Limited Equity Co-ops by Community Land Trusts

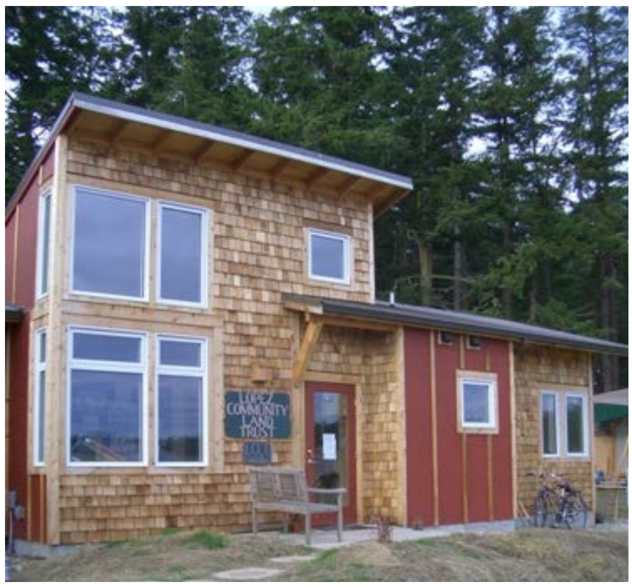
This report was produced in 2013 by the National Community Land Trust Network, one of two organizations that merged in 2016 to create Grounded Solutions Network.

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

GROUNDED SOLUTIONS NETWORK
strong communities from the ground up

LIMITED EQUITY COOPS BY COMMUNITY LAND TRUSTS

Case Studies and a Feasibility Assessment for the Hybrid Model



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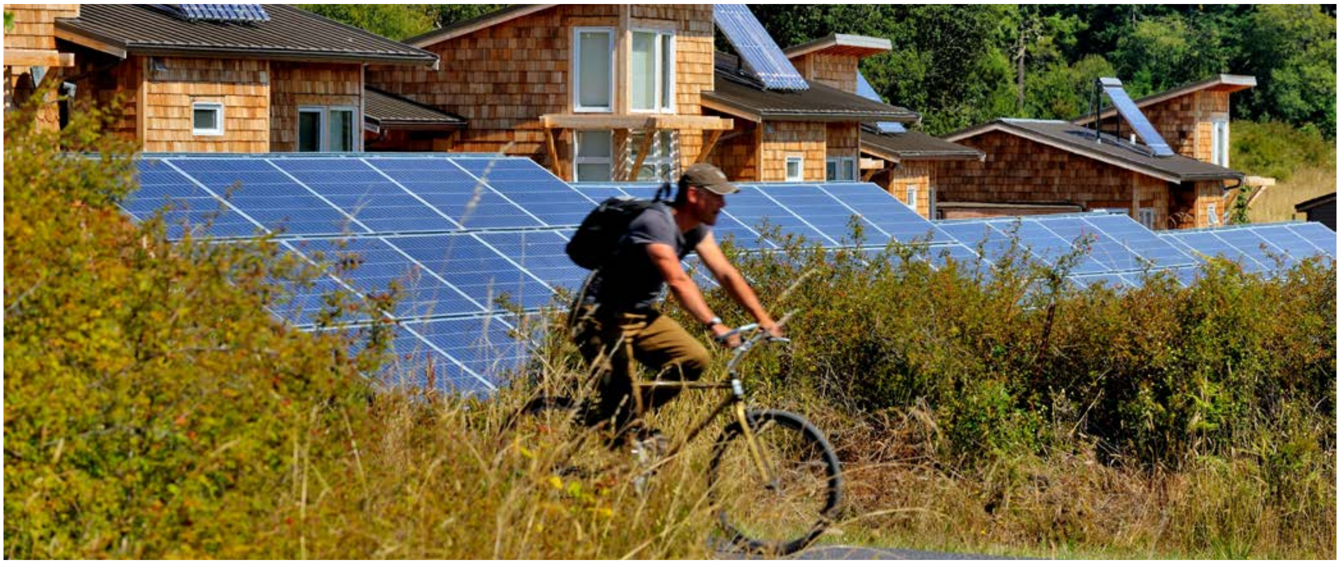
national CLT network



