Housing is a Human Right: Building Affordability through Community Ownership

Limited-Equity Housing Cooperatives

December 8th, 2016
Andy Reicher and Alex Roesch
Questions for the day
first half:

GROUP DISCUSSION/ACTIVITY #1 (20 min)
1. What is a limited-equity housing co-op? (10 min)
   2. Why limited-equity housing co-ops? (10 min)
   3. What does it take to create a co-op? (10 min)

Q & A (20 min)
Break (10 min)
Questions for the day second half:

GROUP DISCUSSION/ACTIVITY #2 (20 min)
4. How do you structure it? (10 min)
5. What is needed to sustain it? (10 min)
6. What are the opportunities in Washington? (10)

GROUP DISCUSSION/ACTIVITY #3 (20 min)
Q & A (20 min)
Activity 1: Discussing Cooperatives

Aim: Identify some of the defining characteristics of cooperatives (housing, worker, other types) and some of the associated benefits for co-op members.

Task: Introduce yourself to your neighbors and have a discussion about these questions:

- Are you a member of any cooperatives? What types?
- What are the defining characteristics of all cooperatives?
- How do cooperatives fit into the concept of community ownership?
- What is the number one benefit of co-op membership? (tweet format 140 characters or less!)
The 7 Principles of Cooperation

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for community

As adopted by the ICA 1997
Abraham Kazan’s Vision

“...through cooperative efforts we can better the lot of our co-workers....where all personal gain and benefit is eliminated, greater good can be accomplished for the benefit of all.”

“The father of U.S. cooperative housing.”
Photo: coopheros.org
1. What is a housing cooperative?
1. What is a housing cooperative?

Legal entity that owns the real estate, in this case ‘165-167-169 Avenue C Housing Development Fund Corporation’

165-167-169 Ave. C HDFC | Photo (c) UHAB
Who owns this legal entity!?
The residents! AKA shareholders, AKA cooperators!

UHAB University Graduation Day | Photo (c) UHAB
What is a housing cooperative?

**Cooperative corporation** owns the real estate as opposed to individuals or a landlord.

Residents own shares in the corporation. These **shareholders** hold proprietary leases with the co-op that enables them to occupy their specific unit.

**Democratic control** - members regularly elect a board, each shareholder gets to vote.

Photo (c) UHAB
What is a **limited-equity housing co-op**?

The resale price of shares is **limited**, keeping the housing affordable for the next generation.

In addition to keeping the purchase price lower than market, limited-equity housing co-ops typically have income guidelines to ensure the co-op is serving its intended population.
What is a limited-equity housing cooperative?

- Limited Equity
- Shared Equity
- Blanket Debt
Housing co-ops across the country

- In a variety of locations across the country mostly due to production at federal level in 60s and 70s
- Co-op model has been used with high rise, mid rise, and even single family homes – variety of typologies
Amalgamated Co-op – The Bronx, NY
Co-op City – The Bronx, NY
Cooperative Village – Lower East Side, NY
Newtown St. Co-op – Washington, DC
Hanover Grove Co-op – Fraser, MI
Echo Ridge Homes Co-op – Albuquerque, NM
Sherwood Co-op – Seattle, WA
Apex Belltown Co-op – Seattle, WA
2. Why limited-equity housing cooperatives?

We know co-ops benefit their residents:

• Economic
• Social
• Personal
• Community benefits
Economic Benefits

• Co-ops are affordable to households who might otherwise be priced out of the market.

• Re-sale restrictions preserve affordability for future generations.

• Lower monthly costs (than comparative rentals).

• Higher quality (than comparative rentals).
Economic Benefits

• Enhanced “bankability,” collectively and individually.
• Shareholders may qualify for tax deductions for mortgage interest and property taxes.
• Equity can be inherited.
• Foreclosure rates are much lower than for single-family homeowners in comparable income groups.
Social Benefits

- Social
  - Participation in civic and community affairs
  - Pride in, and sense of belonging to, a community
  - Lower rates of vandalism and reported crime
  - More likely to vote
Personal Benefits

• Personal
  • High levels of satisfaction with housing
  • Sense of achievement and competence
  • Increased income, and disposable income
  • Increased net worth
  • Increase sense of independence
  • Opportunities for participation and leadership
  • Gain skills that lead to jobs, job improvement, or education

“I see this as a total blessing, being able to come back to where I was raised.”
- Barbara, Brooklyn Co-op Shareholder
Community Benefits

- Community benefits
  - Co-ops are bulwark against gentrification
  - Co-ops promote longer tenure in multi-family buildings
  - Co-ops are an incubator of neighborhood leaders
  - Co-op residents tend to be more active in community affairs

“Living in a co-op, everyone has an interest in the building working...what we’ve been able to do is to define ‘working’ as not just accelerating in value, but actually working as a community”
- David, Harlem Co-op Shareholder
3. What does it take to create a co-op?

