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Limited Equity Housing Cooperatives: Defining a Niche in the Low-Income Housing Market

Susan Saegert
Lymari Benítez

This article examines the concept of limited equity housing cooperatives (LECs) and their potential niche in the housing stock of the United States. The authors discuss problems related to the success of housing cooperatives, as well as policy implications and opportunities for development of LECs. The research evidence that exists shows that LECs have a strong record of providing high-quality, safe, affordable housing for low- and moderate-income populations. The authors conclude that LECs constitute a valuable, if underused, form of housing ownership with the potential to improve the quality of life for certain low- and moderate-income households and to contribute to the physical and social quality of the larger community.

Keywords: *housing cooperatives; affordable housing; neighborhood revitalization; home ownership; gentrification*

Access to decent housing for all U.S. households, regardless of income, has proven a difficult goal to achieve. For at least the past decade, U.S. housing quality and home ownership have increased. Yet, despite the growth of home ownership, especially among low-income and minority households, and despite a long economic boom, housing conditions for 20 million of the lowest-income U.S. residents have improved little in the last three decades (Joint Center for Housing Studies 2002, 2003).

After forty years of gradual decline, the federal government's role in provision of housing for low-income households was redefined in the 1990s (Orlebeke 2000). Responsibility devolved to state and local governments, with heavy reliance on the private market and home ownership. However, static incomes among the lowest-income-quintile households and rising housing costs raise questions about this strategy (Joint Center for Housing Studies 2003). Increasing foreclosure rates add to this concern (Moss and Jacobs 2004). Nonetheless, a locally responsive, mixed-sector approach to low-income housing coupled with a commitment to home ownership appears to have the most public support. In this context, housing cooperatives, especially limited equity cooperatives (LECs), are an attractive option not only because of the high-quality, stable housing they most often provide but also because of resident satisfaction and the financial and social benefits associated with them.

SUSAN SAEGERT, Ph.D., is the director of the Center for Human Environments and a professor of environmental psychology. Her recent publications include *Social Capital and Poor Communities with Phillip J. Thompson and Mark Warren* (Russell Sage, 2001); articles on housing, health, and public policy; and studies of community development, housing quality, and public safety.

LYMARI BENÍTEZ, M.A., is a research assistant of the Housing Environment Research Group at the City University of New York. Her research focus is on community development and democratic participation.

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This article reviews U.S. and relevant Canadian research on LECs and examines the potential niche of limited equity housing cooperatives in the housing market of the United States. This review also addresses problems related to the success of housing cooperatives, as well as policy implications and opportunities for development of LECs. The article is organized around the main conclusions drawn from the research on LECs and affordable housing in general:

- LECs provide high-quality, safe, affordable housing for low-income families.
- LECs contribute to stable, economically, and ethnically diverse neighborhoods.
- LECs can fulfill some economic and social needs more successfully than rental housing, especially for groups that present special needs or in regions where housing is particularly expensive or distressed.
- LECs offer stable housing costs in hot real estate markets and resistance to default in down markets while requiring similar or lower subsidies than other comparable rental housing.
- LECs can be an attractive housing alternative for a substantial portion of renters and some homeowners who spend more than 50 percent of their incomes on housing.
- The affordability and social stability of LECs mirror most of the benefits of market-rate home ownership but provide less opportunity for asset accumulation through home equity.

WHAT IS AN LEC?

While little known in the United States, LECs constitute a large proportion of the national housing markets in some countries such as Sweden and Norway. There numbers are increasing in the United States. In 2003, the National Association of Housing Cooperatives recorded 425,000 limited- and zero-equity cooperatives units located in all regions of the United States (Douglas Kleine, personal communication, March 18, 2004).

Collective ownership and limitations on share prices are the central elements of an LEC. Ideally, LECs operate according to principles that stress (1) voluntary and open membership; (2) democratic member control; (3) member economic participation; (4) authority and independence of each cooperative; (5) education, training, and information; (6) cooperation among cooperatives; and (7) concern for community. In reality, LEC ownership and governance structures depend on local conditions and regulations. Usually, residents collectively own the building instead of each member owning a single apartment. Most cooperative ownership agreements include the right to pass on shares in the cooperative to heirs. LECs restrict the resale values of cooperative shares to keep them affordable to multiple

generations of purchasers by controlling the maximum resale price or by restricting the income of purchasers (Cooper-Levy 2000; Miceli, Sazama, and Sirmans 1994). In some co-ops, residents pay only monthly charges but participate in cooperative governance. Usually, government or foundations subsidize development costs. Cooperative owners reap some home owner tax benefits, but limited-equity provisions complicate the assessment of property values. Some localities standardize incorporation procedures and governing regulations. In others, LEC formation and regulation are worked out on a case-by-case basis.

The goal in a housing cooperative is for management to be conducted democratically, with all members making decisions that affect their quality of life. While most LECs democratically elect their governing boards, cooperative governance structures can be controlled by sponsoring organizations. LECs often hire outside managers, or co-op sponsors provide management. Both arrangements can limit the control of shareholders. Even democratically controlled LECs experience divisions of labor and power differentials. Shareholder training and leadership development require constant attention. The availability of such services depends on support by community-based organizations (CBOs) and government.

LECs face the challenges of developing and operating low-income housing that exist regardless of the ownership structure. These include requirements for innovative financing and regulatory mechanisms patched together at the federal, state, and local levels (Quercia, Rohe, and Levy 2000). Even the purchase of a single-family home is complex for low-income households (Listokin et al. 2001), depending on financing requirements, available mortgage instruments, insurance restrictions, and the prevalence of subprime lenders in the mortgage market.