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

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Introduction

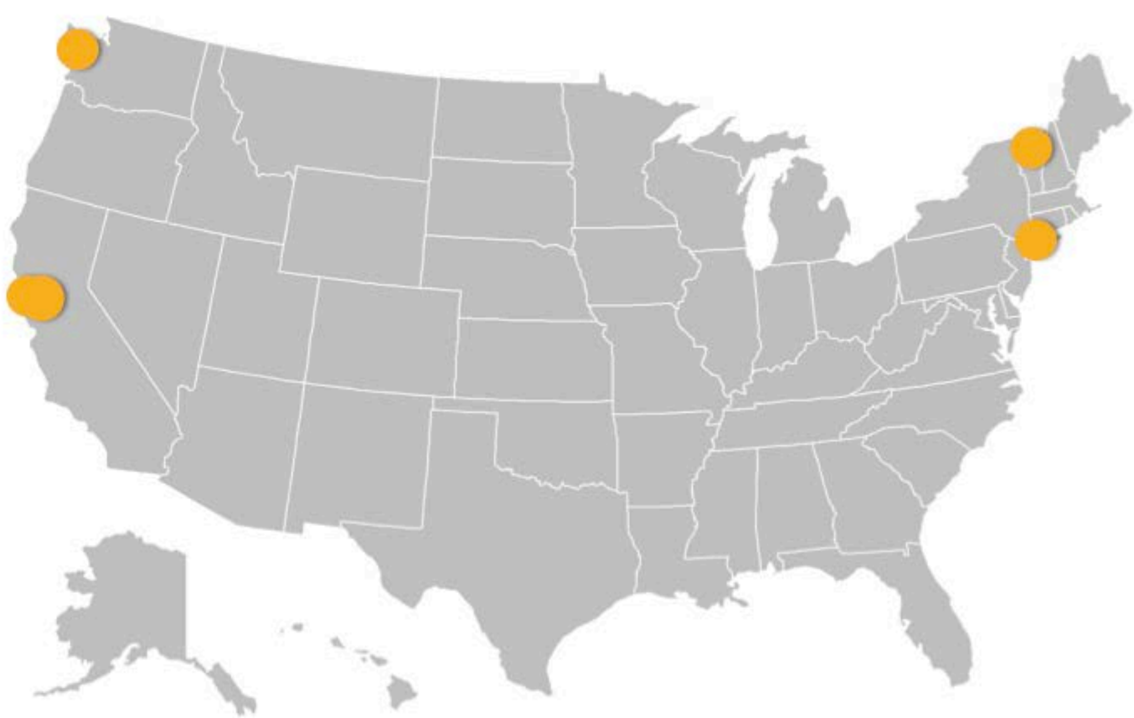
The impetus for this report came from a group of CLT practitioners who came together to talk about their experiences with limited equity coops (LEC) at the 2011 National CLT Network (Network) conference in Seattle. The meeting illustrated the need to explore the types of CLT-LEC projects that have been 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	
How much rehab will be required? **Due to affordability considerations, the level of rehab needed in a project affects the income-level. CLTs should:**	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.
What is the site and building configuration? **The layout of an existing site and building has implications for marketability and stability. CLTs should:**	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.

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

Considerations	Importance
FINANCIAL	
What subsidies are available? **Subsidies can help fill the affordability gap but restrict income eligibility of residents. CLTs should:**	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. 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. 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.
What permanent financing is available? **Effectively structuring permanent financing is critical for the success of a CLT-LEC project. CLTs should:**	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. 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.

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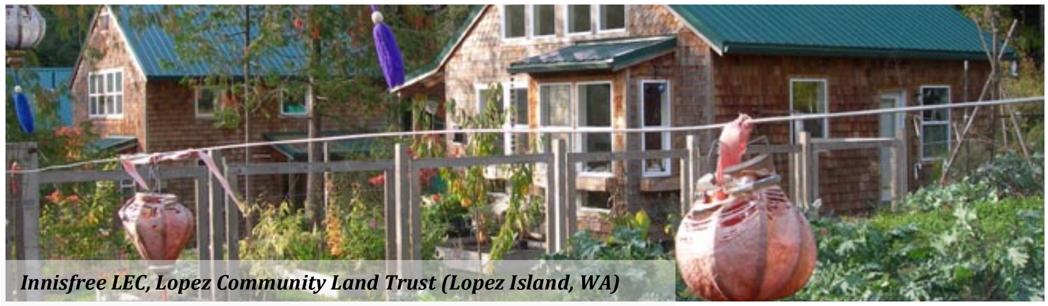
Feasibility Assessment for Limited Equity Cooperative (LECs) Projects by Community Land Trusts (CLTs)

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: o Extensive education and mandatory participation at the beginning of the planning process o Initiation of a memorandum of understanding between the CLT and prospective residents o Mandatory sweat equity requirements as part of the coop share price o 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



Innisfree LEC, Lopez Community Land Trust (Lopez Island, WA)

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

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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***

***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)

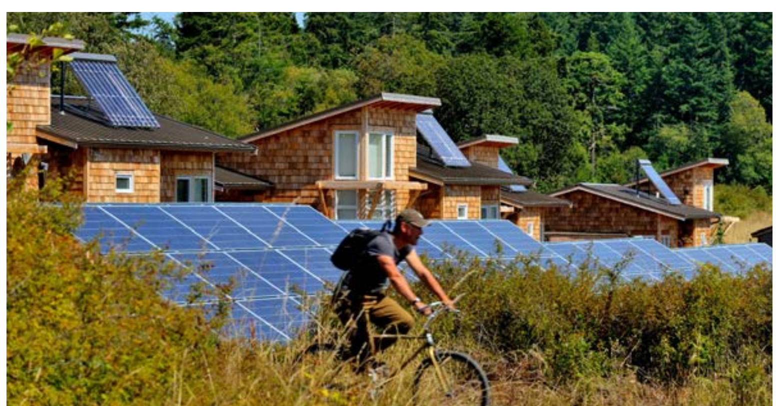
PITI: Payment includes principal, interest, taxes, and insurance

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

Purchase & Resale

Initial Share Price	**Initial Share Price = $5,000 - $10,000*** • Cash: $2,000 - $3,000 • Sweat Equity: 24-36 hours/week through construction period (valued at $3,000-$7,000) *Half of sweat equity must be completed by shareholder. Family and friends may contribute to remainder.*
Formula for Resale Share Price	**Resale Share Price* =** Initial Share Price ($5 - $10,000) **+** 3-5% simple interest/year (not compounded) *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.*

