regardless of a household’s economic circumstance, policymakers championed homeownership as an important means of building wealth and the only way up the socio-economic ladder (Shlay 2006). While there is some truth in this statement, the literature is much more nuanced.

From an economic standpoint, scholars generally agree that homeownership is the most prominent means of building wealth in the US; the accumulation of housing wealth is greater than non-housing wealth (e.g., stocks, savings) for the majority of households (Boehm and Schlottmann 2008). As an asset class, housing is unique—a household benefits from its economic value (i.e. a financial investment) and its use value (i.e. a physical home) (Levitin and Wachter 2013). This feature makes homeownership particularly attractive and potentially more accessible as an investment for households with limited disposable incomes.

A variety of studies explore the wealth gap between homeowners and renters, finding substantial differences (Herbert and Belsky 2006; Shlay 2006; Reid 2004; Denton 2001). Kennickell et al. (1999) found 55% of a household’s total net worth was tied to their primary residence, netting homeowners a median worth of \$132,000; by comparison, renters claimed \$45,000. The Joint Center for Housing Studies (2013) reported a greater gap: the median net worth of homeowners was \$173,010 in 2010, substantially exceeding renters at \$5,100. Grinstein-Weiss et al. (2013) studied wealth building for a subset of low-income households, finding that homeowners possessed a total net worth \$10,500 greater than renters between 2005 and 2008.

The economic benefit of homeownership, however, is not simple. Low-income households are often exposed to substantially greater risk and are less likely to reap the rewards of homeownership relative to their higher income counterparts. For instance, low-income homeownership is described as “forced savings,” directing resources that previously went towards rent into an equity repository (Davis 2010b; Shlay 2006). While direct investment in equity may be positive, the literature suggests low-income homebuyers generally realize less appreciation than higher income households, dedicate a greater percentage of their income towards mortgage payments (and away from potential investment vehicles, such as 401Ks or mutual funds), and are more likely to depend on high-risk financing, which increases their exposure to foreclosure (Jacobus and Davis 2010; Jacobus 2007; Herbert and Belsky 2006).

The timing and location of homeownership also pose a substantial risk for low-income households (Davis 2010b; Herbert and Belsky 2006; Shlay 2006). Low-income homeowners are more likely to purchase lower quality units in less desirable neighborhoods, exposing their investment to neighborhood instability, limited appreciation (or depreciation), and increased maintenance costs. Limited resources may constraint a low-income household’s ability to capitalize on the resale of their investment. Without the means to sustain homeownership until the market is right (i.e., a “seller’s” market), many low-income homeowners dispense of their properties at a loss or a minimal gain that cannot cover the transaction costs (Herbert and Belsky 2006; Belsky and Duda 2002). Under these conditions, the adage of homeownership as a secure investment is, in reality, much less certain.

The recent housing crisis has caused many scholars, policymakers, and consumers to question the tenets of homeownership and, more specifically, its soundness for low-income households (Stein 2010). Others view the crisis as an impetus for change and opportunity to reconsider the mechanics of affordable housing (Belsky 2013; Davis 2010b). Many scholars in the latter group conclude that homeownership can offer meaningful benefits, particularly to low-income households traditionally excluded from conventional markets and other forms of wealth accumulation (Jacobus and Abromowitz 2010; Jacobus and Davis 2010; Temkin, Theodos, and Price 2010; Jacobus 2007). From this perspective, the question is not about the merits of ownership at large. Instead, it is about pursuing *sustainable* homeownership, which supports wealth-building opportunities at an affordable price and devoid of excessive—or, in the case of predatory loans, exotic—risks that favor the investor over the consumer.

Shared Equity Homeownership: A Better Model?

Shared equity homeownership offers a viable alternative to the traditional own or rent choice. Prime examples of sustainable homeownership, shared equity models provide the stability and wealth building benefits of ownership, while preserving affordable housing on behalf of the community (Koschinsky 1998). The models are rooted in the early 20th century ideology of Henry George (1879) and John Stuart Mill (1900). The term, however, emerged only recently, solidifying general principles into a flexible framework.

Conceptually, shared equity homeownership separates the “bundle of rights” typically associated with property ownership and reassigns them to different parties. The reallocation of rights seeks to move beyond the traditional landlord-tenant relationship and neutralize real estate’s inherent price speculation. Shared equity models subdivide property ownership into a “use” right, where the homeowner retains ownership of physical improvements on a property (e.g., the house), and a “land” right, where a non-profit organization retains ownership of the underlying land (Davis 2010b; Davis 2006). Classic examples of shared equity models include CLTs, LECs, and price-restricted houses or condominiums with permanent affordability covenants (Davis 2010a).

At its core, all shared equity models are characterized by two principles (Temkin, Theodos, and Price 2010; Davis 2006). First, *permanent affordability* ensures homes remain affordable in perpetuity through subsidy retention techniques, such as resale formulas that limit the appreciation a homeowner may claim on his/her investment. Second, *long-term stewardship* focuses on the preservation of an affordable resource, by a non-profit and for the community, through active stewardship of the land itself.

These two hallmarks distinguish shared equity properties from other common forms of ownership with communal elements. For instance, in a condominium project, each household retains full ownership of its dwelling unit and joint ownership of common areas; in principle, the condominium could also be a shared equity project, but not without permanent affordability controls that restrict the unit’s resale value. In contrast, some neighborhoods have homeowner associations (HOAs)—non-profits responsible for the maintenance of common areas and overall neighborhood conditions. While individual households are required to make financial

contributions to the HOA and, by extension, common spaces, they possess distinct ownership of their parcel of land and dwelling unit and are free from price restrictions.

Despite the strides shared equity programs make in addressing the risks of low-income homeownership, their strengths are met by criticism over their methods. Stein (2010) concisely describes the issue when she states “[t]he resale formula is the fulcrum of the tension between durable affordability and individual wealth creation.” Critics contend that because shared equity models prevent homeowners from realizing the full amount of appreciation, they are hampering the asset-building opportunities for low-income households (Davis 2010b; Jacobus and Davis 2010; Stein 2010; Jacobus 2007).

Yet, while these models diverge from traditional real estate ideology, the evidence suggests shared equity homeownership produces a reliable return to low-income homeowners. An evaluation of the Champlain Housing Trust in Burlington, VT found CLT homeowners’ investments appreciated by approximately 25% (Jacobus and Davis 2010)—less than conventional owners (53%), but more than if they remained renters. The Urban Institute study arrived at similar conclusions, calculating internal rates of return between 6.5% and 59.6% for shared equity households in their study (Temkin, Theodos, and Price 2010). For all but one CLT in their study, the homeowner’s rate of return exceeded what the household would have earned had they invested their down payment in an S&P 500 index fund or a 10-year Treasury Bond.

Community Land Trusts

Dating to the 1960s, CLTs are one of the most prominent, and flexible, examples of shared equity homeownership. The hallmarks of CLTs include:

- The CLT, a non-profit organization, owns the land. This land is “rented” to a homeowner via a long-term (e.g., 99-year), renewable ground lease, transferrable to the homeowner’s heirs.
- CLT residents own their homes, which are typically single-family dwelling units. Homeowners acquire traditional mortgage loans to finance their purchase, often from banks partnered with the CLT program.
- As a condition of the ground lease, homeowners are permitted to a limited amount of appreciation upon resale of the home. CLT resale formulas generally allow sellers to claim all of their principal equity and a percentage of price appreciation. In the event of depreciation, resale formulas typically enable homeowners to recover most, if not all, of their principal equity.
- CLT membership is open to all individuals within a geographically defined service area, including non-CLT residents. The organization is governed by a board, which includes equal representation from leaseholders (i.e., homeowners on CLT land), non-leaseholders (i.e. non-CLT residents within the community), and representatives of the “public interest” (Institute for Community Economics 1982).

While all CLTs uphold the principles of shared equity homeownership, their approaches vary widely. They are located in rural and urban locations, acquiring land through strategic purchases, donations, and/or public sector grants. A 2011 survey by the National Community Land Trust Network (NCLTN) identified nearly 250 CLTs in 46 states, including more than 6,500 affordable dwelling units (Thaden 2012). Their portfolios are predominantly comprised of owner-occupied, single-family homes, but also include alternate types of dwelling units (e.g. single-family attached units, multi-family buildings), tenure (e.g. owner and rental), and land uses (e.g. residential, commercial, agricultural, and open space).

The CLT literature describes several benefits for individuals and communities alike. At the household-level, CLT homeowners appear to fare better than traditional low-income homeowners in terms of wealth accumulation, homeownership durability, and subsequent homeownership opportunities (Jacobus and Davis 2010; Temkin, Theodos, and Price 2010; Davis and Stokes 2009). Further, due to the ongoing stewardship of the CLT, homeowners are able to obtain lower risk mortgages than their low-income counterparts in the conventional market.

From the perspective of the community at large, CLTs have proven to be sustainable. In the midst of the foreclosure crisis, a December 2008 study found “foreclosure rates among members of 80 housing trusts across the United States were 30 times lower than the national average” (Fireside 2010); a 2010 NCLTN study identified only 12 foreclosures among a national sample of 2,151 CLT homeowners in the fourth quarter of 2009 (Thaden 2010). In addition, due to permanent affordability controls, communities retain housing subsidies invested in CLT properties (Davis 2010b; Davis 2006). In other words, affordable CLT properties do not revert to market rate prices within 15 to 30 years, as many other affordable housing programs dictate; nor do the initial homeowners walk away with the affordable housing increment, as in the case of many affordable housing subsidies centered on forgivable loans or soft second mortgages.

Despite the literature and practitioner experience that recommend CLTs, the model is not a silver bullet for low-income homeownership. As with other affordable housing strategies, CLT homeownership targets a particular audience. CLT portfolios primarily consist of owner-occupied or rental units (Thaden 2012). While rental units provide stable, affordable housing for low-income families, they do not deliver any wealth building opportunity. Conversely, most resale restricted, owner-occupied homes require households to obtain mortgage financing; as with conventional homeownership, CLT programs typically exclude households who cannot satisfy lending requirements or are otherwise “unbankable.”