We will explain this through the history of UHAB

- UHAB-led resident organizing, training and technical assistance
- UHAB as a developer in TPT
- UHAB as sponsor with inclusionary zoning projects
Arson on Beck St. in the Bronx, 1970s | Photo (c) UHAB
172nd St. in the Bronx, 1970s
Homesteading / Sweat Equity

105th St. Homesteaders | Photo (c) UHAB
PRESIDENT CARTER SUPPORTS SWEAT EQUITY!

President Carter during his surprise trip to the South Bronx yesterday.

"It was a very sobering trip for me to see the devastation that has taken place in the South Bronx in the last five years. But I'm encouraged in some ways by the strong effort of tenant groups to rebuild," Mr. Carter said.
Training/Technical Assistance
The Tenant Interim Lease Program (TIL)
Training/Technical Assistance
The Tenant Interim Lease Program (TIL)

Co-op Conversion Class | Photo (c) UHAB
Sample of UHAB’s Training Courses

• 14 steps to co-op conversion + legal co-op structure
• Building Finance
• Co-op structure - Rights and responsibilities of shareholders
• Distressed co-ops
• Elections
• Intensive contracting
• Healthier, safer co-ops
• Selling shares
• Violations
• What are your co-op founding documents?
• Who fixes what? When is the co-op vs. the shareholder responsible?
UHAB as Developer

Before and After | Photo (c) UHAB
Tenant Interim Lease Program (TIL)
THIRD PARTY TRANSFER (TPT)

PRIVATE OWNERSHIP

TAX

FORECLOSURE

NEIGHBORHOOD RESTORE

QUALIFIED DEVELOPER

RENTAL

OTHER PRIVATE DISPOSITION

TENANT OWNED CO-OP

PRIVATE DISPOSITION

THIRD PARTY TRANSFER (TPT)
INCLUSIONARY ZONING CO-OPS(IZ)

PRIVATE DEVELOPER → ZONING → MARKET RATE DEVELOPMENT → UHAB AS INTERIM OWNER AND DEVELOPER → RENOVATED CO-OP

NEW DEV. CO-OP OFF-SITE
NEW DEV. CO-OP ON-SITE

REQUIRED AFFORDABLE UNITS → BONUS
Activity 2: Visioning a housing cooperative

**Aim:** Outline your ideal housing co-op!

**Task:** You are the board of a community group having a strategic visioning session for your limited equity housing co-op

- Where would it be?
- Who would it serve?
- What scale? Type of building – multifamily – scattered site single family?
- What would the community in the co-op be like?
- How would it serve people’s needs?
- Why would people want to join this co-op?
- How would life be different living in this co-op opposed to other forms of housing?
- Name? Tagline and artist’s depiction?
4. How do you structure a co-op?

Co-op Governance
- Articles of incorporation
- By-laws
- Proprietary lease
- Regulatory agreement – monitoring contract – ground lease
- Offering plan

Finance
- Financial structure
- Government grants and financing for construction
- Government subsidies over long term (section 8)
- Developer bonuses
Co-op Governance

**Articles of incorporation** – outline corporate purpose to provide affordable housing

**By-laws** – outline how the cooperative should be run by the shareholders and the board

**Proprietary lease** – allows shareholders to occupy their unit, usually for a 99 year term

**Regulatory agreement** and monitoring contract – to ensure the affordability and governance rules and regulations are followed, and co-op is run smoothly and efficiently

**Offering plan** – full disclosure to co-op buyers
Co-op Governance

Democratic Control
• Election of Directors
• Cost-Based Budgets

Cooperative Approval
• Ownership Transfers
• Individual Financing
• Subleasing
• Policies

Cooperative Enforcement
• Resale Limitations
• Other Regulations

513-517 W 135 St | Photo (c) UHAB
Financial Structure: Single Family Home

Debt: 80%
Equity: 20%
Financial Structure: Condominium

Different levels of **debt** and **equity** for each individual unit and unit-owner.
Financial Structure: Limited-Equity Co-op

- Limited Equity
- Shared Equity
- Blanket Debt
Third Party Transfer (TPT) Example
473 United HDFC

- Tax foreclosed 20 unit building
- Transferred to UHAB through Neighborhood Restore
- UHAB contracts renovation and relocates residents during construction
- UHAB trains residents and qualifies outside buyers
- 16 units initially occupied
# 473 United HDFC – TPT Project

## Development Cost

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td><strong>Per Unit</strong></td>
<td>$132,687</td>
</tr>
<tr>
<td><strong>20 Unit Total</strong></td>
<td>$2,653,741</td>
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## Permanent Sources of Financing