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



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

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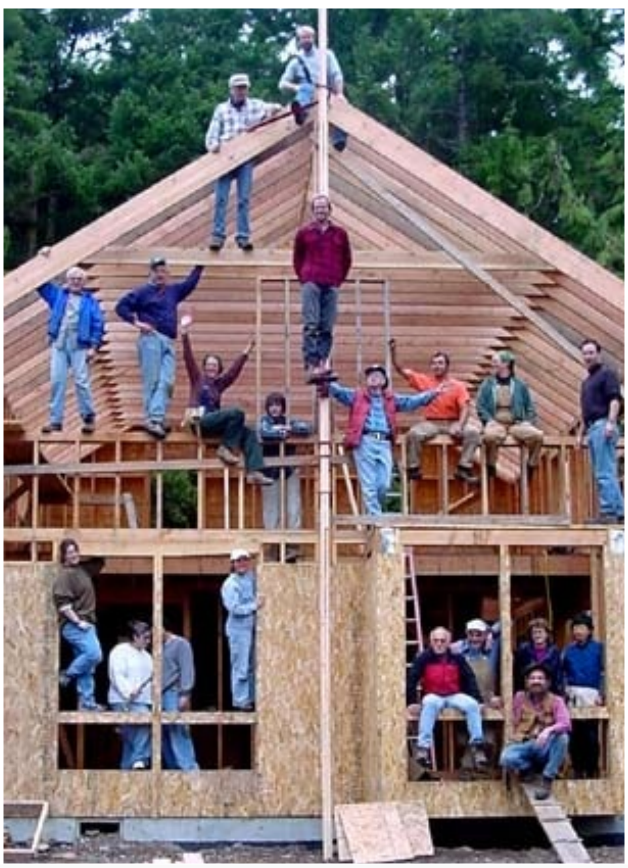
LEC Financing: *Where did the money come from?*

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 $192,650	HUD-SHOP Forgiveable Loan Islanders Bank

Common Ground Financing (2009)

Type	Amount	Source
Subsidy	$1,415,000	Grants Contributions
Permanent Financing	$1,010,000 $75,000 (3%)	Islanders Bank LCLT Revolving Loan Fund
Rehab/Construction/ Gap Financing	$150,000 $1,085,000	HUD-SHOP Forgiveable Loan 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 $320,000	HUD-SHOP Forgiveable Loan Islanders Bank LCLT Revolving Loan Fund

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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	• Home building (through sweat equity requirement)	• Initial LEC development & training • Board development • Pre-purchase interview & education about LEC	• Homeowner training classes • Budgeting and long-term financial planning
Monitoring & Enforcement	• Intervention as required (e.g., insurance violations)	• Initial applicant interview • Technical advisor to LEC during new member selection	• Applicant eligibility – income verification, credit history • Resale formula and process
Participation & Mediation	• Initial sweat-equity requirement • Ongoing maintenance – as determined by LEC	• 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	

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San Francisco Community Land Trust:

Limited Equity Cooperative Projects

San Francisco, California

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 Multi-family LEC	2011 *Coop eligible to sell shares*
Purple House Cooperative	10	Rehabilitation Multi-family, co-housing rental	2012 *Formation of non-profit*
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 *As subsidies allow* % of monthly income spent on housing: Up to 30% of AMI

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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	

***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.

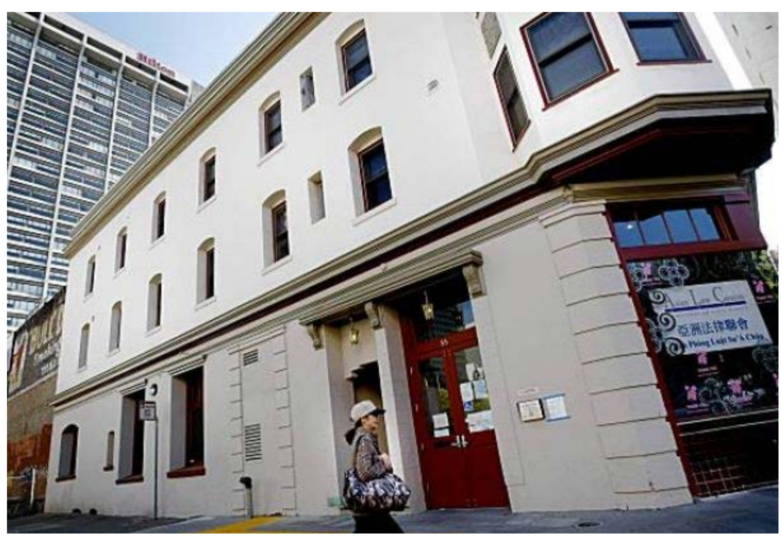
Training Fee: SFCLT wants residents to value training and have the knowledge to manage their coop. As such, they ask their coops to pay at least $100/person annually for training. This is in addition to the free training SFCLT provides for the first 3-years, which is funded by a grant.