Limited Equity Cooperatives

LECs are a collective ownership structure—a co-op corporation owns the building(s) in its entirety, while individual households own a *share* in the corporation (Davis 2006; Saegert and Benitez 2005; Sazama and Willcox 1995). The household’s share secures exclusive rights to a dwelling unit, as well as a vote in democratic co-op governance. This arrangement differs from a condominium project, where a household owns its dwelling unit outright and shares ownership of common areas.

More than 1.2 million US households live in housing co-ops, including full, limited, and zero equity corporations (Davis 2006; Saegert and Benitez 2005). A resale formula separates LECs from full equity co-ops; similar to CLTs, LECs limit an owner's appreciation when they sell their co-op share back to the corporation (Davis 2006; Rohe 1995; Miceli, Sazama, and Sirmans 1994). The National Association of Housing Cooperatives (NAHC) estimates more than one-third of all housing co-ops, 425,000 households, are limited or zero-equity (National Association of Housing Cooperatives 2013).

Since LECs are resident owned, there is no third-party profit and the building operates at-cost (Davis 2006; Sazama and Willcox 1995). In addition to an initial share purchase, shareholders pay monthly fees—similar to a mortgage or rent payment—to cover: building debt service, if applicable; operations and maintenance expenses, whether self-managed or contracted to a third party; and a building reserve fund dedicated to major repairs and emergencies.

In many respects, LECs address the affordability constraint posed by CLTs. A collective, non-speculative ownership structure enables lower entry thresholds for LECs (i.e. share prices) than conventional or CLT homeownership (i.e. down payments) (Davis 2006; Miceli, Sazama, and Sirmans 1994). Rather than qualifying for individual financing, LEC residents can pool resources and secure a blanket mortgage for the co-op corporation. This allows LECs to reach further down the affordability spectrum than CLTs. At the same time, the primary purpose of an LEC is not wealth building. An LEC typically enables a household to claim limited appreciation on the value of their share in the corporation, but monthly fees are excluded from their equity. In this way, the purchase of an LEC share serves as a very modest investment account, rather than a serious asset building tool.

The principal argument for LECs is their ability to offer greater security of tenure and autonomy to low-income households (Miceli, Sazama, and Sirmans 1994; Saegert 2006). Many LEC projects grow out of tenant-led efforts to protest the loss of affordable rental units through threatened eviction, landlord abandonment, or foreclosure (Saegert 2006; Saegert and Benitez 2005; Leavitt and Saegert 1990). The ability of households to organize against threats and, in the process, gain collective control over their housing represents a substantial benefit. In the process, LECs engender community and capacity building among typically marginalized households (Davis 2006; Saegert 2006; Leavitt and Saegert 1990).

LECs can be difficult to sustain over time, however, due to their reliance on consensus-based governance and engagement (Saegert 2006; Rohe 1995; Sazama and Willcox 1995; Miceli, Sazama, and Sirmans 1994). LECs are active organisms, requiring significant shareholder commitment to make short- and long-term decisions (Rohe 1995). As initial LEC leaders move or pass away, it can be difficult to retain institutional knowledge and transition leadership (Leavitt and Saegert 1990). Self-governance also requires incoming shareholders to be aware of the rights and the responsibilities of cooperative ownership. The level and diversity of technical skill required for successful management can be difficult to foster during the early years of the LEC, much less sustain over the life of the project (Saegert and Benitez 2005; Rohe 1995; Sazama and Willcox 1995; Leavitt and Saegert 1990).

Project financing is another hurdle to the viability of LECs. The LEC structure enables shareholders to pool assets for a blanket mortgage, but it can still be difficult to find lenders willing to finance the acquisition of a collectively-owned building (Davis 2006). Further, since many LEC projects are formed in under-invested multi-family buildings, it can be challenging to access sufficient capital for major repairs and rehabilitation (Rohe 1995; Leavitt and Saegert 1990).

Lastly, although LECs fall under the shared equity umbrella, they do not inherently possess the same permanent affordability controls as CLTs (Davis 2006). This is due, in part, to the ownership structure. While CLT homeowners own their building(s), the CLT retains ownership of the land and enforces permanent affordability via the ground lease. In contrast, LECs generally own the land and building(s) together—there is no neutral “third party” to guarantee affordability over the long-term (Davis 2006; Miceli, Sazama, and Sirmans 1994). In a “cold” real estate market, when property values are decreasing and the building operation and maintenance costs are increasing, LECs often face financial challenges and risk losing their investment. Conversely, “hot” markets introduce temptation for low-income households; speculators are willing to pay substantially more for the building than original share prices and shareholders are enticed to cash out at market value.

Discussion: CLT-LEC Hybrid Projects

In summary, the literature suggests there are gaps between existing shared equity models that prevent programs from responding to the full spectrum of affordable housing need. The CLT model offers stability and support to low-income homeowners, but requires households to satisfy conventional lending criteria. Conversely, the LEC model can offer low- to very low-income households autonomy and very modest asset building opportunities, but shareholders often require fiscal and organizational support. Thus, this paper arrives at its central question: are emergent CLT-LEC projects able to fill the gaps left by CLTs or LECs alone? The remainder of this paper compares CLT-LEC partnerships located in: New York, NY (Cooper Square Mutual Housing Association); Burlington, VT (Champlain Housing Trust); Lopez Island, WA (Lopez CLT); and San Francisco, CA (San Francisco CLT and Northern California CLT).

Starting a CLT-LEC Project: Importance of Social Feasibility

In most instances, the LEC projects in the study evolved from distressed multi-family rental buildings—not unlike conventional LEC projects that do not engage a CLT. Residents initiated contact with the CLT in response to a housing crisis; the CLT represented a housing advocacy organization with the ability to help address a threat. In some instances, the residents directly petitioned the CLT to help establish an LEC from the outset; in others, the CLT worked with residents to evaluate their options and arrived at the LEC model.

The motivations for considering conversion to an LEC varied, but the impetus was nearly always housing insecurity, including building foreclosure, eviction, or significant disinvestment by the landlord. For instance, in San Francisco CLT’s (SFCLT) Columbia United project, the LEC model allowed for the preservation of very low rents in a 21-unit building where residents were

fighting eviction and significant rent hikes. In a city where affordable housing is sparse, the CLT applied an LEC model to enable low-income, primarily immigrant households to protect a valuable housing asset.

Alternately, Lopez CLT, located on Washington's Lopez Island, began exploring affordable housing with local residents in a more conventional way, seeking to meet demand with a single-family CLT model. However, few households qualified for individual mortgage financing, despite Lopez CLT's efforts to significantly lower unit costs through sweat-equity construction and subsidies. A local banker provided an alternative, suggesting Lopez CLT initiate an LEC that negated household mortgages with blanket project financing.

Champlain Housing Trust's (CHT) experience with LECs diverged from the resident-initiated approach. Developed primarily in the 1980s and early 1990s, CHT and partner housing advocacy organizations implemented the LEC model in specific projects; theirs were the oldest LECs in the study. As a very early adopter of the CLT-LEC partnership, the majority of CHT's co-ops were small rental properties (fewer than 10 units) in need of substantial investment. CHT purchased the properties, completed the rehabilitation, and helped interested residents form an LEC. In part, the choice to utilize the LEC model was driven by CHT's emphasis on ownership at the time, as well as their partnership with the Champlain Valley Mutual Housing Federation (MHF). CHT supplied the buildings and worked with existing residents, but MHF provided a waiting list of interested residents to occupy LEC projects.

In most of the LECs, the residents' ability to organize and collectively petition the CLT for assistance was critical to the project's success. While the strength (or weakness) of initial tenant organizing was not indicative of long-term capacity, CLTs believed the ability of residents to speak in a unified voice was important and facilitated the transition to collective ownership. Early commitment to self-governance contributed to the conceptual success of the LEC, as well as the CLT's risk assessment. If the LEC's governance breaks down and the corporation dissolves, the CLT would retain property ownership and, thus, be in a landlord position—a fiscal and organizational liability to the CLT.

To mitigate this risk, most of the CLTs included social capacity in the project feasibility analysis. This assessment was especially crucial for smaller buildings, which require a higher degree of resident cooperation to sustain. SFCLT facilitated several early meetings to educate tenants about the LEC model and assess their willingness and capacity to participate in self-governance. Subsequently, SFCLT required a majority tenant interest to proceed with an LEC, including a signed memorandum of understanding (MOU) that outlined the rights and responsibilities of residents during the conversion process. As SFCLT explained, “we have them sign an [MOU] to explain that this is not traditional rental housing... We try to explain what that looks like, which is the challenging component... because it's really hard to convert the psychology from moving from a renter to an owner if you're living in the exact same unit.”

Lopez CLT, the only organization with new-construction LECs in their portfolio, also required significant education for and commitment from potential residents early in the process. As newly constructed projects, residents were not part of a collective community before the LEC was formed. In order to foster commitment and community building, Lopez CLT required future

residents to participate in all stages of project development, from conception through design and construction. Resident commitment included a substantial sweat equity contribution, which strengthened community ownership and decreased construction costs.

Conversely, Northern California CLT (NCLT) found it difficult to build residential commitment. NCLT received ownership of a rental property from another affordable housing organization; they did not, however, wish to be a landlord. Instead, NCLT envisioned working with existing tenants to build interest in an LEC, allowing residents to gain independence and minimizing the CLT's direct involvement. Yet, NCLT was unable to manufacture resident interest and they've remained a landlord. This case further illustrates what the other CLTs have shown: a CLT plays an important role in the development and long-term stability of an LEC, as discussed in subsequent sections of this paper, but success of a co-op often relies on the residents themselves.