Community land trusts (CLTs) are another form of collective ownership in which a community group owns and manages the land, while individuals own their homes with resale restrictions. Both forms of ownership can make housing more affordable than free-market rentals and home ownership. Both structures can offer first-time buyers some benefits of home ownership such as stability of tenure and control over one's housing (albeit, group control). Moreover, spreading cost and financial risk across multiple shareholders may make buying a home easier for first-time buyers and households with limited assets.

WHAT BENEFITS DO LECS OFFER?

The literature we reviewed indicates that LEC affordability and tenant control contribute to economic,

social, and neighborhood benefits, as well as resident satisfaction. The conversion of distressed private-sector housing to LECs has helped rebuild neighborhoods. LECs' permanent affordability, security of tenure, and control over upkeep also buffer residents against rising and falling economic tides that could gentrify or undermine the physical condition of neighborhoods.

Economic Benefits

Compared with other forms of home ownership, LECs limit potential financial gain but impose lower cost burdens while spreading many risks across shareholders. Helm, Horvitz, and Ben-Egypt (1993) identified opportunities LEC shareholders have to borrow money and reap tax advantages, depending on internal and external regulations. Since the cooperative corporation owns the land and buildings in which its members live, it can borrow money secured by the property as a whole (i.e., blanket debt). Individual members own cooperative interests and can borrow money secured by their cooperative interests (i.e., share debt). LECs can qualify shareholders for income tax deductions for shares of the mortgage interest and property taxes paid by the co-op. The ability to control housing decisions gives shareholders the opportunity to negotiate better services at lower prices. Also, cooperative residents can establish regulations concerning vacant units in the buildings, payment collection, per unit maintenance charges, and operating costs. Figure 1 summarizes the positive economic features of LECs.

Miceli, Sazama, and Sirmans (1994) used an economic model based on "housing externalities" to analyze the role of LECs in the housing market. They argued that LECs reduce externalities such as noise, socially disruptive neighbors, and residents' wear and tear on the housing. Management costs are held down by resident participation in management activities, such as screening applicants. The authors conclude that there is a demand for LECs among low-income households who value a low level of housing externalities and are willing to devote their efforts to reducing them by self-management.

While the research on residents' evaluations of the financial costs versus benefits of limited-equity cooperative ownership structures is not extensive, the studies that do exist show that, on balance, residents see many more benefits than costs. In a qualitative study of LECs (Rae 1997), shareholders described the greater security they felt in the LEC because they were able to share financial planning and decision making with others. They also took comfort in negotiating financial decisions with shareholders in similarly modest financial circumstances. A survey of LEC residents in a high-rent area of New York City (Saegert et al. 2003) found that 72

Economic Benefits of LECs

- ◆ **Sharing cost and financial risk**
- ◆ **Lower cost burden**
- ◆ **Resale restrictions to make them affordable to multiple generations of purchasers**
- ◆ **Reduction of housing externalities without imposing the high cost of management**
- ◆ **Shareholders qualify for tax deductions for shares of the mortgage interest and property taxes**

FIGURE 1. Limited Equity Cooperatives' Economic Benefits

percent of shareholders said that living in the LEC had positively affected their lives. Reasons given focused on increased control of their housing, low costs, and the fact that they could not afford to live in their neighborhood otherwise. In a study of CLT home owners in eleven states, 95 percent said that they were able to become home owners more quickly in that structure, and 84 percent said that they felt more financially secure since buying (Levinger 2001). The most frequently mentioned worst aspects related to the limited-equity restriction (40 people or 18.5 percent) and the most mentioned best aspect (102 people or 47 percent) were that it made home ownership and financial stability possible. Participants in these studies had been renters and were not likely to become traditional single-family home owners in the near future.

Resident Satisfaction

Existing research shows that LECs provide much of the control and satisfaction of home ownership. While there are few comparable studies concerning the individual benefits of home ownership and LEC shareholding, those that do exist suggest similarities between the two groups. Both home owners and LEC residents score higher on residential satisfaction than comparable renters (Levinger 2001; Rohe, McCarthy, and Van Zandt 2000; Saegert 1993, 1996; Saegert and Winkel 1998; Sazama and Willcox 1995; Van Ryzin 1991, 1994). Qualitative research also provides a portrait of high resident satisfaction in LECs. For example, Leavitt and Saegert's (1990) study of residents who formed

LECs in Harlem found that most residents believed that they were better off living in an LEC than in a rental building, especially because of the control that they obtained over living conditions. More LEC residents expressed satisfaction with their building conditions, management, and tenant participation than residents of comparable rental buildings. They were also more optimistic about the future. Clark's (1994) study showed that living in LECs improved the quality of life of residents and enforced their sense of community by legitimating their collective appropriation of space. Clark convincingly argued that residents were able to shape their residential environments and their ways of life according to their own goals to a much greater extent than can occur in the absence of collective ownership.

Satisfaction in LECs often depends on the quality of social relationships within the shareholders' association, between leaders and nonleaders, and among co-op sponsors, technical assistants, and residents. Rohe (1995) documented a very mixed record of residential satisfaction among new cooperative owners of formerly public housing. Problems with the conversion process, poor repair of conveyed properties, possible negative equity for owners, and the fact that these owners had previously been living in subsidized housing all appeared to work against satisfaction. On the positive side, the bulk of the studies (Leavitt and Saegert 1990; Levinger 2001; Mushrush, Larson, and Krause 1997; Saegert 1993, 1996; Saegert and Winkel 1998; Sazama and Willcox 1995; Van Ryzin 1994) indicate that, in general, social relationships among stakeholders are good enough to promote residential satisfaction, and in the case of the two studies that measured it, life satisfaction as well (Levinger 2001; Van Ryzin 1994).