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

Purchase & Resale

Initial Share Price	**Initial Share Price = $1,000 - $15,000*** • Columbus United Cooperative: maximum of $15,000 • Purple House Cooperative: $1,000 security deposit
Formula for Resale Share Price	• Columbus United Cooperative: - First 12 months = 3% flat increase - Subsequent months = increase is tied to area consumer price index (CPI) * Note: Resident improvements are not considered in resale formula. • Purple House Cooperative: - 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



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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
Equity	$500,000	Residents 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
Rehab/Construction	$920,000	Various
	$400,000	City of San Francisco, *future*
Gap Financing	$220,000	Private investors, short-term bridge loans

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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		• Memorandum of understanding between residents and CLT – documentation of expectations and responsibilities • Initial LEC development & training	• Pre-purchase education (8 hr minimum required) • Technical assistance (budgeting) • Asset development education
Monitoring & Enforcement	• Management plan – ongoing plan of expectations for coop, role of CLT, and scope for property management • Intervention as required (e.g., management plan violations)	• Initial applicant interview • Technical advisor to LEC during new member selection • Problem-solving assistance • Ongoing education	• Applicant eligibility – income verification, credit history • Resale formula and process
Participation & Mediation		• Technical assistance provided to LEC's governing bodies, including: o LEC Board o 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	

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Northern California Land Trust:

Limited Equity Cooperative Projects

San Francisco, California

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 NCLTs 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	
Project Highlight:	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 *Eligibility variers per project and is subject to the requirements attached to funding sources.*

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

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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*** • Addison Courts: $5,000 • Fairview House: $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

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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 coop-lending 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
Subsidy (Gap)		
Permanent Financing	$200,000	City of Berkley Housing Trust Fund
Rehab/Construction		

Fairview House (Year)

Type	Amount	Source
Subsidy (Gap)		
Permanent Financing	$100,000	City of Berkley Housing Trust Fund
Rehab/Construction		

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

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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		• Initial LEC development and training • Leadershiping development (ongoing)	• Coordinate initial financing agreements and training with LEC
Monitoring & Enforcement		• New member application: advertising, processing • Development of new member selection process; ongoing training for LEC new member selection committee	• Applications: Income verification and initial review • Ongoing budget review and support • Technical advisor, as needed
Participation & Mediation		• Support during leadership transitions • Ongoing resource and record keeper (the "institutional memory") • Ongoing technical support	

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CLT Portfolio

Type	Units
Total Units	**2,296**
Limited Equity Coop (LEC) Units – Ownership Coop	31
Limited Equity Coop (LEC) Units – Leasing Coop	50
Homeownership Units	515
Rental Units	1700
Commercial Spaces	112,000 sf

Quote

"There is an argument to be made for coops – it just meets a need. It provides a quality of life for some folks that rental housing doesn't."

- Julia Curry,
Coop & Community Organizer

Champlain Housing Trust (CHT) was founded in 1984, originally as two separate organizations – Burlington Community Land Trust (BCLT) and Lake Champlain Housing Development Corporation (LCHDC), respectively focused on expanding affordable homeownership and rental opportunities. In 2006, the organizations merged to form CHT. At present, CHT has five LEC projects in its portfolio: two owner cooperatives and three leasehold cooperatives owned by tax credit partners. All projects have been in CHT's portfolio for at least 15 years.

Using the traditional CLT model, CHT has focused predominantly on developing permanently affordable owner-occupied homes and rental properties. However, they also have used the CLT-LEC hybrid model for LECs in their portfolio. At one point, CHT had as many as 10 coops, however half of them have since disbanded and converted into rental properties. CHT's first coops were scattered site historic rehabilitation projects in the old North End of Burlington. CHT and partner organizations were the impetus for the coop model, rather than the existing residents. The majority of CHT's LEC projects were small (fewer than 10 units) rental properties that needed investment. CHT purchased the properties, completed the rehabilitation, and helped the residents form a cooperative. In part, the cooperative model was driven by the land trust's emphasis on ownership at the time, as well as the partnership and input of the Champlain Valley Mutual Housing Federation (MHF), a local organization fostering cooperatives. CHT supplied the buildings and worked with existing residents, but MHF also provided a waiting list of interested households.

LEC Projects

Name	Units	Type	Year Completed
Flynn Avenue Cooperative Homes	28	New Construction; Multi-family	
Project Highlight:	Townhouse-style apartments, one unrestricted-income unit		
House of Hildegard Cooperative	3	Rehabilitation; Multi-family	
Thelma Maple Cooperative	20	New Construction; Multi-family	
Project Highlight:	Former brownfield site; Tax credit partnership leasing coop		
Queensbury Cooperative	18	New Construction; Duplex development	
Project Highlight:	Tax credit partnership leasing coop; two unrestricted income units		
Rose Street Artists' Cooperative	12	Rehabilitation; Multi-family	
Project Highlight:	Artist gallery; Tax credit partnership leasing coop		

What is a leasing cooperative?
A leasing cooperative functions similarly to a traditional zero-equity cooperative. However, instead of owning the building(s), the coop corporation leases the property from an outside investor. In CHT's circumstance, the outside investor is the tax-credit partnership that was established to access the Low-Income Housing Tax Credit. At resale, CHT's leasing coops adjust the share price in accordance with inflation, allowing the household to come out even.