Bricks and Mortar: Physical Features of CLT-LEC Projects

Physically, the LECs in this study were diverse. While most LECs consisted of a single, mid-sized multi-family building, there were a number of permutations created by local context and community needs. On Lopez Island, Lopez CLT's LEC projects consist of newly constructed, single-family homes in clustered LEC neighborhoods—unique relative to all other LEC projects explored. Lopez Island is very rural with a limited supply of developable land and, thus, constrained affordable housing options. The environmental sensitivity and rural character of the area foster strict land use and development regulations to limit density. Given these conditions, as well as the preferences of potential LEC residents, Lopez CLT identified clustered, single-family homes, simultaneously constructed on a single parcel, as the most appropriate physical form for their co-ops.

In San Francisco, SFCLT and NCLT rehabilitated existing multi-family buildings, ranging from 10 to 21 units, for their LECs. Before signing on to a project, the CLTs evaluated potential LECs to assess the amount of investment required to restore the building to an acceptable standard, defined as meeting both immediate and long-term needs of residents. The CLTs completed a financial feasibility analysis that weighed projected building acquisition and rehab costs against available housing subsidies, as well as target affordability levels for the project. SFCLT and NCLT also had LEC co-housing projects in their portfolios. While the co-housing projects—buildings with individual sleeping quarters, but shared kitchen and common areas—were unique relative to other LECs in the study, they are a familiar housing vernacular for the Bay Area.

The Cooper Square Mutual Housing Association (Cooper Square MHA) was the largest CLT-LEC hybrid project in the study, consisting of 328 units in 21 scatter-site buildings on Manhattan's Lower East Side. Originally part of the Cooper Square Urban Renewal Area in the 1960s, the Cooper Square MHA buildings were city-owned until the 1990s. At that time, the MHA successfully argued that low-income co-ops often have difficulty managing their buildings over the long-term. Thus, the MHA proposed the city confer ownership to the organization; in turn, the MHA would convey the land to a newly formed CLT and convert the buildings into a scattered-site LEC. This arrangement allowed individual buildings to pool resources, achieving economies of scale for property management and maintenance. While the transition took several years to implement, residents began purchasing shares of the LEC in December 2012.

Dollars and Cents: Affordability Characteristics of CLT-LEC Projects

When it came to affordability, all of the CLT-LEC projects in the study shared a common feature—their affordability realities exceeded their targets. In the majority of cases, the LECs set their income requirements to meet the needs of low-to-moderate income households. Maximum income requirements were generally capped between 80% and 120% of area median income (AMI). In reality, however, the LECs served households far below the maximum income; the average LEC household income fell between 50% and 60% of AMI, and, in the case of Cooper Square MHA in New York City, as low as 30% to 40% of AMI.

Most of the LECs considered existing household assets in the eligibility requirements and mandated potential shareholders be a first time homeowner who would use the unit as their primary residence. The CLT-LEC projects also considered the ratio of monthly LEC fees to monthly shareholder income; qualified households could not dedicate more than 30% to 50% of income towards housing expenditures. Lastly, in many instances the CLTs obtained federal, state, and/or local subsidies for the acquisition and rehabilitation of the LEC project. These subsidies increased the affordability of the project, but also required set income restrictions, although the LEC shareholders often fell below the maximum income standards.

At a granular level, the formula and price of LEC shares varied significantly across interviewed CLTs, as well as individual projects. Cooper Square MHA had the lowest share price at \$500; the share prices for Lopez CLT projects varied between \$2,000 and \$3,000 plus a minimum sweat equity contribution during the construction phase; and SFCLT had the highest share price with a maximum of \$15,000. These differences were rooted in the start-up costs for a project (e.g., building acquisition and rehabilitation costs), the amount of subsidy embedded in the LEC, and the affordability targets set by the CLT and LEC boards. Despite the variation, CLTs reported that households rarely required financing to join the LEC, which addresses the “bankability” problem for low-income households. In the event a qualified household required financial assistance to purchase a co-op share, it was generally handled by short-term lending support from the LEC shareholders themselves or a CLT internal revolving loan fund.

Beyond the initial share price, LEC residents paid monthly fees to cover recurring expenses, such as building debt service (if applicable), property management expenses, utilities (if pro-rated across the building), taxes and applicable CLT ground lease fees. All CLTs required LECs to dedicate a portion of their monthly fees to a building reserve fund, used for long-term property expenses (e.g., roof replacement, new boiler) and emergencies. In each of the studied LECs, monthly fees were significantly lower than market rents in their respective cities, ranging from \$350 to \$1000 per month. CLTs determined per unit monthly expenses with a formula based on unit size (square footage), building age and repair needs, property management program (i.e., fully self-managed, partially self-managed, fully outsourced to a third party property management company), and desired reserve fund size.

Lastly, LEC resale formulas sought to maintain the permanent affordability of shares—a critical component of shared equity models. The design and implementation of resale formulas varied between the CLTs, while remaining consistent across LECs within a CLT. In some cases, the

resale calculation was based on a fee-simple appreciation tied to the length of shareholder ownership; in others, the appreciation was contingent upon the consumer price index (CPI) or the change in AMI. While CLTs were divergent in their approach, all resale formulas permitted outgoing LEC shareholders to realize a modest return on their investment, while ensuring permanent affordability for incoming shareholders. The resale formula was applied to the initial share price paid by the household, plus any board-approved upgrades to the unit.

Role of the CLT: Assessing Project Feasibility

Previous sections explored the structure of LEC projects and their housing contribution to CLT portfolios. The interviews highlighted some ways LECs respond to inherent “weaknesses” in the CLT model, including addressing “bankability” challenges and extending ownership opportunities to lower income households. The remaining sections of the paper consider the role of the CLT, addressing how and what they lend to the LEC model. Further, these exploratory findings highlight the mutually beneficial aspects of the CLT-LEC hybrid project.

The overarching role of the CLT in an LEC was to provide technical assistance and ongoing support. These contributions were particularly evident during project inception, as the physical and organizational aspects of the LEC took shape. CLTs characterized an LEC’s conceptual development and construction phases as lengthy; it can take as many as three years before an LEC is fully occupied and shares are available for purchase. An LEC’s project development and implementation phases also require a high level of capacity—financially, legally, and organizationally. Since projects often grew out of informal tenant organizations, the CLTs felt their technical support and expertise were critical to a successful LEC conversion.

As small scale affordable housing developers in their own right, the CLTs were often better equipped to conduct feasibility analyses, calculating the physical and financial viability of the project and ensuring sufficient commitment to the LEC model. While the degree of professionalization varied, nearly all of the CLTs had specific feasibility tools designed to evaluate potential LECs. As self-organized tenant or housing advocacy groups approached the CLT with a project, they often conducted a three-point feasibility assessment of its physical, financial, and social attributes.

CLTs believed on of their most important roles in early project development pertained to financing. The CLTs in the study were established non-profits with professional staff; they were also experienced developers, managing project budgets, obtaining financing, and securing subsidies to reduce costs. For LEC projects, the CLTs often leveraged their own resources to procure blanket financing on behalf of the LEC corporation. Owing to established relationships, CLTs were frequently in a position to educate lenders about LEC ownership structures and provide assurances about the project feasibility. The presence of the CLT as an experienced “back stop,” covering the LEC in the event of financial difficulty and buffering the bank, significantly improved the project’s economic viability. Subsequently, the CLT either transferred the blanket mortgage to the LEC upon sale of co-op shares or retained the mortgage and passed the debt service through as part of monthly LEC fees.

Despite the critical importance of financing in project development, CLTs reported that it fell within their organizational purview and, thus, was not considered a primary obstacle for an LEC project. As previously discussed, interviewees indicated that physical and financial assessments were only a part of the puzzle; social feasibility was the essential piece to a successful LEC. As one executive director phrased it: “Any developer can do the financial feasibility—it’s just running the numbers... Don’t underestimate the social feasibility.” Ultimately, cultivating strong shareholder commitment at inception was the most critical priority for the success of the project.

Role of the CLT: Governance & Participation

As conveyed in the literature review, a primary tenet of LECs is democratic, participatory governance. During interviews, CLTs emphasized their role in fostering autonomy within their LECs, characterizing the CLT as a technical resource and advisor. CLTs described their job as supporting LEC members, while allowing for a high degree of independence; the CLT was not—and did not want to become—a landlord.

CLTs primarily focused their efforts on providing administrative assistance (e.g., processing applications, verifying income qualifications), technical assistance (e.g., navigating co-op legislation, assisting with budget development), and training to LEC residents. Several CLT activities supported leadership development and resident education. In some instances, the CLT served as an advisor, particularly to the LEC governing board with respect to budgets and rent increases. The phrase “boards are frugal” repeatedly emerged from CLT interviews, referencing the tendency of boards to focus on the short-term benefits of low rents instead of the long-term financial health of the LEC. To that end, CLTs functioned as fiscal counselors for LEC boards, often preparing an initial draft of the budget and advising boards to see the long-term “forest” through the short-term “trees.” Lastly, due to their sustained involvement, CLTs provided an institutional memory for LECs, documenting the decision-making and investment history of the community. This was particularly valuable during leadership transitions between the original residents and more recent shareholders.

While CLTs largely described themselves as supporting actors in LEC governance, they also cited their ability—and, sometimes, the necessity—to intervene in conflicts. In the event of internal disputes, the CLT served as a mediator, typically at the request of LEC residents; as a neutral party, the CLT attempted to help shareholders come to their own resolution. CLTs also reserved the right to intervene more directly when issues threatened the health of the overall project; this right was expressly documented in the CLT’s ground lease with the LEC. For instance, one LEC was in violation of a fire code. After several attempts by the fire marshal to resolve the issue with the LEC directly, the CLT intervened to ensure the problem was resolved and the building was brought into compliance.