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
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<tbody>
<tr>
<td><strong>Conventional Bank Loan</strong></td>
<td>$528,583</td>
</tr>
<tr>
<td><strong>HPD City Financing</strong>*</td>
<td>$1,682,658</td>
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<tr>
<td><strong>AHC Grant</strong>*</td>
<td>$400,000</td>
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<tr>
<td><strong>Apartment Sales Equity</strong></td>
<td>$42,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,653,741</strong></td>
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</tbody>
</table>

*Subsidy
Property tax abatement is a primary operating subsidy, sometimes able to get reduced rates for water + sewer. Individual Section 8 rental vouchers are made available to families that can’t afford the maintenance.
110 Madison Ave.  
Off-Site Inclusionary Zoning

• 18 units of new construction by SRH Development
• $20,352,279 total development cost - $1,130,682 per unit
• UHAB nominal owner during development and executed marketing process
• Inclusionary Housing Program – inclusionary zoning bonus sold to third party development company
<table>
<thead>
<tr>
<th>USES</th>
<th>AMOUNT</th>
<th>PER UNIT</th>
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<tbody>
<tr>
<td>LAND</td>
<td>$7,300,000</td>
<td>$405,556</td>
</tr>
<tr>
<td>HARD COSTS</td>
<td>$7,704,423</td>
<td>$428,024</td>
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<tr>
<td>SOFT COSTS</td>
<td>$3,102,454</td>
<td>$172,359</td>
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<tr>
<td>RESERVES</td>
<td>$153,312</td>
<td>$8,517</td>
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<tr>
<td>DEVELOPER FEE</td>
<td>$1,592,090</td>
<td>$88,449</td>
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<tr>
<td>DEFERRED DEV. FEE</td>
<td>$500,000</td>
<td>$27,778</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$20,352,279</strong></td>
<td><strong>$1,130,682</strong></td>
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# 110 Madison Ave. – Off-Site Inclusionary

<table>
<thead>
<tr>
<th>PERMANENT SOURCES</th>
<th>AMOUNT</th>
<th>PER UNIT</th>
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<tbody>
<tr>
<td>SALES PROCEEDS OF AFFORDABLE HOUSING FLOOR AREA*</td>
<td>$16,490,000</td>
<td>$916,111</td>
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<tr>
<td>SALES PROCEEDS FROM CO-OP SHARES</td>
<td>$3,001,261</td>
<td>$116,737</td>
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<tr>
<td>SALES PROCEEDS OF RETAIL SPACE</td>
<td>$861,018</td>
<td>$47,834</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$20,352,279</strong></td>
<td><strong>$1,130,682</strong></td>
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*Subsidy (Inclusionary bonus)
Jupiter 21
On-Site Inclusionary

- 65 units
- 13 co-op units
- $435/month for studio
- $610/month for 1BR
- $3,600/month for market rental studio
10th and 13th St. Homesteading Off-Site Inclusionary Preservation

• One 13 unit building
• One 12 unit building
• Preservation projects
Typical UHAB Limited Equity Cooperative Model

- **2.5K Individual Equity**
- **Market Price vs. Shared Equity Gap** (varies with the location and state of the market)
- **247.5K Shared Debt / Unit**
Typical UHAB Limited Equity Cooperative Model With $45K Resale

42.5k Individual Debt

2.5K Individual Equity

Market Price vs. Shared Equity Gap (varies with the location and state of the market)

247.5K Shared Debt / Unit
5. What is needed to sustain co-ops?

- Member services
- Co-op preservation - Monitoring / stewardship
- Homeownership Training – ongoing seminars - UHAB U.
- Share loan Lending – HOL
- Pitfalls, Challenges, learning from mistakes
- Talk about the 6th Principle - T4T – best practices
Member Services
Economies of Scale

- Insurance
- Bookkeeping
- Fuel and electricity
- Market and Match
- Training/seminars

Book keeping training. | Photo (c) UHAB
Co-op Preservation

- Budget preparation and analysis
- Election monitoring
- Annual monitoring report
- Repair and debt consolidation loans
- Ongoing TA

Roof inspection | Photo (c) UHAB
Homeownership Training – Ongoing Seminars - UHAB University

UHAB University Graduation Day| Photo (c) UHAB
Share Loan Lending

• Share loans are individual mortgages for people buying into co-ops
• Banks not familiar with regulations surrounding limited-equity co-ops and often reluctant to lend to incoming shareholders
• We know from experience as well as from our national survey that there is an unmet demand for these loans
• In 2013 UHAB started its Homeownership Lending program
Challenges and Learning from Mistakes