LEC Composition

All Projects

Composition	
Unit Types	Primarily 2-bedroom units; some 1 and 3-bedroom units
Unit Sizes	Range:
Household Income	Eligibility range: 50% - 80% of AMI *Target income is based upon the source of funding used in the project* % of monthly income spent on housing: Up to 50% of pretax household income*

** Note: A minimum household income requirement is a policy of the LECs, not a regulatory requirement. For each LEC, applicants are presented with a minimum income figure based on unit size.*

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

CHT's LEC projects engage a number of financing and subsidy sources, each with its own eligibility requirements. As such, CHT is the partner charged with verifying and monitoring these requirements. Specifically, CHT has a property manager that works directly with its LEC projects to verify eligibility and provide technical assistance.

The affordability of CHT's LEC units is also informed by the funding attached to the project and often results in mixed-income developments. For example, funding from the Vermont Housing Conservation Board may serve households between 50% and 80% of the AMI. Tax credit projects, on the other hand, may be used for households at or below 60% of the AMI. Additionally, two of the properties have a select number of unrestricted units (one units at Flynn Avenue Coop and two units at Queensbury Coop).

Unlike many other examples, the share prices for CHT's LEC units are not calculated using square footage or number or rooms. The share prices increase only by inflation, keeping them affordable over time. While CHT used to maintain a revolving loan fund for share purchases, it was discontinued a few years ago due to the cost of servicing small loans. However, most incoming households do not need financing to enter the LECs. When financing is required, the LECs have arranged to provide assistance within the corporation. For example, Flynn Avenue coop has offered financing to incoming members, required a minimum $800 down payment and the remainder is paid through installments to the coop. However, House of Hildegard, CHT's smallest LEC with only 3 units and the largest share price ($5,000), is unable to provide any share financing. While vacancies are rare, the most recent incoming member financed the share purchase through a personal loan from a credit union. Thus, CHT finds that maintaining a small LEC over the long term can be difficult for the CLT but also requires a much higher level of commitment from members with respect to time, energy, and finances. It can be a challenge to keep small LECs affordable and there is less access to financing.

Monthly Resident Costs (per LEC unit)

Name	Type	Amount
Flynn Avenue Coop *(1-3 bedrooms)*	Contract for Services*	
	Ground Lease Fee*	
	Reserve Fund Deposit*	
	Maintenance Expenses*	
	Debt Payment & Property Fees*	
	Total	***$708-1,118***
House of Hildegard Coop *(2 bedrooms)*	Contract for Services	
	Ground Lease Fee	
	Reserve Fund Deposit	
	Maintenance Expenses	
	Debt Payment & Property Fees	
	Total	***$675-835***
Thelma Maple Coop *(1-3 bedrooms)*	Contract for Services*	
	Reserve Fund Deposit	
	Maintenance Expenses	
	Partnership Fee*	
	Total	***$411-564***
Queensbury Coop *(2-3 bedrooms)*	Contract for Services	
	Reserve Fund Deposit	
	Maintenance Expenses	
	Partnership Fee	
	Total	***$555-623***
Rose Street Artists' Coop *(studio – 3 bedrooms)*	Contract for Services	
	Reserve Fund Deposit	
	Maintenance Expenses	
	Partnership Fee	
	Total	***$537-799***

***Definitions**

Contract for Services: Fee paid to CLT for services.

Ground Lease Fee: Fee paid to CLT by ownership coops

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

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

Debt Payment & Property Fees: For owner coops, payment including principal and interest on remaining debt, taxes, and insurance

Partnership Fee: For leasehold coops, payment to the tax credit partnership entity, including debt service

Purchase & Resale

Initial Share Price	**Initial Share Price = $600 - $5,000*** • Leasing Coops (Thelma Maple, Queensbury, Rose Street): below $1,000 • Flynn Avenue: $3,200 • House of Hildegard: $5,000
Formula for Resale Share Price	• General resale formula**: - Original purchase price multiplied by inflation* * *Note: Inflation figure originates from an index by the Dept of Labor* • House of Hildegard Resale Formula: - Original purchase price - PLUS credit for the fraction of the principal paid by the shareholder during their tenure (based upon a table of mortgage payments)

*Price range is based upon the LEC project. Tax credit projects started at lower share prices, which only increase with inflation.
**Resale formula applies to all LEC projects except House of Hildegard, which has an independent formula

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

CHT's LEC projects operate in one of two ways, which, has an impact on the financing mechanisms used. The older projects follow the traditional LEC model, where the coop corporation owns the building. The projects include Flynn Avenue Coop and House of Hildegard Coop. These projects were funded with Vermont Housing and Conservation Board (VHCB) funding, HOME funds through the City of Burlington, and Federal Home Loan Bank funding. The VHCB funding is structured as a subsidy with the loan only coming due if the coop does not comply with certain restrictions. In addition to these subsidized funds, the LECs also relied on partner organizations to secure permanent financing – either Champlain Valley Mutual Housing Federation or Lake Champlain Housing Development Corporation. Through these LEC projects, CHT found that a bank was more willing to lend to the LEC via an established partner, rather than lending to the coop directly. Further, this financing came from a local bank with a program for socially responsible lending.