Role of the CLT: Stewardship

Interviewees consistently characterized the CLT as an ongoing steward for LECs. CLT stewardship focused on three aspects of an LEC and was strongly rooted in the ethos of shared equity homeownership more generally. First, CLTs aspired to be social stewards, supporting and empowering LEC residents through good times and bad. As one interviewee described, LECs are

one of the best examples of “democracy in action” and the CLT’s purpose was to support that endeavor. CLTs expressed the need to facilitate social events for LEC shareholders and “celebrate the victories” as part of their stewardship responsibilities. LECs demand a consistently high degree of commitment and work from residents; in turn, CLTs felt it was important to call attention to an LEC’s community building efforts outside of shareholder’s day-to-day responsibilities.

Second, CLTs viewed themselves as mission stewards, ensuring that LECs retained their permanent affordability controls and upheld co-op corporation by-laws. Through the CLT’s ground lease with an LEC, the project was insulated from market appreciation and shareholders were protected from sudden rent spikes or evictions. As the LEC experienced shareholder turnover, the CLT retained project subsidies on behalf of future residents.

Third, CLTs positioned themselves as fiscal stewards, serving as silent financial partners and a “back stop” in order to leverage project subsidies and financing. Fiscal stewardship also meant that CLTs did not over-leverage themselves; the CLTs expressed a responsibility to themselves and their members to guarantee that LECs did not become a liability for the larger organization. To that end, CLTs engaged in careful evaluation of potential LEC projects, often choosing not to pursue a partnership with tenant groups or buildings that did not pass a feasibility analysis.

Last, as a partner and property owner, CLTs executed ground or master leases that clearly outlined the rights and responsibilities of the LEC and CLT. The CLTs did not characterize themselves as unconditional cheerleaders for LEC projects. The CLT-LEC projects represented a business relationship and, as such, the legal responsibilities had to be well documented at project inception. As one interviewee stated, a CLT had to “maintain a culture of respect” with an LEC, which meant setting conditions and limits for each party.

Conclusion

The five case studies explored by this paper highlight an innovative means of extending the reach of shared equity homeownership. Driven by necessity, pragmatism, or both, each CLT adapted their organizational framework to accommodate co-op projects, while remaining true to their shared equity principles. The CLT-LEC partnerships responded to the individual financing and affordability challenges of CLTs, while providing the stewardship, technical assistance, and financial support that LECs require for long-term success.

The universe of CLT-LEC hybrid projects, however, is very small and the scope of this study is limited to a handful of CLTs scattered across the country. As discussed previously, this can be partially attributed to the novelty associated with CLT and/or LEC models, as well as limited resources. However, each organization interviewed had more than one LEC in its portfolio and, with the exception of one CLT, none had converted an LEC back to a rental property. Future research should consider the scalability of CLT-LEC projects, both within a single CLT portfolio and in different markets across the country.

One lesson to draw from the case studies relates to the flexibility of the shared equity model. None of CLTs studied required extensive modification to incorporate LECs into their portfolios. The basic tenets of shared equity homeownership remained at the center of hybrid projects, minimizing the demand for additional expertise or changes to a CLT's organizational mission. The cases suggest that, for existing CLTs, the emphasis is not on conceptualizing a new model of housing, but on developing a protocol for assessing the feasibility of potential LEC projects. This includes establishing a mechanism for determining the social feasibility of the LEC, recalling that CLT interviewees perceived resident-initiated projects to have the greatest chance of success. CLTs also emphasize the need to assess potential CLT-LEC partnerships from a financial perspective. The fiscal evaluation should flow in both directions, ensuring the LEC is capable of being financially independent from the CLT and confirming the CLT has sufficient resources to prevent the LEC from becoming a financial liability in tough times.

The cases also highlight the importance of a formal partnership between a CLT and an LEC. This process includes navigating state legislation to establish the cooperative corporation, in addition to adopting an enforceable ground or master lease. As CLT interviewees intimated, the legal CLT-LEC framework further clarifies the relationship between the two parties and, in the worst-case scenario, facilitates the CLT intervening if the LEC project is ever at risk.

This study provides a glimpse into a nascent form of shared equity homeownership. It illustrates how individual CLTs have innovated in response to demands for affordable, stable housing by incorporating an alternate form of shared equity homeownership into their portfolios. On a larger scale, these five case studies suggest a potential pathway to maximize the strengths of shared equity strategies and respond to a full spectrum of affordable housing need.

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Limited Equity Co-ops by Community Land Trusts

This report was produced in 2013 by the National Community Land Trust Network, one of two organizations that merged in 2016 to create Grounded Solutions Network.

The report uses case studies to assess the feasibility of models that combine community land trusts and limited equity co-ops.



LIMITED EQUITY COOPS BY COMMUNITY LAND TRUSTS

Case Studies and a Feasibility Assessment for the Hybrid Model



Prepared by: Meagan Ehlenz, AICP

A National Community Land Trust Network Report

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Solar panels at Common Ground, an LEC project by Lopez Community Land Trust (Lopez Island, WA)

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Introduction

The impetus for this report came from a group of CLT practitioners who came together to talk about their experiences with limited equity coops (LEC) at the 2011 National CLT Network (Network) conference in Seattle. The meeting illustrated the need to explore the types of CLT-LEC projects that have been developed, as well as the benefits and costs associated with them, in order to help the future development and success of LECs developed and stewarded by CLTs. In response, the Network partnered with the author to conduct research and produce a report.

Why might CLTs consider incorporating LECs into their affordable housing mission and real estate portfolios? CLT homes are frequently single-family houses and require the homeowner to obtain individual mortgage financing. Thus, the bankability of a household can represent a major barrier to homeownership for many families. This is particularly true following the burst of the housing bubble in 2008, as banks tightened underwriting standards and restricted credit access.

LECs offer an alternative form of homeownership that is able to leverage the CLT's organizational and stewardship capacity. Through a collective ownership model, the CLT is able to provide a blanket mortgage for the LEC project, eliminating the need for households to qualify for individual mortgages. While there are several advantages, which are reviewed in the case studies, the key benefit of this hybrid model is that a CLT may enable owner-occupied, resident-controlled tenure for "unbankable" households through LECs.

This report includes a tool for evaluating the feasibility of future CLT-LEC projects and five case studies of U.S. CLTs with one or more LECs. The information presented in the report was gathered from a short survey, followed by in-depth interviews with practitioners. The selected CLT programs (see Figure 1) present several different approaches to LEC development and stewardship.

Figure 1. Map of CLT Case Studies

The CLT case studies include five CLT programs with 15 CLT-LEC projects and nearly 500 units



Feasibility Assessment for Limited Equity Cooperative (LECs) Projects by Community Land Trusts (CLTs)

Considerations	Importance
PHYSICAL	
<p><i>How much rehab will be required?</i></p> <p>Due to affordability considerations, the level of rehab needed in a project affects the income-level. CLTs should:</p>	<ol style="list-style-type: none">1) Mind the affordability gap. Rehab costs impact unit affordability for residents. The CLT should evaluate existing and desired rent levels for the LEC based upon affordability and marketability, and then assess the amount that can be spent on rehabilitation of the building(s). If the required rehab budget increases rents beyond the desired level, additional resources for rehab will be necessary (e.g., subsidies, forgivable loans) to fill the gap. If additional resources are not available, the CLT should critically consider whether adequate rehab is possible to ensure the long-term success of the LEC or whether the project is not feasible. As a rule of thumb, San Francisco CLT budgets no more than 20-25% of the building's value for upgrades and rehabilitation.2) Prioritize long-term durability. Rehab should be high quality and minimize maintenance and operation costs over time. Investment in the building should focus on long-term success.
<p><i>What is the site and building configuration?</i></p> <p>The layout of an existing site and building has implications for marketability and stability. CLTs should:</p>	<ol style="list-style-type: none">1) Address the present and future needs. The unit mix of an existing building (or planned mix for new construction) impacts the types of households who will live in the project. The CLT should assess the affordable housing needs of the local community in the present and future. This assessment should guide the evaluation of potential projects. For example, Champlain Housing Trust found its former downtown LEC attracted transient, short-term residents due to its smaller units and location. They found family-sized units were a better match for local housing demand and fostered more stable LECs with long-term residents.2) Design for location, access, and amenities. Project location and amenities are important pieces of the evaluation process. The desired project features and accessibility are context-sensitive and should respond to local housing demand. The CLT should evaluate the needs of the project's target population, including (but not limited to) access to: transit and/or parking, shopping (i.e., grocery) and services, and open spaces.3) Strive for economies of scale. The number of units in a LEC is important to long-term stability. Most CLTs recommend a minimum of 15-20 units to promote success. Larger projects achieve an economy of scale with more households sharing the collective responsibility for governance and management, which minimizes risk for the CLT and residents. Conversely, smaller projects (fewer than 10 units) place greater responsibility on each household, weakening the long-term stability of the LEC. Large-scale projects (50+ units) have greater economies of scale for financial and property management, although collective governance can be diluted.