Social Benefits

The evidence for the social benefits of LECs is strong. Studies have found that LEC residents participate more in neighborhood organizations, live in their neighborhoods longer, and have a greater desire to stay compared to other low-income renters (Clark 1994; Heskin 1991; Leavitt and Saegert 1990; Mushrush, Larson, and Krause 1997; Saegert and Winkel 1996, 2000). In addition, these studies found that living in an LEC promotes feelings of belonging to a larger community. Traditional home owners also tend to participate more in at least some kinds of organizations and to be more residentially stable (Rohe and Stewart 1996).

The social benefits of LECs can also be viewed as collective assets. The success of LECs depends on the ability of residents to cooperate. The relationships and skills built through cooperation not only contribute to shareholders' quality of life but also provide potential resources for the neighborhood. Social networks that

facilitate cooperation to achieve group as well as individual goals provide network members with social capital (Coleman 1988). Social capital identifies the contributions that relationships based on mutual responsibility make to the achievement of goals, above and beyond the results achieved through the investment of financial and human capital.

Saegert and Winkel (1998) demonstrated that social capital, which was higher in LECs, added value to government investment in housing. Their study compared five housing programs to resell buildings taken by New York City when landlords defaulted on their taxes. The surveys from 487 buildings (including many LECs) in Brooklyn, New York, were analyzed to compare the success of different ownership forms in revitalizing buildings. The higher levels of social capital found in LECs were responsible for the better building conditions reported. LECs were consistently rated as having the safest and highest quality housing, compared with buildings still in city ownership or sold to new private landlords or community groups. Residents' participation in the shareholder association was key to assuring a high quality of life in the building. Saegert, Winkel, and Swartz (2002) found that LECs had lower crime rates, as recorded by the New York City Police Department, compared with similar rental buildings, after taking into account resident income, education, ethnicity, and other characteristics. Again, social capital seems to be critical: lower levels of building crime in LECs could be statistically attributed to more participation in the residents' association.

Living in an LEC often helps residents learn to be effective in groups and promotes interest in civic participation. Saegert and Winkel (1996) examined how LEC residents organized collectively to improve building conditions and how these actions led to a sense of empowerment and increased engagement with civic life. Empowerment was measured by questions about how comfortable and effective the respondent felt participating in and leading groups and taking part in civic activities. In this study, personal participation in building activities increased self-reported empowerment. Greater empowerment contributed to more participation in civic activities.

LECs provide a way for poor residents who are least able to move out of deteriorated housing and neighborhoods to improve their living conditions through collective action. Residential stability contributes to social capital. But in distressed communities, those left behind may have too little human and financial capital to realize their goals through social capital alone. Often the poorest, minority, female-headed, and elderly households were unable to leave their homes during the process of landlord abandonment. By obtaining

control of real homes, these residents were able to use their social capital to achieve valued goals. Their successful struggles to gain cooperative ownership improved their housing conditions and the lives of residents and supported them in contributing to neighborhood revitalization (Leavitt and Saegert 1990; Saegert and Winkel 1998; Saegert, Winkel, and Swartz 2002). These findings contrast with research indicating that, without the collective organization required of LEC owners, home owners in undesirable neighborhoods, especially the poorest, minority, and female-headed households, are often trapped in a downward spiral of housing and neighborhood conditions (Rohe, McCarthy, and Van Zandt 2000).

Housing Stock Stability

When properly developed and regulated, LECs have proved resilient in the face of economic cycles. For example, while all but two of the market rate co-ops in New York City were wiped out by the Great Depression, LECs established for low- and moderate-income households weathered this difficult period intact (Siegler and Levi 1986). A study by Calhoun and Walker (1994) compared the default rates for two types of federally insured housing between 1958 and 1989. LECs in one insurance program had lower default rates than those owned by nonprofit and limited-dividend projects. In the second insurance program, the survival rate for LECs of 78 percent was comparable with that in other ownership forms. The Urban Homesteading Assistance Board (UHAB) provides a third set of data on foreclosures among LECs. UHAB tracks the status of the LECs in New York City, known as Housing Development Finance Corporations (HDFC) and dedicated to housing low- and moderate-income New Yorkers. Since 1975, 1,036 HDFCs have been developed, most in occupied housing taken by New York City in lieu of taxes. During this period that has included both the worst and best of economic times in New York City, only 3 percent (27) of buildings have lost their status as HDFCs, either by foreclosure from New York City for tax arrears (19, or 2 percent) or by private lenders (5, or less than 1 percent). Only one building has been sold for a profit after sales restrictions expired. Of the nineteen buildings taken for taxes, nine have entered new programs to straighten out their finances and management practices and regain LEC status (personal communication, Ann Henderson, UHAB, August 2003).

It is instructive to compare these foreclosure rates with rates for comparable home owners. Research by the U.S. Congressional Budget Office (CBO) (Capone 2001) described several pertinent studies. One, a study of U.S. Department of Agriculture Farmer's Home

Administration loans to households with 80 percent of median income from 1981 to 1987 found that 9 percent of the loans were terminated by defaults. These rates are higher than those found in the New York City data, but lower than those reported by Calhoun and Walker (1994). A Freddie Mac study of loan performance between 1993 and 1995 showed that minority status, low household incomes, and location of housing in low-income census tracts were all strongly associated with higher levels of defaults (Capone 2001). For comparison purposes, it is important to note that New York City HDFC shareholders are almost exclusively black and Latino, have some of the lowest incomes in the city, and their buildings are concentrated in the poorest census tracts.