More recently, CHT has leveraged tax credit partnerships for their multi-family projects, which includes the 3 leasing cooperatives in their portfolio and several rental projects. CHT partners with Housing Vermont for its low-income housing tax credit projects, in addition to a tax credit investor as a limited partner; thus, there are three owners in the partnership. The partnership obtains financing for the project, including the tax credits, VHCB funds, HOME funds from the City of Burlington, and Vermont Community Development Program funds through the towns. Ultimately, the partnership owns the building and the LEC corporation leases it from them for the duration of the tax credit partnership (15 years). When the partnership expires, the LEC will work with CHT to decide the course of action. CHT's role is to ensure that the LECs are stable enough to make an informed decision either to: (1) assume the remaining debt on the property and allow the tax credit partnership to expire, or (2) syndicate a new partnership. A LEC may decide to syndicate a new partnership and remain a leasing coop if more investment is needed on the property. Alternatively, one of the LECs recently voted to remain a leasing coop, but to do so under the sole ownership of CHT.

While tax credit projects afford access to financing, CHT has also observed that leasing coops can have a diluted sense of control. The leasing LECs retain control over their costs and are self-managed; however, the partnership has veto-power over budgets and major replacement reserves. At the same time, tax credit partners may step in and preserve the asset if the LEC is in trouble.

The Financing Details

Flynn Avenue Financing (YEAR)

Type	Amount	Source
Subsidy		
Permanent Financing		
Rehab/Construction/ Gap Financing		

House of Hildegard Financing (YEAR)

Type	Amount	Source
Subsidy		
Permanent Financing		
Rehab/Construction/ Gap Financing		

Thelma Maple Financing (YEAR)

Type	Amount	Source
Subsidy		
Permanent Financing		
Rehab/Construction/ Gap Financing		

Queensbury Financing (YEAR)

Type	Amount	Source
Subsidy		
Permanent Financing		
Rehab/Construction/ Gap Financing		

Rose Street Financing (YEAR)

Type	Amount	Source
Subsidy		
Permanent Financing		
Rehab/Construction/ Gap Financing		

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Project Development & Management

As an affordable housing developer with a substantial portfolio, CHT has a somewhat different outlook on the role of LECs within their portfolio. When the LECs projects were initiated, it was due to the interest of other housing advocates – namely the Champlain Valley Mutual Housing Federation. Unlike other CLTs, it was not at the urging of organized tenant groups. Instead, CHT and its partners identified rehab opportunities and, afterwards, found residents interested in the coop model.

While CHT has not developed a LEC project in 15 years (and, in fact, has been dissolving some smaller, less successful coops during that time), they do have a project feasibility assessment they apply to potential LEC projects. CHT's project analysis is primarily based upon physical development characteristics, rather than capacity or community cohesion of residents. First, future projects would need to be at an economy of scale, roughly 20-40 units, to avoid resource challenges experienced by small LECs. Second, the property would need to have a mix of 1, 2, and 3-bedroom units, allowing for a variety of households. In the past, LECs with only studio and 1-bedroom units have been less stable, catering to a more transient population and not accommodating families. Third, the project would need to be a high-quality development and feature amenities that are important to the residents, such as parking and community space. Poor quality rehab conducted in the past has created more expenses and governance challenges for LECs.

Additionally, ongoing and intensive development to build the social capacity of a LEC is vital to success, according to Julia Curry at CHT. However, many problems for resident governance and LEC sustainability can be prevented through rigorous site evaluation and project planning.

Management & Maintenance. CHT's LEC projects are primarily self-managed, although three of the projects have an ongoing project management contract with CHT. As Amy Demetrowitz at CHT points out, there is an ethos of collaboration within the LECs. Residents do a lot of work themselves, which saves them money. However, more than that, they budget very closely and keep a careful eye on their properties. Ultimately, "they have a different mindset from renting."

The LEC is responsible for all maintenance on the interior and exterior of the units. Households are responsible for repairs that are beyond normal wear and tear.

CLT Stewardship & Resident Governance

For a period of time, CHT was in the process of dissolving unsuccessful coops and questioned the amount of organizational resources they were willing to commit to maintenance of a LEC. However, they also have successful LECs that are strong in both physical characteristics and social dynamics. LECs provide an affordable level of autonomy and security of tenure that are distinct from other housing options.

From a social perspective, CHT serves as an advisor to the LEC projects. CHT assists the LECs with technical research and problem solving. One of the most critical roles is educating the LEC membership committees, helping them develop standard interview criteria, training them in Fair Housing laws, and ensuring they develop an effective process for evaluating member applications.

Quote

"It's really tough for a small, 2 or 3 unit coop. Unless you have super motivated people. It has to self-select for super engaged people."

Amy Demetrowitz,
Director of Real Estate Development

The chart below identifies key stewardship activities performed by CHT staff:

	Physical	Social	Financial
Education		• Initial LEC development & training • Ongoing education, as needed (CHT-facilitated and outside experts)	• Pre-purchase education • Technical assistance (budgeting)
Monitoring & Enforcement	• Property management through contract for services •	• New member orientation • Technical advisor to LEC during new member selection • Problem-solving assistance	• Applicant eligibility – income verification, credit history, reference checks • Resale formula and process • Tax-credit compliance
Participation & Mediation	• Ongoing maintenance – as determined by LEC and outside of property management contract	• Committee-specific training – e.g., membership committee training regarding Fair Housing Law, standard interview procedures • Ongoing technical assistance and leadership development	

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Cooper Square Mutual Housing Association:

Limited Equity Cooperative Project

New York, New York

CLT Portfolio

Type	Units
Total Units	**328**
Limited Equity Coop (LEC) Units	328
Homeownership Units	0
Rental Units	0
Commercial Spaces	24