Feasibility Assessment for Limited Equity Cooperative (LECs) Projects by Community Land Trusts (CLTs)

Considerations	Importance
FINANCIAL	
<p data-bbox="149 488 554 516"><i>What subsidies are available?</i></p> <p data-bbox="149 558 531 675">Subsidies can help fill the affordability gap but restrict income eligibility of residents. CLTs should:</p>	<ol style="list-style-type: none"> <li data-bbox="617 315 1948 464">1) Identify project-based subsidies. The CLT should explore a range of subsidies for LEC projects, such as housing trust funds, silent loans from the municipality, HUD-SHOP forgivable loans, and/or CLT or CDFI loan funds. In some cases, subsidies may dictate resident eligibility requirements for a portion or all of a project. Most often, subsidy requirements will restrict the income qualifications to a percentage of Area Median Income (AMI). The CLT should consider how subsidy restrictions may impact project feasibility and marketability. <li data-bbox="617 485 1923 602">2) Identify resident subsidies and/or loans. Sometimes residents need assistance to purchase a LEC share. The CLT can help residents with the initial purchase price in a number of ways, including: identifying city programs that provide subsidies for coop shares, establishing a CLT revolving loan fund, or helping the LEC set up an “in-house” financial arrangement. <li data-bbox="617 623 1934 837">3) Be open to a different housing model. In some cases, available subsidies support a different model of housing than the CLT initially plans. For instance, Northern California Land Trust (NCLT) pursued a LEC model for their Mariposa Grove project until they identified down payment subsidies for condos, which made the project more affordable for residents. A flexible project evaluation process allowed NCLT to take advantage of available funding sources and maintain their affordability goals, despite changing the project from a LEC to a condominium. They structured equity accumulation and resident governance into the condo to meet their mission.
<p data-bbox="149 940 546 1000"><i>What permanent financing is available?</i></p> <p data-bbox="149 1042 579 1130">Effectively structuring permanent financing is critical for the success of a CLT-LEC project. CLTs should:</p>	<ol style="list-style-type: none"> <li data-bbox="617 912 1938 972">1) financing a project. The CLT should discuss project financing with lenders that are familiar with the CLT mission and purpose of the LEC project, including those lenders that have been involved in previous CLT projects. <li data-bbox="617 993 1940 1143">2) Consider who will hold the permanent financing. Debt service arrangements between a CLT and LEC can be established in a number of ways. For example, the CLT can retain the mortgage and pay the debt service through LEC fees; alternatively, the mortgage can be transferred to the LEC after the formation of the LEC corporation. The CLT should work with the lender and LEC to agree on the long-term debt-holder early in the process, as it will influence the underwriting and closing process.

Feasibility Assessment for Limited Equity Cooperative (LECs) Projects by Community Land Trusts (CLTs)

Considerations

Importance

SOCIAL

Who is championing the CLT-LEC project?

The momentum for CLT-LEC projects can come from a variety of actors, including CLT members, affordable housing and coop advocates, and the future LEC residents. The initial source and level of interest can impact how a CLT approaches building a LEC community. CLTs should:

- 1) **Leverage existing social capacity and commitment to the project.** LEC projects require a high level of resident commitment and cooperation to succeed. As a result, the most successful LECs often begin with existing tenant groups that contact the CLT to pursue a collective ownership model. The CLT should evaluate the interest and social capacity of existing tenant groups and, if possible, build upon their momentum.
- 2) **Educate prospective residents and require engagement from the beginning.** It can be challenging to build resident commitment and collective governance structures from scratch. When the CLT or a housing advocacy organization, rather than the prospective LEC tenants, are the initial driver of a LEC project, there are a number of strategies to build collective commitment. The CLT should consider the following:
 - Extensive education and mandatory participation at the beginning of the planning process
 - Initiation of a memorandum of understanding between the CLT and prospective residents
 - Mandatory sweat equity requirements as part of the coop share price
 - Partnerships with housing advocacy organizations to identify residents interested in coop models

What is the CLT's exit strategy?

The CLT-LEC model represents a partnership between the CLT and the LEC. It is important for both parties to have a clear understanding of their rights and responsibilities from the beginning. CLTs should:

- 1) **Have a Plan B, followed by Plans C and D.** The transition of a project to a LEC can often take several years. The CLT owns the LEC project in the early phases. The CLT manages the project typically as a rental property until the LEC corporation is formed and ownership is transferred to the LEC. Due to the long timeline, the CLT must consider all of the possible obstacles and develop potential contingency plans for various milestones. Questions to consider include: Can the CLT afford to own/manage a rental property if the project fails to transition to a LEC? Does owning rental property conflict with the CLT's mission? As the fiscal steward, how will the CLT respond to the LEC in the event of a financial crisis?
- 2) **Establish a business-like relationship with the LEC.** CLTs are strong stewards for LEC projects and are often a source of unconditional support. However, CLTs should establish a clear business relationship with the LEC corporation. The CLT should empower the LEC to be responsible for the project and grant the corporation decision-making authority. However, the CLT also carries final responsibility for the health of the project through the ground lease. Therefore, the CLT should clearly enumerate the expectations, responsibilities, and repercussions for both organizations at the beginning of the project.

What is the CLT's ongoing role?

As a steward, the CLT will have an ongoing role in the LEC. CLTs should:

- 1) **Train the LEC for success.** Even tenant-initiated LEC projects need a high level of up front support and training to succeed. The CLT should plan for an active stewardship role in the early stages of a LEC project. The CLT's stewardship role may include: general education of prospective residents, development of key documents (e.g., new member applications, LEC bylaws) and protocols (e.g., interview process, property management), and leadership development and administrative training (e.g., financial planning and budget development).
- 2) **Be prepared to intervene.** While the LEC is empowered to govern and manage the project, the CLT should be prepared to advise and/or intervene in an emergency. The CLT should clearly outline the circumstances that may lead to an intervention, as well as the protocol that will be followed. Circumstances that may warrant intervention by the CLT include: member disputes and/or violations that cannot be resolved by the LEC, the inability/unwillingness of the LEC board to actively govern the project, or the failure of the LEC to comply with the project bylaws and/or groundlease.

CLT Portfolio

Type	Units
Total Units	41
Limited Equity Coop (LEC) Units	37
Homeownership Units	0
Rental Units	2
Commercial Spaces	2



Quote

“This model just works really well for us – there is a scale of economy. We have created five different coops and the culture that is developing between the cooperatives helps everyone operate more effectively. Someone would really have to convince me to employ a different ownership model because this works so well.”

- Sandy Bishop,
 Executive Director

When the Lopez Community Land Trust (CLT) began in 1989, Lopez Island – located off the coast of Washington State, was experiencing an affordability crisis. After studying a variety of affordable housing models, the group settled on the CLT model as a means of “withstanding this sort of freight-train like, rapid price increase that we’re all being hit with.” However, in planning for their first project – a 7-unit, single-family development in 1992, the CLT ran into a financial challenge. Despite lowering unit costs through sweat-equity construction and subsidy contributions, the selected families were unable to qualify for bank financing to purchase the homes. A local banker suggested the CLT consider establishing a cooperative for the development, which allowed the CLT to obtain blanket financing for the project and did not require families to be qualified individually.

Since the first project, Lopez CLT has found that focusing their resources on limited equity cooperatives (LEC), instead of the traditional CLT model, allows them to: (1) offer affordable housing to a broader spectrum of the population, including those who don’t qualify for financing on their own; and (2) direct their organizational capacity towards supporting the coops, growing their affordable housing portfolio, and doing innovative projects – like community agriculture and renewable energy. While, a traditional CLT model would have demanded another staff position and limited the mission of the organization, Lopez CLT found coops offered an economy of scale and allowed them to put their energies elsewhere.

LEC Projects

Name	Units	Type	Year Completed
Morgantown Coop	7	New Construction	1992
		Single-family development	
Coho Coop	7	New Construction	1995
		Single-family development	
Innisfree Coop	8	New Construction	2003
		Single-family development	
Project Highlight:	Passive solar, rain catchment systems		
Common Ground Coop	11	New Construction	2009
		Single-family development	
Project Highlight:	Net-zero energy*, dual water systems		
Tierra Verde	4	New Construction	2012
		Single-family development	
Project Highlight:	Net-zero energy		

* Net-zero energy: Not using more energy than is manufactured on-site.

LEC Composition

All Projects

Composition

Unit Types	Mix of 1, 2, and 3 bedrooms
Unit Sizes	Range: 500-1300 square feet Average: 850 square feet
Household Income	Eligibility range: 36-120% of AMI Average served: less than 50% of the AMI % of monthly income spent on housing: 15-38% (includes utilities)
Resident Mix	Seniors, singles, families with and without children; five ethnic groups represented

Produced by Meagan Ehlenz
 Supported by National Community Land Trust Network
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LEC Costs: Share Prices, Monthly Fees, & Income Requirements

Lopez CLT's LEC units are targeted at a maximum of 120% area median income (AMI). However, the CLT's goal is to reach households at 50% AMI and the average household served is at approximately 36% AMI. Due to the low threshold to entry, few residents require financing to purchase a LEC share and, for those that need assistance, Lopez has a revolving loan fund.

Initial shareholders are required to participate in the conceptualization and construction of the LEC, earning sweat-equity in the process. Not only does this help reduce construction costs and keep share prices low, but it also ensures households are invested in their coop community. As Lopez says "they have to show up, they

have to watch, they have to look at what's going on, they have to be involved, and they have to work with people – it's a requirement and offers huge long-term benefits."

While monthly prices are higher in the most recent LEC projects (Common Ground and Tierra Verde), shareholders also receive some real benefits. In addition to more spacious homes, the Common Ground and Tierra Verde neighborhoods are both net-zero energy developments. Using passive and active solar, and green development techniques, these properties offset their energy needs. As a result, the households substantially reduce their operating costs and even create a revenue stream, in the form of annual rebates from the state and local utilities and excess energy sold back to the utility company.