A note of caution should be sounded, however. If LECs are sold to shareholders in poor condition, with inadequate or burdensome financial agreements, accompanied by heavy tax burdens, or without regulatory oversight, foreclosures could occur. In 1998, the New York City Comptroller's Office issued a report warning of the potential failure of the majority of LECs developed through the program that produces most New York City LECs (Hevesi 1998). The report pointed out that about one in nine of the tenant associations that entered into the Tenant Interim Lease program were not able to make progress toward tenant ownership. The comptroller's report indicated that 58 percent of the buildings in the tenant ownership program were in tax arrears. Comparable figures kept by the UHAB for that year indicate that only 31 percent were more than \$850 per unit behind, a figure chosen to indicate arrears of less than one year. Nonetheless, tax and water and sewer charge arrears are a persistent problem for LECs, as they are for other forms of low-income, multifamily housing in New York City. Not every single low-income building can succeed as an LEC. But public policies and technical assistance can increase the survival rate. The agency overseeing the sales of these co-ops, as well as the technical assistance groups that deal with LECs, have developed policies to forgive tax arrears. Without these steps, many more LECs might have gone into foreclosure.

In addition to being resilient during difficult economic periods, LECs appear to provide a bulwark for low- and moderate-income residents against displacement in gentrifying neighborhoods. A recent study of LECs in a midtown neighborhood of Manhattan (Clinton, aka Hell's Kitchen) found that, while in 2000 the area produced more ground rent per square foot than 77 percent of New York City, with two of the six census tracts having higher ground rents than 96 percent of the city, LEC charges remained very low. LECs appear to account for much of the affordable housing

left. Artists, actors, musicians, teachers, and public agency employees make up a sizable proportion of residents. Many say they would have to change occupations and get higher paying jobs to remain in Manhattan (Saegert et al. 2003).

WHO WILL BENEFIT MOST FROM LECs?

Financial as well as social benefits make LECs a very attractive option for specific populations, all characterized in the aggregate as containing more low-income households. The shared risk and responsibility of LECs plus the social engagement that they offer are important attractions for LECs as an alternative to single-family home ownership or renting. Moreover, research indicates that cooperative housing helps create a sense of community and inclusiveness that is particularly beneficial for some populations such as people with physical disabilities, the elderly, Native Americans, young adults, some immigrants, women, and central-city residents.

People with Physical Disabilities

People with disabilities often need lower cost housing as well as special accommodations (Joint Center for Housing Studies 2001). LECs emerge as a financial solution for some people with disabilities because only a small investment is required. The greater control over the housing environment provided by LECs particularly facilitates creating a supportive physical and social home environment for people with disabilities (Cooper and Rodman 1992).

In a Canadian study, Rodman and Cooper (1995) found that not only did LECs provide accessible housing at low cost but they also integrated people with physical disabilities into the larger community. They studied a fully accessible housing cooperative in Canada in which people with physical disabilities and able-bodied people lived together, sharing the same housing conditions. The researchers concluded that full accessibility was responsible for complete integration of physically disabled people into the activities of the cooperatives. Also, the researchers argue that integration and sense of community were in part a result of living in a housing cooperative.

Elderly People

Providing affordable housing for the elderly in the United States is a major concern. The elderly account for 42 percent of the nation's lowest-income families, and most housing assistance programs (for owners and renters) are ill suited to their needs (Joint Center for Housing Studies 2002). Figure 2 illustrates that more than half of elderly owners with mortgages and elderly

renters pay more than half their incomes for housing. Thus, low-income elderly owners with mortgages are vulnerable to losing their homes, especially if urgent repairs or costly medical crises occur. Several studies document that LECs designed for the elderly provide financial and social benefits. Living in an LEC gives elderly residents the opportunity to get involved in the management and ownership of low-income housing, thus increasing their sense of control, ownership, and social integration (Eversole-Nolan and Blaine 2001; Lewis 1998; McKinley 1998; Van Ryzin 1994; Wray 1998).

Women

Women, especially if they head their own households, more often than men have difficulty obtaining adequate affordable housing. In 1996, 29 million U.S. households were headed by women (Simmons 1997). Female-headed households are the primary users of all federal housing programs except for mortgage-based programs (Saegert and Clark forthcoming). As Figure 3 shows, the percentage of home purchase loans made by women during the years 1995 to 1999 is much lower than for men, although it is difficult to know if the cause of the difference is due to lower incomes or discrimination.

LECs provide a financial alternative for many women who are heads of household, divorced, never married, or widows. For this population, a single-family home can be difficult to maintain or inconvenient. In an LEC, women have opportunities to create a supportive and democratic environment in which to develop leadership skills. These skills can contribute to obtaining a job and taking control over personal finances (Heskin 1991).

Studies conducted by Saegert (1989), Leavitt and Saegert (1990), and Heskin (1991) document the pivotal roles women play in LECs. Women, who often had little education and worked in low-status jobs or were unemployed, assumed positions of leadership and a prominent role in organizing LEC residents. They helped improve building conditions and the quality of life for all. Moreover, in these studies, women had the opportunity to develop skills that contributed to more satisfying personal lives. Forslund and Keith (1988) discussed housing cooperatives as an alternative for middle-aged women, especially those who are single, widowed, or divorced. They contend that housing cooperatives provide women with a safer and more supportive environment than other options. LECs also offer the economic benefits of affordable down payments and monthly fees, as well as the opportunity to control costs related to maintenance and repair.