Background: Cooper Square Urban Renewal Area

The Cooper Square Mutual Housing Association (MHA) is a multi-building, scatter-site LEC project, including 328 residential units in 21 buildings. The MHA was established by the Cooper Square Committee in 1991. The Committee originally came together in 1959 to fight neighborhood displacement in the Cooper Square Urban Renewal Area, located on the Lower East Side of Manhattan. In 1971, the Committee succeeded in getting the city to adopt an "Alternate Plan" for the Cooper Square area. However, the plan was only partially realized, as the Committee was only able to secure federal funding for two projects. The Committee began an extensive process of drafting a "Revised Plan," while maintaining full occupancy of the existing buildings within the Cooper Square Area to prevent resident displacement from gentrification. The City would own the buildings within the Cooper Square Area for the next 20 years.

Cooper Square Mutual Housing Association

While the City-owned buildings in Cooper Square remained affordable and fully occupied, they were also in very poor condition. After a series of community meetings and negotiations with the City, the Committee formed the Cooper Square MHA in 1991 under the following agreement: the City would develop mixed-income developments (75% market rate/ 25% low income) on two largely vacant properties along Houston Street; in exchange, sufficient funding would be provided to renovate the existing buildings, which would then be managed by the MHA. While there were existing precedents for the City to renovate multi-family buildings in their portfolio and convert them into individual cooperatives, the Cooper Square MHA pressed for a different solution. The MHA observed that coops owned and operated by low-income households often had difficulty managing their buildings over the long-term. Additionally, there was no true permanent affordability mechanisms built into the traditional coop programs.

Thus, the Cooper Square MHA proposed a unique model: (1) the renovated buildings would be turned over to the MHA, allowing units in 21 buildings to pool their resources and achieve economies of scale; and (2) the land would be conveyed to a CLT incorporated specifically for the Cooper Square MHA properties. A separate board, comprised of six public representatives and three MHA shareholders, would govern the CLT. The role of the CLT is to monitor the MHA's compliance with its mission, regulatory agreements, tenant waiting list, and financial and legal obligations. In the event of a failure to comply, the CLT has the power to mandate the MHA take action and, if the MHA fails to do so, the CLT may remove the board and appoint a temporary board to bring the organization back into compliance. Additionally, as the titleholder for the land, the CLT prevents the unauthorized transfer of apartments.

After a long period of renovations, negotiations, and legal processes, the Cooper Square MHA converted units to a LEC in December 2012. The units are located in 21 buildings – primarily 5-6 story tenement buildings. The initial shares were extended to existing residents for $250. In the future, share prices will be set at $1,800.

The 21 buildings within Cooper Square MHA govern collectively through an elected MHA Board. The 15-member board includes 5 CLT-appointed members and 10 resident-selected members. Additionally, <u>each</u> building elects a Building Captain, who: (1) serves as an initial point of contact for the building's residents; and (2) represents the building in an MHA-wide Building Captain network. This multi-level approach to building management ensures the 328 LEC operates effectively and efficiently.

LEC Projects

Name	Units	Type	Year Completed
Cooper Square Mutual Housing Association	328	Rehabilitation 21 multi-family buildings	2012 *Coop conversion and sale of shares*
Project Highlight:	Mutual Housing Association owns 328 units, located in 21 buildings on the Lower East Side of Manhattan. The buildings were converted to LECs in December 2012.		

LEC Composition

Composition	
Unit Types	Primarily 1- and 2-bedroom units; some studios and 3-bedroom units
Unit Sizes	Examples: • Studio: 300 sf • 1-bedroom: 480 sf • 2-bedroom: 630 sf • 3-bedroom: 1,100 sf
Household Income	Eligibility range: Up to 80% of AMI Goal: Up to 50% of AMI <u>Actual</u>: 30% to 40% of AMI

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

The Cooper Square MHA and CLT continue to keep permanent affordability and displacement prevention at the heart of their mission. Per agreements with the City, the maximum income for residents is 80% of the AMI, but the MHA seeks to serve households at or below 50% of AMI. Currently, their average household has an income between 30-40% of the AMI (the median income of their residents is $16,000).

The MHA has achieved this level of affordability by applying a formula of "economic rent," equal to the amount it takes to maintain the building, plus a slight surplus for reserve funds. In essence, the rents are calculated using the square footage of the unit, which is divided into the "core" areas (e.g., kitchen and bathroom – areas with higher maintenance costs) and "non-core" areas (e.g., living room and bedrooms – areas with lesser maintenance costs). Utilizing this formula (expanded upon in the table below), Cooper Square MHA has been able to preserve affordability, while enabling residents to build modest wealth from proceeds when they sell their shares.

The share prices for the newly converted LEC units are also designed to preserve affordability. The initial share price, offered to existing residents and their families, is $250. After the initial transition period, the share price will become $1,800. Per a negotiated agreement with the City, MHA residents have the option to either buy a share or opt out of the MHA Cooperative, but remain in their unit as a renter under rent stabilization guidelines. As of December 2012, approximately 80% of residents opted to purchase a coop share.

While the share price and current rents are low, some existing residents have required additional financial support. To that end, the MHA has worked with the City to (1) identify an existing grant program that provides up to $2,500 to low-income households for the purchase of a coop share, and (2) secure a commitment for Housing Choice Vouchers for the 30-40 households that require them.