Monthly Resident Costs (per LEC unit)		
Name	Type	Amount
Morgantown Coop	Ground Lease Fee*	\$50
	Reserve Fund Fee*	\$25-30
	Maintenance Fee*	\$25-30
	PITI*	\$180
	Total*	\$310-320
Coho Coop	Ground Lease Fee	\$55
	Reserve Fund Fee	\$25-30
	Maintenance Fee	\$25-30
	PITI	\$250
	Total	\$355-365
Innisfree Coop	Ground Lease Fee	\$45
	Reserve Fund Fee	\$25-30
	Maintenance Fee	\$25-30
	PITI	\$350
	Total	\$445-455
Common Ground Coop	Ground Lease Fee	\$60
	Reserve Fund Fee	\$25-30
	Maintenance Fee	\$25-30
	PITI	\$640
	Total	\$750-760
Tierra Verde	Ground Lease Fee	\$65
	Reserve Fund Fee	\$25-30
	Maintenance Fee	\$25-30
	PITI	\$600
	Total	\$715-725

Purchase & Resale	
Initial Share Price	Initial Share Price = \$5,000 - \$10,000* <ul style="list-style-type: none"> Cash: \$2,000 - \$3,000 Sweat Equity: 24-36 hours/week through construction period (valued at \$3,000-\$7,000) <i>Half of sweat equity must be completed by shareholder. Family and friends may contribute to remainder.</i>
Formula for Resale Share Price	Resale Share Price* = Initial Share Price (\$5 - \$10,000) + 3-5% simple interest/year (not compounded) <i>The CLT operates two revolving loan funds (valued at \$60,000 and \$472,000), which provide financing for share purchases. Loan terms are 5-20 years at 1-5% interest.</i>

*Price range is based upon the coop project and unit size



Common Ground LEC, Lopez Community Land Trust (Lopez Island, WA)

***Definitions**

Ground Lease Fee: Fee paid to CLT; increases by 15% every 10th year.

Reserve Fund Fee: Long-term reserves for major repairs/rehabilitation of common areas and coop buildings (e.g. window replacement, roof replacement)

Maintenance Fee: Short-term reserves for annual repairs of common areas and coop buildings (e.g. fencing, siding repair, landscaping and grounds maintenance)

PITI: Payment includes principal, interest, taxes, and insurance

Total: Total monthly payment does not exceed 30-35% of monthly income

LEC Financing: *Where did the money come from?*

Lopez CLT decided to explore LECs at the recommendation of their lender. Many of the households that needed affordable housing were not considered bankable and were not able to qualify for financing individually. However, with the backing of an established organization, a lending institution was willing to provide the financing to complete Lopez's first LEC project in 1992.

While Washington Mutual – the bank that initially suggested Lopez look at coops, no longer exists, the CLT has since built a relationship with a local institution (Islanders Bank). This relationship has been critical to the development of subsequent projects, as Islanders understands the mission of Lopez and is educated about the coop structure. While many banks are “afraid of Lopez,” Islanders Bank has come to feel protected by Lopez and its LEC projects – if an individual household runs into a problem, the coop is there as a backstop; and if the coop runs into trouble, Lopez is another fiscal backstop.

“Once Islanders Bank understood the model, guess what? They want our business because we are so stable.”



Innisfree LEC, Lopez Community Land Trust (Lopez Island, WA)
 Residents help build their future homes as part of their sweat equity requirement.

The Financing Details

Morgantown Financing (1992)

Type	Amount	Source
Subsidy	\$373,000	Grants Contributions
Permanent Financing	\$110,000	Washington Mutual Bank
Rehab/Construction/ Gap Financing	\$110,000	Washington Mutual Bank

Coho Financing (1995)

Type	Amount	Source
Subsidy	\$115,684	Grants Contributions
Permanent Financing	\$499,700 (1%)	WA Community Trade and Economic Development: Housing Trust Fund (WA HTF)
Rehab/Construction/ Gap Financing	\$499,700	WA HTF

Innisfree Financing (2003)

Type	Amount	Source
Subsidy	\$631,885	Grants Contributions
Permanent Financing	\$664,115	WA HTF Islanders Bank
Rehab/Construction/ Gap Financing	\$80,000	HUD-SHOP Forgiveable Loan
	\$192,650	Islanders Bank

Common Ground Financing (2009)

Type	Amount	Source
Subsidy	\$1,415,000	Grants Contributions
Permanent Financing	\$1,010,000	Islanders Bank
	\$75,000 (3%)	LCLT Revolving Loan Fund
Rehab/Construction/ Gap Financing	\$150,000	HUD-SHOP Forgiveable Loan
	\$1,085,000	Islanders Bank LCLT Revolving Loan Fund

Tierra Verde Financing (2012)

Type	Amount	Source
Subsidy	\$484,500	Grants Contributions
Permanent Financing	\$320,000	Islanders Bank LCLT Revolving Loan Fund
Rehab/Construction/ Gap Financing	\$60,000	HUD-SHOP Forgiveable Loan
	\$320,000	Islanders Bank LCLT Revolving Loan Fund

*Produced by Meagan Ehlenz
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Project Development & Management

Located on a small, rural island, Lopez CLT is one of the only affordable housing developers in the area. Since there are no local partners, the CLT plays the primary role in driving the LEC development process.

Project Initiation. Projects are initiated based on community need and interest – when Lopez CLT has a core group of interested applicants, they will begin a 12-18 month participation process to identify community preferences and develop detailed designs. Residents are selected pre-construction and are involved in the decision-making process from start to finish.

Development Feasibility.

Development opportunities are limited on Lopez Island, so the CLT also instigates a detailed site search and evaluation. This includes a search for available properties that are located within the urban growth boundary, as well as an evaluation of infrastructure needs, land title issues, etc. To date, all of Lopez’s projects have been new construction, single-family developments.

Financing. Lopez CLT also takes the lead in financing, identifying subsidies for the project, securing blanket financing for the project, and applying funds from the CLT’s revolving loan funds, where necessary.

Management & Maintenance. Lopez’s LECs are self-managed with the CLT providing technical assistance and intervening as required. Households are responsible for repairs inside their units, while the LEC maintains the exterior and common spaces. However, the LECs are frugal and Lopez will often see members repairing things out of pocket, preserving the reserve funds.

LEC Management	
Common Spaces	Self-managed by LEC
Units – Exterior	Self-managed by LEC
Units – Interior	Maintained by shareholder
Technical Assistance	Provided by CLT, paid by ground lease

CLT Stewardship & Resident Governance

Lopez CLT views its stewardship role as one of empowerment. While the LEC is bound to the CLT through a ground lease, Lopez does not wish to be in a landlord position – it is not a good use of their resources, but, more importantly, it goes against the purpose of the cooperative model. Therefore, Lopez CLT operates as a “by-request” resource for its LEC projects.

During the initial phase of the project, as the LEC is established, Lopez CLT makes a significant investment in training. This includes financial planning development

for the LEC, as well as leadership training for the coop board. As a result of the CLT’s upfront stewardship investment, the LECs are generally self-sufficient.

Once the LECs are established, Lopez CLT’s role is primarily as a technical advisor. The CLT plays a major role in processing new member applications, such as conducting income eligibility verifications and credit history checks. Lopez CLT will also provide support and answer questions, as needed.

When there is a major problem, the CLT will intervene, but avoids using a heavy-handed approach. Instead, the CLT asks questions, reminds the LEC of the expectations in the ground lease, and allows them to make an independent decision about their course of action.

LCLT is in its 24th year and is undertaking a process of evaluation of all governance issues to better fine tune the LCLT-LEC relationship.

	Physical	Social	Financial
Education	<ul style="list-style-type: none"> Home building (through sweat equity requirement) 	<ul style="list-style-type: none"> Initial LEC development & training Board development Pre-purchase interview & education about LEC 	<ul style="list-style-type: none"> Homeowner training classes Budgeting and long-term financial planning
Monitoring & Enforcement	<ul style="list-style-type: none"> Intervention as required (e.g., insurance violations) 	<ul style="list-style-type: none"> Initial applicant interview Technical advisor to LEC during new member selection 	<ul style="list-style-type: none"> Applicant eligibility – income verification, credit history Resale formula and process
Participation & Mediation	<ul style="list-style-type: none"> Initial sweat-equity requirement Ongoing maintenance – as determined by LEC 	<ul style="list-style-type: none"> Board meetings – monthly (CLT is not on the board) Annual meeting – required for all members Problem-solving and targeted training, as needed Ongoing technical assistance 	

CLT Portfolio

Type	Units
Total Units	32
Limited Equity Coop (LEC) Units	21
Resident-Operated Non-Profit Units	10
Rental Units	0
Commercial Spaces	1



The San Francisco Community Land Trust (SFCLT) was originally founded as a collaborative network in 2001, striving to establish a network of CLTs across San Francisco to meet affordable housing needs. In 2003, the organization shifted its focus and became a singular CLT for the community. In 2005, SFCLT began working with the Asian Law Caucus to save a threatened rental property in Chinatown. This led to the development of SFCLT’s first limited equity cooperative (LEC) project – Columbus United Cooperative, a rental conversion and rehabilitation project. Since the development of its first project, SFCLT has explored an alternative to the LEC model with a resident-operated non-profit rental project, the Purple House Cooperative. SFCLT has found that LECs can be more costly to develop and operate with fewer benefits in CA than resident-operated rental properties. A resident-operated non-profit allows the property to take advantage of tax exemptions available to rentals.

Both projects were resident-initiated, where tenants requested support from the CLT. In response, SFCLT conducted an in-depth evaluation of the project and elected to acquire the site and establish a partnership with the residents.

Through its experience, SFCLT has become a resource for a number of other CLTs in the area, as well as several other long-standing cooperatives in San Francisco. Many of these cooperatives, established in the 1960s and 1970s, did not have a support system or management plan to ensure long-term sustainability. As a result, many were struggling with a paucity of reserve funds, deferred maintenance, and inadequate social capacity. In addition to stewarding the land and supporting the two projects in its CLT portfolio, SFCLT has stepped in as a technical advisor to these long-standing coops.

LEC Projects

Name	Units	Type	Year Completed
Columbus United Cooperative	21	Rehabilitation	2011
		Multi-family LEC	<i>Coop eligible to sell shares</i>
Purple House Cooperative	10	Rehabilitation	2012
		Multi-family, co-housing rental	<i>Formation of non-profit</i>
Project Highlight:	Resident-Operated Non-Profit		

What is a resident-operated non-profit?