• The creation of a housing co-op is just the beginning! Co-ops are a process!
• The people development is just as important as the real estate development!
• Having residents involved as their own developer is the best way to build a strong group of shareholders.
• Simultaneous role of developer and co-op organizer is a conflict.
• Creating a co-op that is truly independent yet accountable to the value of shared-equity is a challenges. Co-ops need the freedom to learn from their mistakes!
The 6th Principle Coalition – Sharing best practices

• UHAB has 40+ years of intellectual capital to share
• Over the years many co-op support and development organizations have come and gone
• The demand for support remain among the 155,000 units of limited-equity co-ops nationwide
• The 6th Principle Coalition answers the question, how do we ensure that the co-ops get the support they need from the community of practitioners that exists?
HUD-insured and Assisted: 148,000
Lanham Act: 35,000
Former Public Housing: 20,000
Farmers Home: 5,000
Mitchell-Lama: 60,000
State Housing Finance Agencies: 45,000
United Housing Federation: 40,000
Tenant self-converted/UHAB: 50,000
CDBG/LIH tax credit: 7,000
Mutual Housing: 15,000
ROCUSA: 0

Previous Research Circa 2000
HUD-insured and Assisted
Lanham Act
Former Public Housing
Farmers Home
Mitchell-Lama
State Housing Finance Agencies
United Housing Federation
Tenant self-converted/UHAB
CDBG/LIH tax credit
Mutual Housing
ROCUSA

Previous Research Circa 2000
Current Research 2016
HUD-insured and Assisted
Lanham Act
Former Public Housing
Farmers Home
Mitchell-Lama
State Housing Finance Agencies
United Housing Federation
Tenant self-converted/UHAB
CDBG/LIH tax credit
Mutual Housing
ROCUSA

Previous Research Circa 2000  Current Research 2016  Remaining Limited Equity 2016
<table>
<thead>
<tr>
<th>Limited Equity Housing Co-op Program</th>
<th>Previous Research</th>
<th>Current Research</th>
<th>Limited Equity Co-op Units Remaining Year 2016</th>
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</thead>
<tbody>
<tr>
<td>HUD-Insured and assisted</td>
<td>148,000</td>
<td>148,000</td>
<td>35,000 (35,000 additional remain as NOAH*)</td>
</tr>
<tr>
<td>Lanham Act</td>
<td>35,000</td>
<td>7,000</td>
<td>7,000</td>
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<tr>
<td>Former public housing</td>
<td>20,000</td>
<td>7,200</td>
<td>1,200</td>
</tr>
<tr>
<td>Farmers home</td>
<td>5,000</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Mitchell-Lama (NY)</td>
<td>60,000</td>
<td>41,699*</td>
<td>36,295</td>
</tr>
<tr>
<td>State housing finance agencies</td>
<td>45,000</td>
<td>334</td>
<td>334</td>
</tr>
<tr>
<td>United Housing Foundation (NY)</td>
<td>40,000</td>
<td>41,118*</td>
<td>30,651</td>
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<tr>
<td>Tenant self-converted/UHAB</td>
<td>50,000</td>
<td>33,000</td>
<td>33,000</td>
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<tr>
<td>CDBG/LIH tax-credit</td>
<td>7,000</td>
<td>40</td>
<td>40</td>
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<tr>
<td>Mutual Housing</td>
<td>15,000</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>ROCUSA</td>
<td>Did not exist</td>
<td>10,000</td>
<td>10,000</td>
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<tr>
<td>TOTAL</td>
<td><strong>425,000</strong></td>
<td><strong>295,182</strong></td>
<td><strong>155,071</strong></td>
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</table>

*Co-op city counted for UHF, not Mitchell Lama
*NOAH (Naturally Occurring Affordable Housing)
The 6th Principle Coalition for Shared-Equity Cooperatives

- Permanent Affordability
- Map + Data + Research
- Training + Technical Assistance
- Curriculum + Model Documents
- Online Platform
- Share Loan Financing
- Direct Services
- Advocacy + Policy
- Core Values
- Legal Assistance
- Referred Services

“Cooperation Among Cooperatives”
6. Where are the opportunities in Washington?

• Mandatory Housing Affordability
• Seattle Housing Levy
• Conversion of multifamily rental housing
• Other opportunities

Wikimedia Commons
Activity 3: Implementation in Washington

**Aim:** Identify opportunities for co-op development in Washington

**Task:** Discuss the questions below and report back

- What role do you see yourself or your org. taking in this work?
- What are the resources? Are their missing capacities?
- You run into your City Council Member and you have 30 seconds to give them your elevator pitch for expanding limited-equity housing co-ops in Washington, what do you say?
Q & A

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www.uhab.coop