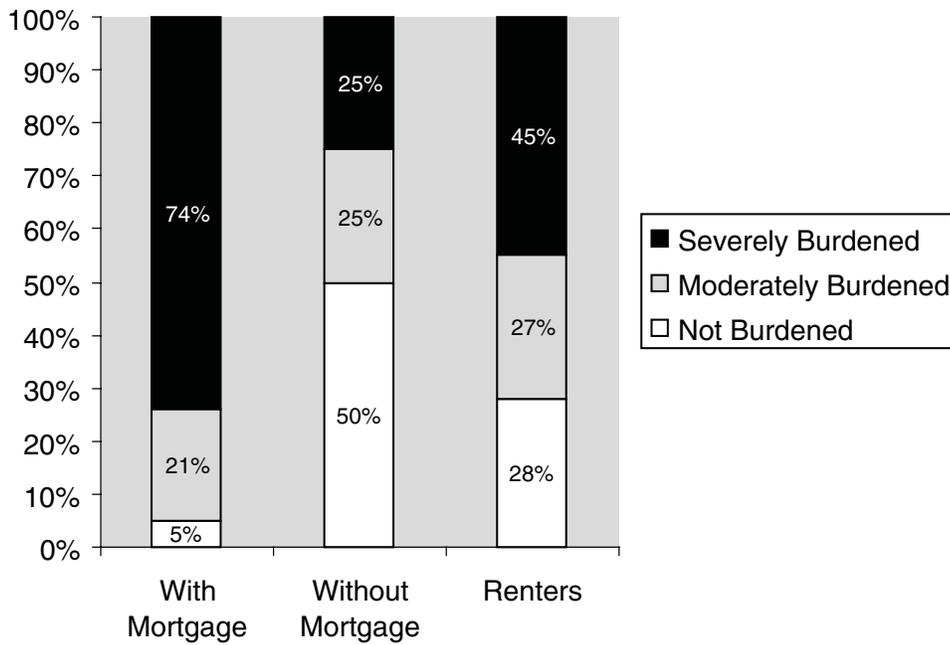


FIGURE 2. Cost Burden for Elderly Owners and Renters: 1999

SOURCE: Joint Center for Housing Studies (2002). Used with permission.

NOTE: Moderately burdened households pay between 30 percent to 50 percent of income for housing costs. Severely burdened households pay more than 50 percent of income for housing costs.

tionally part of the renters' market but, with an increase in rents, many find that their incomes are not enough to pay for housing. Consequently, they are choosing to continue living with their parents.

Many young adults—especially those employed in low-wage industries—have found rents too high relative to their incomes to live on their own. In 2000, the number of U.S. households composed of young adult children living with their parents topped 2.6 million. These families included 12.5% (2.3 million) of males aged 25 to 34 and 7.9% (1.5 million) of same age females. (Joint Center for Housing Studies 2002, 21)

In general, this group has not desired home ownership, but with rental costs so high, they may be in the position to consider LECs as a lower priced, more flexible option to traditional ownership or renting. Not only can LECs contribute to young people's financial stability, living in a supportive community environment can also help young adults adjust to independence and learn new skills (Altus 1995). Older LEC residents may also welcome shareholders with energy, recent education, and up-to-date technological skills (Leavitt and Saegert 1990).

College campuses and towns have sprouted numerous LECs during the past half century. In a student housing cooperative, members have the responsibility of managing their housing and making collective decisions that affect

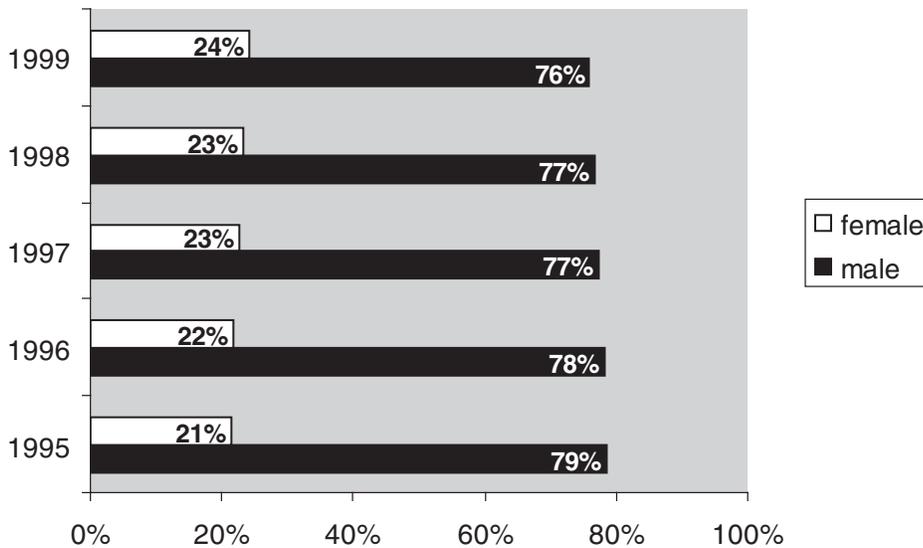


FIGURE 3. Home Purchase Loans by Gender: 1995-99

SOURCE: Joint Center for Housing Studies (2002). Used with permission.

Young Adults (25-34 years)

Young adults constitute another of the groups being priced out of the housing market. This group was tradi-

their lifestyles and quality of life. LECs also ensure affordable housing for students. On the basis of a study of student cooperatives, Altus (1995) concluded that students living in a cooperative appreciate the advan-

tage of cutting living costs, but that social benefits are often more important.

Central City Residents

Central cities represent a challenge to the expansion of home ownership because of the nature of the housing stock and the population compositions. According to the statistics shown in Figure 4, approximately half of the renters live in central cities. In many cases, low-income households stay in poor-quality housing because of cheaper rents. In cities with tight housing markets such as San Francisco, Washington, D.C., and New York, there may be few affordable, vacant rental units.