A resident-operated non-profit is similar in function to a traditional cooperative. However, instead of forming a cooperative corporation, residents are part of a non-profit corporation. The building is operated as a rental property by the non-profit. Households do not purchase shares, but pay a security deposit, which functions as their stake in the property. SFCLT is currently exploring options to allow residents to realize financial returns when they move out

LEC Composition

All Projects

Composition

Unit Types	Primarily 1- and 2-bedrooms; a few 3- and 4-bedroom units
Unit Sizes	Range: Average:
Household Income	Eligibility range: Up to 120% of AMI CLT Mission: Up to 50% of AMI <i>As subsidies allow</i> % of monthly income spent on housing: Up to 30% of AMI

*Produced by Meagan Ehlenz
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LEC Costs: Share Prices, Monthly Fees, & Income Requirements

SFCLT has acquired existing buildings and worked with tenants to convert them into an alternative ownership structure – either an LEC or a resident-operated non-profit rental property. As such, SFCLT does an assessment of the existing rent levels and works with residents from that starting point. SFCLT sets its maximum monthly payments at no more than 30% of the target AMI for the unit. For example, if the unit is intended to serve households at 50% of the AMI, or \$36,000, then the maximum monthly rent is \$760. In no case is the target monthly payment greater than the 30% threshold. However, in some instances, rent levels are

substantially below that level, so SFCLT will work with existing residents to try and increase the monthly fees incrementally without burdening the household. When a more heavily subsidized unit becomes available, SFCLT readjusts the monthly payment to reflect the target amount.

As new households apply to the coop, SFCLT looks for first time homebuyers. While the CLT does not evaluate credit histories as part of the application process, the CLT does require rental references. Further, SFCLT requires credit counseling for incoming members prior to purchasing a share (or contributing a deposit for a non-profit rental unit).

Monthly Resident Costs (per LEC unit)		
Name	Type	Amount
Columbus United Cooperative	Ground Lease Fee*	\$25-50
	Operating Reserve*	\$25
	Replacement Reserve*	\$40-50
	Property Management Fee	\$70-100
	Training Fee*	\$8-10
	PITI*	
Totals		
	1-bedroom	\$700
	2-bedroom	\$900
Purple House Cooperative	Ground Lease Fee	\$25-50
	Operating Reserve	\$25
	Replaceent Reserve	\$40-50
	Property Mangement Fee	\$70-100
	Training Fee	\$8-10
	PITI	
Total		

Purchase & Resale	
Initial Share Price	Initial Share Price = \$1,000 - \$15,000*
	<ul style="list-style-type: none"> • <u>Columbus United Cooperative</u>: maximum of \$15,000 • <u>Purple House Cooperative</u>: \$1,000 security deposit
Formula for Resale Share Price	<ul style="list-style-type: none"> • <u>Columbus United Cooperative</u>: <ul style="list-style-type: none"> - First 12 months = 3% flat increase - Subsequent months = increase is tied to area consumer price index (CPI) * Note: Resident improvements are <u>not</u> considered in resale formula. • <u>Purple House Cooperative</u>: <ul style="list-style-type: none"> - Currently exploring options through CA State Laws - Preference is to tie any increases to CPI

*Price range is based upon the coop project and unit size

***Definitions**

Ground Lease Fee: Fee paid to CLT. The amount varies based upon the amount of public subsidy involved in the project – more public subsidy requires different compliance measures and, therefore, increase administration and monitoring by the CLT.

Operating Reserve: An operating (or vacancy) reserve equal to the building’s projected vacancy. Intended to cover annual expenses and a cushion for unexpected expenses.

Replacement Reserve: Long-term reserves for major repairs/rehabilitation of common areas and buildings (e.g. window replacement, roof replacement)

Property Management Fee: Property management fees vary based on the size of the units and the property.

Training Fee: SFCLT wants residents to value training and have the knowledge to manage their coop. As such, they ask their coops to pay at least \$100/person annually for training. This is in addition to the free training SFCLT provides for the first 3-years, which is funded by a grant.

PITI: Payment includes principal, interest, taxes, and insurance



LEC Financing: *Where did the money come from?*

As Tracy Parent, SFCLT Executive Director, says, “We are very fortunate in San Francisco that we have a very progressive housing department and we were able to secure financing through our local housing department, our primary subsidy for our projects.” While the process can be time consuming and, more recently, the funding for subsidies have been more difficult to obtain, the local funding source has made a significant difference to the financial feasibility of SFCLT’s acquisition and rehab projects.

The programmatic and financial support of the city, as well as the stewardship provided by the CLT, were pivotal to recruit sources of additional project financing, particularly permanent financing. However, the residents also played a critical role. The willingness of residents to contribute significant upfront equity (from \$10,000 to \$15,000 in the Columbus United project) showed lenders that occupants had a significant financial stake in the project.

Community development financial institutions (CDFIs) were key partners enabling the success of these projects. The social missions of these CDFIs matched the mission of SFCLT, which made the underwriting process easier to navigate.

Lastly, SFCLT is exploring a variety of ways to fill the gap between the amount of the first mortgage (often provided by a CDFI) and the funding necessary to make the project affordable. While San Francisco’s housing department is a great partner, the public subsidies take a long time to secure, and adequate private funding for subsidies is difficult to fundraise. Alternatively, the CLT has considered serving some households at higher income brackets (e.g., 120% of the AMI) and selling shares at higher prices (e.g., \$25,000) in order to offset the costs of other more affordable units. At this point, SFCLT has not enacted this strategy and continues to serve predominantly lower-income households. Thus the constraints of public funding drive most of SFCLT’s projects.

The Financing Details

Columbus United Cooperative (2011)

Type	Amount	Source
		Residents
Equity	\$500,000	Non-profit commercial partner
Subsidy (Gap)	\$4,500,000	City of San Francisco, silent loan Affordable Housing Program
Permanent Financing	\$1,500,000	Low Income Investment Fund
Rehab/Construction	\$6,500,000	Various

Purple House Cooperative (2012)

Type	Amount	Source
Subsidy	\$0	
Permanent Financing	\$700,000	Clearinghouse CDFI
	\$920,000	Various
Rehab/Construction	\$400,000	City of San Francisco, future
Gap Financing	\$220,000	Private investors, short-term bridge loans



Project Development & Management

SFCLT uses a detailed evaluation process to determine the feasibility of a project. To date, they have evaluated five properties for possible partnership and conversion to a LEC or resident-operated non-profit, excluding their existing projects. In all cases, a resident-group initiated the conversation and analysis by the CLT. Two of these analyses have resulted in possible projects that are being considered; three projects were found to be infeasible.

SFCLT's evaluation consists of three components:

1. Physical Property

- * What is the format of the units? Multi-family, townhouse, etc. For example, Single-room occupancy (SRO) would be considered undesirable.

- * What is the quality of the building? Does it have good "bones"? How much rehabilitation would it require?
 - SFCLT goal is to allow for rehab/upgrades up to 20-25% of the building's value.

2. Financial Feasibility

- * How many units?
- * What is the affordable rent (as percentage of AMI) and potential income?
 - How much debt can the property hold? How much gap financing will be required?

3. Social Capacity

- * Are residents educated about LECs and CLTs?
 - SFCLT requires residents to attend several

- education/training meetings and sign a memorandum of understanding early in the process.
- * Is there majority resident buy-in prior to CLT acquisition?
 - SFCLT requires 100% agreement from residents in small sites (15 units or fewer)
 - SFCLT requires majority (80% or more) buy-in from residents of larger sites.
- * Are the majority of residents shareholders?
 - SFCLT requires at least 50% plus one of units purchase shares at the time of coop formation.
 - An exception is made for disabled and elderly residents, who have the option of becoming lifetime leaseholders.

CLT Stewardship & Resident Governance

For SFCLT, member engagement is one of the most critical parts of a successful LEC. Their projects are designed to foster personal accountability on behalf of the LEC members, while providing unconditional support and technical assistance. Through their experiences, SFCLT has learned that master leases may be more useful tool than ground leases for their projects. A master lease and detailed management plan provides the CLT with an exit strategy. In the event the LEC is not willing or able to meet the requirements laid out in the contract, the master lease allows the CLT to take over the budget and remedy the problem.

The chart below identifies key stewardship activities performed by SFCLT:

	Physical	Social	Financial
Education		<ul style="list-style-type: none"> • Memorandum of understanding between residents and CLT – documentation of expectations and responsibilities • Initial LEC development & training 	<ul style="list-style-type: none"> • Pre-purchase education (8 hr minimum required) • Technical assistance (budgeting) • Asset development education
Monitoring & Enforcement	<ul style="list-style-type: none"> • Management plan – ongoing plan of expectations for coop, role of CLT, and scope for property management • Intervention as required (e.g., management plan violations) 	<ul style="list-style-type: none"> • Initial applicant interview • Technical advisor to LEC during new member selection • Problem-solving assistance • Ongoing education 	<ul style="list-style-type: none"> • Applicant eligibility – income verification, credit history • Resale formula and process
Participation & Mediation		<ul style="list-style-type: none"> • Technical assistance provided to LEC's governing bodies, including: <ul style="list-style-type: none"> ○ LEC Board ○ Committees (finance, maintenance, new member, social/education) • Ongoing leadership development • Targeted workshops and training, as needed • "Recognition" and community-building events – recognize major milestones • Inclusion of LEC in annual CLT membership meeting 	

CLT Portfolio

Type	Units
Total Units	80
Limited Equity Coop (LEC) Units	19
Condo Units	18
Single-family Homeownership	1
Rental Units	42
Commercial Spaces	5



Community activists founded the Northern California Land Trust (NCLT) in 1973 as a volunteer organization. In the 1990s, NCLT brought on a professional staff and shifted its focus towards the development affordable housing in the Bay Area. NCLT conducts affordable housing advocacy in addition to maintaining a portfolio of rental, condo, single-family, cooperative, and commercial properties. Additionally, NCLT is a technical resource for local housing organizations and resident groups, providing training and support to establish affordable housing projects or programs.