Lastly, 24 commercial storefronts are located within the MHA's buildings. While not all buildings have a ground floor commercial space, all of the units within the MHA collectively benefit from the income stream they generate. The commercial rents help sustain the reserve fund, as well as offset property management costs.

Monthly Resident Costs (per LEC unit)

Name	Type	Amount
Cooper Square MHA	Ground Lease Fee*	$0
	Reserve Fund*	5% of net income
	Property Management Fee*	Varies
	Examples of Monthly Payment Totals*	
	Studio	***$345***
	1-bedroom	***$459***
	2-bedroom	***$522***
	3-bedroom	***$663***

***Definitions**

<u>Ground Lease Fee</u>: Fee paid to CLT. Until the MHA Coop Plan was adopted, the CLT was not set up to fully enforce the ground lease. In the future, a nominal fee to cover administrative expenses will likely be established.

<u>Reserve Fund</u>: The reserve fund is based upon 5% of net income for the MHA with 3% placed in operating reserves and 2% in capital reserves.

<u>Property Management Fee</u>: Instead of charging a fixed management fee, the MHA pays for direct costs.

<u>Totals (Monthly Payment)</u>: Original monthly payment was based on a formula that considered square footage and economic rent. The first 350 sf were charged at $0.95/sf – referred to as the "core area," it includes the most repair-heavy portions of a unit (kitchen and bathroom). For the remaining square footage (considered "non-core" – e.g., living rooms and bedrooms, which generally require less repair) is charged at $0.35/sf. Subsequent increases were set on a percentatge basis. The figures included in the table are examples based upon actual units and sizes.

Purchase & Resale

Initial Share Price	**Initial Share Price:** • <u>Initial Purchase Price (for existing residents)</u>: $250 • <u>Future Purchase Price</u>: $1,800
Formula for Resale Share Price	**Resale Share Price =** • Initial Share Price (either $250 or $1,800) • PLUS an increase based on inflation (Consumer Price Index) • PLUS any board-approved improvements

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Cooper Square Mutual Housing Association:

Limited Equity Cooperative Project

New York, New York

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

Cooper Square MHA represents a unique circumstance with a long history of community organizing, as well as city involvement and negotiation. Originally, the 21 buildings in the MHA were city-owned and managed. Between the mid-1990s and 2008, all of the buildings were renovated by the City and conveyed to the MHA, as a result of advocacy for the urban renewal area in the early 1990s. The renovations were primarily completed through city capital funds and federal HUD/HOPE 2 programs. In other words, the MHA was active in initiating the rehabilitation of buildings, but they were not the fiscal agent.

As a result, Cooper Square MHA did not have to obtain traditional financing or subsidy funding for its LEC project. Instead, they have assumed *enforcement mortgages*; essentially the MHA does not need to repay the loan unless they fall out of compliance with the terms set by the City. At a certain point in the future, the enforcement mortgages will expire and the properties will be relieved of original debt.

Aside from the enforcement mortgages, the MHA also obtained an *Article XI* through the City of New York. Article XI is a 40-year, 100% tax abatement for all of the residential buildings within the MHA on the basis that its residents were low- to very low-income. In exchange for the tax abatement benefits, Article XI requires the MHA to abide by a regulatory agreement, ensuring that existing tenants have the options to: (1) become an owner in the LEC, or (2) opt out of the coop and remain MHA rental tenants under rent stabilization guidelines. When the agreements expire, the CLT ground lease will be the only remaining stipulation on the property, ensuring that the LEC units remain permanently affordable. Incidentally, the CLT ground lease is more restrictive than the regulatory agreements and, thus, it governs during the interim 40-years as well.

CLT Stewardship & Resident Governance

The MHA uses a LEC model to govern, manage, and maintain the 21-building project. The MHA owns the buildings (via the LEC corporation), while the CLT retains ownership of the land through the ground lease. The CLT participates in the MHA's Board of Directors, appointing 5 of the 15 members. The MHA has professional staff that is instrumental in: stewarding and managing the LEC buildings, providing active resident education, and offering ongoing technical assistance to the Board and various committees.

The chart below identifies key stewardship activities performed by MHA staff:

	Physical	Social	Financial
Education		• Targeted training – e.g., tenant selection committee training • New tenant training and orientation • Ongoing education meetings • Future goal: Leadership development and ongoing training	• Development and updates of MHA Cooperative Information Package – share purchase resource
Monitoring & Enforcement	• In-house property management services (interior, exterior, common spaces)	• Initial applicant interview • Occupancy agreement enforcement • Ongoing technical assistance	• Applications: Initial review, income verification, credit and criminal check, home visit. MHA staff provides recommendations to tenant selection committee • MHA budget: Prepared jointly with MHA staff and financial committee with final MHA Board approval
Participation & Mediation		• MHA Board of Directors – 15 members, including 10 shareholders and 5 CLT-appointed, non-resident members • CLT Board of Directors – 9 members, including 6 non-resident members and 3 shareholders • Building Captain network – elected building captain and alternate within each building - Minimum bi-monthly meetings - Ongoing participation in LEC management - "First point of contact" for building residents • Committees – example: finance (budget), commercial (storefront), tenants selection • Membership meetings	

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