LECs can contribute to the viable, affordable housing stock and therefore the revitalization of inner-city neighborhoods. Glunt, Clark, and Saegert (1995) studied a generation of LECs in New York City that developed as a result of the massive landlord abandonment of rental property from the late 1960s to the early 1980s and its subsequent seizure by New York City in lieu of taxes. Generally, the buildings were in bad physical conditions, and residents organized themselves, with the aid of technical assistance groups, the CBO, and government agencies, to convert many of these buildings to LECs. Studies discussed earlier (Saegert and Winkel 1998; Saegert, Winkel, and Swartz 2002) showed that LEC residents in this housing stock rated their housing conditions as better and lived in buildings that were freer from crime than other comparable inner-city residents.

Kleine (2001) also argued that LECs have an important impact in urban life because they help improve the quality of life, they offer home ownership opportunities for low-income families, and they help increase social integration and civic participation, which translates into safer neighborhoods.

Native Americans and/or Aboriginal People

According to *The State of the Nation's Housing 2001 Report* (Joint Center for Housing Studies 2001), Native Americans in the United States face serious housing problems. The American Indian Housing Council estimates that two hundred thousand units of new housing were needed, but federal funding lagged behind demand. LECs offer a promising alternative to fill this

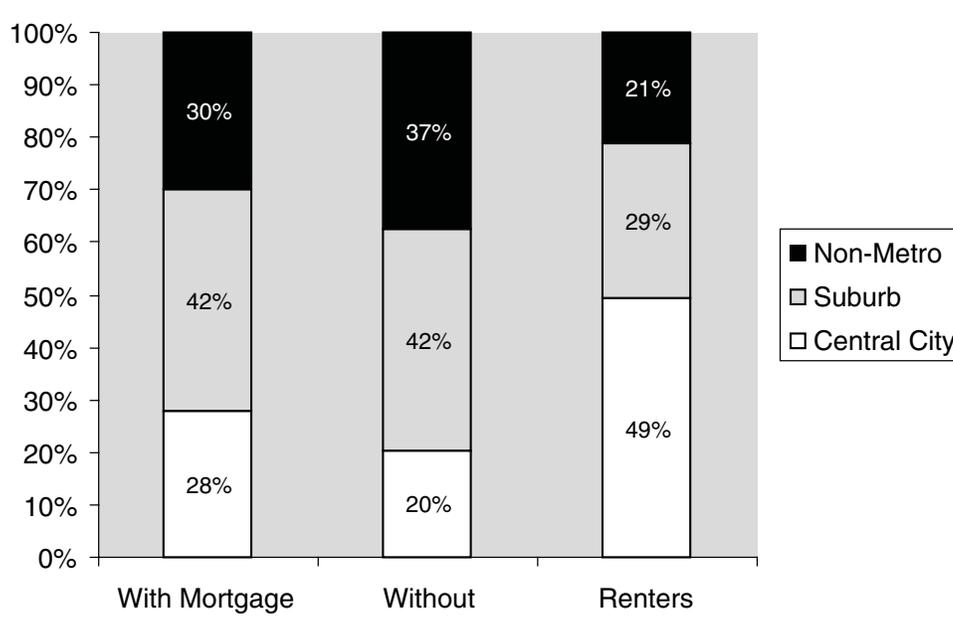


FIGURE 4. Metro Status of Renters and Owners: 1999

SOURCE: Joint Center for Housing Studies (2002). Used with permission.

gap. Hammond-Ketilson and McPherson (2001) indicated that the housing cooperative model in Canada has been very successful with this population, allowing them to apply principles of community building consonant with tribal teachings toward the achievement of collective aspirations. The development of housing cooperatives helped improve their physical infrastructure, built social capital, and fostered community action.

DILEMMAS OF COLLECTIVE ACTION IN LECs AND POSSIBLE SOLUTIONS

LECs can help lower-income Americans obtain home ownership and high-quality housing, while improving their economic and social situations. However, because LECs are based on principles that give priority to the well-being of the collective, problems related to tenants' financial situations, democratic management of the building, and government policies and regulations sometimes occur.

Kane (1999) argued that because of collective fiscal liability, co-op boards of directors tend to be concerned about the financial wherewithal of shareholders. These concerns justify the practice in which prospective purchasers of cooperative units are required to submit detailed financial information as well as go through an interview process. Having to deal with nonpaying tenants and the legal fees associated with them can cause LECs to incur debts. The application process helps LECs select shareholders capable of meeting their

financial and social responsibilities. However, resident selection is a sensitive process because it can be used to discriminate and violate people's civil rights. Maldonado and Rose (1996) pointed out that the self-governing nature of the housing cooperatives occasionally gives rise to disputes and litigation between cooperative boards and shareholders when cooperation breaks down and individual self-interest takes over. They document cases in which the LEC structure generated a thin line between fair selection and discrimination. Maldonado and Rose (1996) suggested ways to avoid discrimination including formalizing the interview process, establishing objective criteria to evaluate applicants, and providing rejected applicants with written explanations.

Heskin (1991) examined the case of a LEC in California where material and ideological differences among members illustrate how challenging it can be to create the self-governing community necessary for a housing cooperative to function close to the ideal. Issues related to class, gender, and ethnicity caused conflict during the process of organizing the LEC, but the residents were most often able to work through to successful resolutions. Elsewhere, Heskin (1995) argued that conflict is a necessary part of cooperative life and contributes to new levels of understanding and renegotiations of unresolved problems that are important to the residents. He pointed out that oversight and regulation by government should recognize that conflict is not an indicator of failure but an opportunity for resolving differences democratically.