Within its diverse portfolio, NCLT has two limited equity cooperative (LEC) projects. NCLT assesses projects on a case-by-case basis, but sees real value in the affordability of the LEC model. LECs do not require individual financing, yet allow residents to take on the responsibility of ownership and building management. This is a plus for NCLT, as being a landlord for rental properties requires significantly more resources from the organization.

For both LEC projects, resident groups approached NCLT to form a partnership and convert their buildings into LECs. According to Ian Winters, NCLT's Executive Director: "The projects that have been successful have a resident group that was already formed and functioning at a high level. That also helps make things more financially feasible." Some of NCLT's rental projects have not converted to LECs because they didn't have the high level of resident capacity.

NCLT also found that the amount and types of available funding significantly impacts their affordable housing projects. For example, Mariposa Grove is a 6-unit project that was initially incorporated as a LEC, but transitioned to a condominium project due to funding constraints and residents' desire to allow limited appreciation of equity. At the time, access to blanket mortgages was limited, however NCLT identified multiple state and local subsidies with down payment assistance for affordable condos (not coops). NCLT made a decision to convert the building to condos to access subsidies and complete the project.

LEC Projects

Name	Units	Type	Year Completed
Addison Courts	10	Rehabilitation	
		Multi-family	
Fairview House	9	Rehabilitation	
		Multi-family	
<i>Project Highlight:</i>	Shared living cooperative		

What is a shared living cooperative?

Fairview House is organized in a single-room occupancy configuration in two houses. There are private bedrooms and shared living spaces, common areas, and a kitchen.

LEC Composition

All Projects

Composition

Unit Types	Primarily studios and 1-bedrooms
Unit Sizes	Range: Average:
Household Income	Eligibility range: 35% to 70% of AMI <i>Eligibility varies per project and is subject to the requirements attached to funding sources.</i>

Quote

"A resident group with some sort meaningful group identity is extremely important. The architecture of the building and the site is very important too. There needs to be some meaningful, used common spaces."

- Ian Winters,
Executive Director

LEC Costs: Share Prices, Monthly Fees, & Income Requirements

The income requirements for NCLT’s LEC projects are variable and tied to the various the funding sources embedded in the development. As a result, a project might allow one household at 70% of AMI, three households at 60% of AMI, and the remainder at 50% of AMI.

NCLT and the LEC projects both consider credit histories during their review of applications. They alert the LEC to potential problems or fraudulent application reporting.

NCLT has made a significant effort to keep share prices and down payments affordable to promote access for lower income households. Few incoming households

have needed financing to purchase a share in the LEC.

In the rare case that a selected applicant cannot afford the upfront share price, the LECs have independently worked to provide short-term assistance to the household. In these instances, the LEC essentially provides a source of internal financing to the incoming shareholder. In some cases, the outgoing member will agree to be paid for his/her share in installments, which gives the new member time to pay for the share. In other instances, the LEC will collectively decide to pay the outgoing member the full resale price and will allow the new member to make installment payments to the coop corporation as a whole for the LEC share.

Monthly Resident Costs (per LEC unit)		
Name	Type	Amount
Addison Courts	Ground Lease Fee*	\$25-35
	Operating Reserve*	
	Replacement Reserve*	
	PITI*	
	Totals	\$500-800
Fairview House	Ground Lease Fee	\$25-35
	Operating Reserve	
	Replaceent Reserve	
	PITI	
	Total	

***Definitions**

Ground Lease Fee: Fee paid to CLT.

Operating Reserve: An operating (or vacancy) reserve equal to the building’s projected vacancy. Intended to cover annual expenses and a cushion for unexpected expenses.

Replacement Reserve: Long-term reserves for major repairs/rehabilitation of common areas and coop buildings (e.g. window replacement, roof replacement)

PITI: Payment includes principal, interest, taxes, and insurance

Purchase & Resale	
Initial Share Price	Initial Share Price = \$1,300 - \$5,000* <ul style="list-style-type: none"> • <u>Addison Courts:</u> \$5,000 • <u>Fairview House:</u> \$1,300
Formula for Resale Share Price	Resale Formula = Initial Share Price x Change in AMI + Any board-approved improvements

*Price range is based upon the coop project and unit size



LEC Financing: *Where did the money come from?*

When it comes to taking on a project, establishing clear and explicit outcomes is critical for the success and sustainability of the CLT and the LEC. As Winters explains, “having a very explicit end goal that means ‘people are really, truly on their own’ is extremely important. Otherwise it’s very muddy. Projects are sort of on their own, but residents don’t technically own the building.” NCLT’s preference has been to identify permanent financing that can ultimately be assumed by the LEC, as opposed to being held by the CLT and paid for through the ground lease fees. In both of the LEC projects, the acquisition mortgages were secured by the CLT for the project. However, once the cooperative corporation was established and the project completed, the title was transferred to the LEC and the corporation assumed the existing mortgage. While Winters acknowledges that long-term, fixed-rate assumable mortgages for LECs can be difficult to find, he still thinks LECs are a worthy endeavor.

For the most part, NCLT has found that small local lenders have been receptive to financing LEC projects. Local banks tend to understand NCLT’s affordable housing mission and are open to underwriting the loans as LEC projects from the beginning, while larger institutions have expressed greater resistance.

NCLT has also found it is more difficult to finance smaller cooperative projects. Their existing LEC projects, both with 10 or fewer units, are too small for many co-owning organizations, such as the National Cooperative Bank (NCB). Winters believes it may be easier to access financing for larger cooperative projects – perhaps 20-30 units with a more reliable income stream and larger loan amounts.

Lastly, NCLT emphasizes the need to plan for every possible scenario as a project is being evaluated and financing is being pursued. Having a clear partnership agreement between the CLT and the resident group makes the expectations clear, so when things get rocky, both parties understand the options and have an exit strategy. For example, NCLT has taken ownership of a few rental properties with the intention of converting them to LECs. However, the lack of organization amongst residents and/or lack of commitment to the LEC model have stalled the conversion process. For the foreseeable future, these projects will remain rental properties, which means that NCLT is a landlord. Winters emphasizes that a CLT must be prepared for that possibility at the outset. The CLT must do the math and ensure the organization can handle the expense and time commitment of the project if it cannot successfully convert to a LEC, whether it’s a short-term delay or permanent reality.

The Financing Details

Addison Court (Year)

Type	Amount	Source
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Subsidy (Gap)

Permanent Financing	\$200,000	City of Berkley Housing Trust Fund
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Rehab/Construction

Fairview House (Year)

Type	Amount	Source
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Subsidy (Gap)

Permanent Financing	\$100,000	City of Berkley Housing Trust Fund
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Rehab/Construction

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Quote

“In terms of financing, the essential role of the land trust has been securing or helping to secure the blanket mortgage. We’ve been able to act as the interim title holder [before the coop assumes the mortgage]. The reality is that it’s a messy, slow moving process and having an organization that’s able to provide some support and stability is pretty important.”

- Ian Winters,
Executive Director

Project Development & Management

NCLT has found the conversion of a building into a LEC to be a long process. In some cases, the articles of incorporation have been filed 5 to 6 years in advance of project completion, which NCLT defines as the transfer of shares to members and the building to the cooperative corporation. Slow progress has been caused by two key factors:

- **Financing:** Financing can be difficult to find for LEC projects. In some instances, the difficulty of identifying financing has lengthened the project timeline. In other cases, it has led to the CLT reconsidering the housing model based on available financing. For example, limited financing and subsidy for LEC projects resulted in the conversion of Mariposa Grove to a condo project.
- **Resident Organization:** The ability of residents to collectively organize

and effectively pursue common goals are critical for a successful LEC project. When a group is able to maintain capacity from the outset, the project is able to more easily transition to a LEC corporation and withstand delays in the process. Conversely, NCLT has found it extremely challenging to develop group capacity and skills from scratch, particularly in smaller projects that require a high degree of cooperation for successful self-management (e.g., less than 40-50 units).

Management & Maintenance. NCLT's LECs are self-managed and the CLT provides technical assistance. Households are responsible for interior repairs and board-approved upgrades. The LEC maintains the

exterior and common spaces. Interestingly, NCLT has found its LECs to be surprisingly frugal and willing to initiate monthly fee increases. Conversely, NCLT's condo projects have required much greater budget intervention. NCLT attributes this to the culture of its LECs, which are more community-oriented and have a longer-term perspective. The LECs actively set aside reserve funds and strive to do self-repairs whenever possible.

LEC Management	
Common Spaces & Building Exterior	Resident-managed
Units - Interior	Maintained by shareholder
Technical Assistance	Provided by CLT; paid by ground lease

CLT Stewardship & Resident Governance

NCLT believes the critical contribution they make to their LECs is providing a long-term perspective on housing management and operations. The LECs are often focused on the short-term needs of the building, but the CLT can be looking 20 years into the future and helping the LEC plan for its long-term sustainability. In some cases this involves assessing the

long-term management needs of the project; in others, it involves helping the LEC transition between leaders and keeping their community stable as households move out and new members move in. Further, NCLT serves as the institutional memory for the LEC. When a major transition happens within the LEC, the CLT has

the documentation to train new leaders and introduce some continuity to the process. On average, residents stay in NCLT's LEC project for 7-9 years, so the CLT's ability to retain knowledge over that time has been very useful to the health of the LECs.

The chart below identifies some of the key stewardship activities performed by the CLT:

Physical	Social	Financial
Education	<ul style="list-style-type: none"> • Initial LEC development and training • Leadership development (ongoing) 	<ul style="list-style-type: none"> • Coordinate initial financing agreements and training with LEC
Monitoring & Enforcement	<ul style="list-style-type: none"> • New member application: advertising, processing • Development of new member selection process; ongoing training for LEC new member selection committee 	<ul style="list-style-type: none"> • Applications: Income verification and initial review • Ongoing budget review and support • Technical advisor, as needed
Participation & Mediation	<ul style="list-style-type: none"> • Support during leadership transitions • Ongoing resource and record keeper (the "institutional memory") • Ongoing technical support 	