Regulations and governmental policies are often problematic for the success of LECs. According to Rohe (1995), the major obstacles to the success of converting the public housing developments he studied into LECs were (1) a costly and time-consuming renovation process, (2) tenant reluctance to participate in the process of conversion, and (3) the difficulty of explaining and developing interest in joining a housing cooperative. In these case studies, the lack of clear information for residents about the details of the project and the responsibilities of living in LECs, as well as the inadequate training that tenants received about how to manage a housing cooperative, resulted in low participation, which in turn contributed to poor housing conditions of LECs. Rohe (1995) recommended that conversion of public housing into LECs should be limited to developments where there is a strong and widespread interest among residents. Also, education of prospective residents about the nature of housing cooperatives and the responsibilities of shareholders is critical for their success. In addition, public housing agencies must be committed to offering the necessary resources to make conversion succeed.

Reynolds and Jeffers (1999) stated that the actual regulations and programs do not provide the necessary framework to allow for adequate development and operation of affordable housing in rural areas. Their conclusion is that LECs need a stronger support system to be successful. Supports should include partnerships between universities, government, and the private sector; the development of structures that can offer education and training to cooperators; and looser regulations that can address projects' economic and functional needs.

Nonetheless, regulations, as well as shareholder education and fostering of democratic values, are required to ensure long-term adherence to governance procedures, good management practices, and resale restrictions (Saegert et al. 2003). In hot housing markets, shareholders may be tempted to take advantage of market demand by subletting their apartments for high prices or by selling them at high prices. In a case study of a gentrifying mid-Manhattan neighborhood, the discovery (or public admission) that some LECs were selling apartments for much more than the legal limit has led to efforts by affordable housing advocates to assist buildings in understanding their obligations and in obtaining tax benefits in exchange for regulatory oversight (Saegert et al. 2003). When LECs are developed, managed, or in other ways dependent on community organizations, changes in the CBO's mandates, board members, or financial situation may affect the enforcement of LEC policies, quality of housing, shareholder involvement, and shareholder education.

Thus, the challenges presented to LECs are formidable, as they are in any form of low-income housing. However, several principles appear to hold:

1. Sponsoring organizations, financial institutions, and regulatory bodies must develop offering plans, purchase and maintenance terms, and governance and taxation structures that make the LEC investment a prudent one for low-income families.
2. Conveying property in good condition is essential. When this is not feasible, property should be conveyed only to residents who want to purchase and are prepared to make the necessary sacrifices.
3. Shareholder education and leadership development training are critical and must continue throughout the life of an LEC.
4. The specific housing market and economic conditions of an area dictate different regulatory and financing arrangements.

WHAT NICHE IN THE U.S. HOUSING MARKET DO LECS FILL?

Public policy and public sentiment in the United States regard home ownership as the best option for

improving the quality of life by obtaining property, achieving housing independence, and accumulating equity. However, the growing number of low-income home owners with thin equity cushions, along with the reliance of low-income buyers on high-cost mortgage products, may undo recent home ownership gains and introduce new risks into the overall housing market (Joint Center for Housing Studies 2002). These issues demand, and are receiving, attention. Meanwhile, the option of LEC ownership may provide affordable, stable housing with many of the benefits of home ownership.

Expiration of government housing subsidies, limited governmental assistance for tenants to buy their apartments, and unaffordable rents in many communities make it difficult for many moderate- and low-income families to afford housing and other necessities such as food, medical care, and higher education. In many metro areas, combined income from two full-time minimum-wage jobs will not pay for a modest two-bedroom apartment at 30 percent of household income. And in some areas, moderate-income families face severe cost burdens. For example, two teachers in Washington, D.C. would pay much more than 30 percent income for such a rental unit (Joint Center for Housing Studies 2002).

The State of the Nation's Housing reports (Joint Center for Housing Studies 2001, 2002, 2003) for 2001 through 2003 indicate that even during the current economic downturn, rents and housing prices have continued to rise in much of the country. Yet, for the poorest 20 percent of the U.S. population, real incomes have been steady since 1975, totaling only 4 percent of U.S. household income and averaging about \$10,500. The Commerce Department has reported that about 1.3 million more people were poor in 2001 than in 2000.

Even when low-income households are able to carry the cost burden of ownership, Figure 5 shows that, across all owners, low-income owners' equity accumulation falls well below that of higher-income home owners.

An extensive review by Rohe, McCarthy, and Van Zandt (2000) of research on the benefits of home owner-

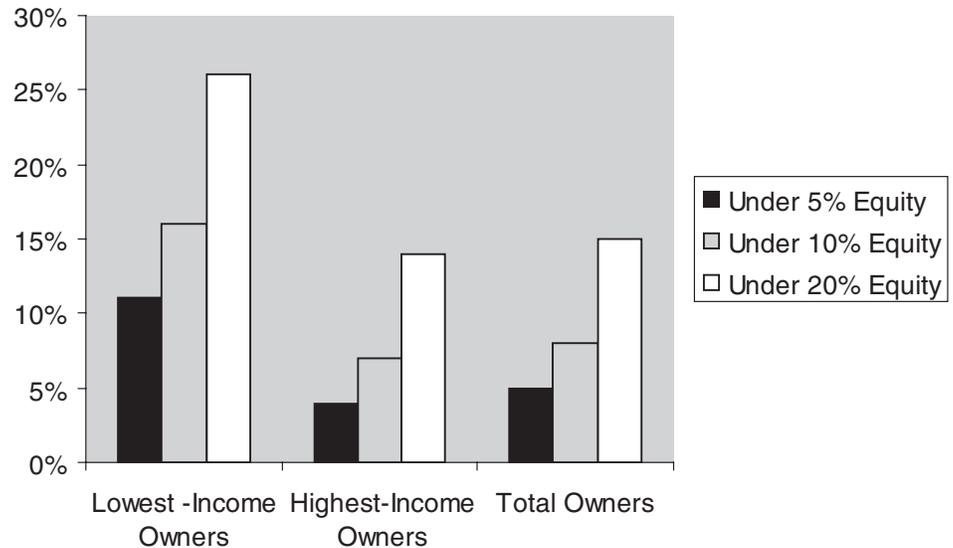


FIGURE 5. Home Owners and Equity
SOURCE: Joint Center for Housing Studies (2002). Used with permission.

ship also raises some cautions concerning home ownership for low-income households:

1. The financial investment in housing may keep people from moving if their homes become difficult to resell.
2. Households with variable or flat income trajectories are at risk for losing their homes or being unable to maintain them at a reasonable standard.
3. It is probably counterproductive to encourage households to buy homes in areas that do not have stable or increasing property values.

The limited investment and low monthly charges required by most LECs and the shared responsibility for upkeep and marketing of units reduce the first two liabilities of home ownership. Most central city LEC pioneers do not match the profile for first-time home buyers. Many are older, often single parents, widows, or members of extended families, and with too few resources to be inclined to resettle in another environment. By recycling ownership of housing that has become no longer profitable to the private sector, they can remain in their homes, improve their housing and neighborhood, and contribute to a more positive future for their community. The use of abandoned or undervalued property by LECs can provide a useful counterpoint to cyclical disinvestment, followed in some areas by reinvestment that leads to rising housing costs. Such properties are also likely to be located in areas with economically depressed populations who can most benefit from LECs.

LECS' BENEFITS AND RETURN ON PUBLIC INVESTMENT

Assuring decent, affordable housing for people with low incomes, in most cases, requires some level of subsidy (direct or indirect through tax deductions and mortgage insurance), as well as government regulation and oversight, private sector financing innovations, technical assistance, and involvement of intermediaries (Turner 1998; Weicher 2001). The same is true for LECs. Thus, it is appropriate to ask whether the subsidies and other forms of public investment in LECs are efficiently used. While there is little comparative evidence on this question, Sazama and Willcox (1995) reported data from a variety of sources indicating that LECs spend less on vandalism, litter removal, maintenance and operating expenses, and total costs of operations including depreciation compared with nonprofit and limited-dividend housing. These data, plus the evidence on LECs' resistance to foreclosure and gentrification, indicate that LECs are an efficient way to invest public funds to ensure access to decent housing for low-income households. LECs require noncash investments from shareholders and the groups that assist them.

CONCLUSIONS

This review of research indicates that LECs can provide a less costly, high-quality housing alternative to home ownership, especially for the populations least likely to become home owners. LECs promote residential stability and increase resident control of housing. While asset accumulation potential is limited, low purchase prices and monthly charges give LEC shareholders a greater ability to accumulate savings than cost-burdened renters and owners. LECs can provide access to secondary mortgages for educational and other needs, as well as tax advantages. Associations of LECs, as well as Mutual Housing Associations and CLTs, can be effective in applying cooperative cost-saving and risk-sharing principles to the purchase of goods, services, and insurance.

LECs provide a counterweight in the national housing stock to economic swings that promote disinvestment in poor neighborhoods and low-income housing in down markets, and, in up markets, contribute to gentrification, displacement, and homelessness for low-income populations. Periods and regions characterized by economic distress present opportunities for the development of LECs in locations where they are most needed. When the private sector disinvests in a community, land prices and jobs both decrease. The populations who remain in these areas need lower-priced housing but often find badly neglected, and sometimes still overpriced, options in the private market. When

properties are available, the low cost of land and housing acquisition and the opportunity presented by forfeits, foreclosures, and abandonment lower the amount of public investment required. LECs nurture the social and human capital of residents, thus supporting the personal and community development of residents who remain in distressed communities. Their dense social networks, as well as the formal, democratically determined rule structure of LECs, can contribute to informal helping arrangements for the inevitably large segment of such populations whose lives are limited by old age, chronic disabilities, and multiple family demands. The financial and social benefits of LECs suggest that they deserve consideration during buy-outs of subsidized housing with expiring use restrictions and of properties owned by failed or struggling community development corporations, especially when residents and a substantial portion of the local population have incomes too low to afford market rate housing.

Finally, LECs may have an especially important place in a society that strives to be democratic and includes a diverse ethnic population, many immigrants, and citizens who differ vastly in wealth. Suburban, single-family housing developments make up the largest proportion of the nation's housing stock, with rental housing located mostly in central cities providing the second largest housing supply. These housing options have supported increased segregation by class and race during the last decades (Joint Center for Housing Studies 2001; Massey and Denton 1993). The segregationist tendencies of such a national housing market has been exaggerated at both ends of the income spectrum by new upscale suburbs of "McMansions" and gated communities and an increased public nonchalance about high levels of homelessness. Our analysis indicates that the populations who could be attracted to LECs, and whom research shows to be well served by them, span a broad spectrum of income and ethnicity. The shared responsibility and democratic principles of LECs promote the formation of real working relations among residents, even when they differ in ethnicity, income, and human capital. In addition, the social and leadership skills that are learned in LECs increase residents' resources and motivation for civic participation. LECs and CLTs are almost unique in the extent to which they link the social capital that community organizations and tenant activists promote to the control of economic capital in the form of real estate (DeFilippis 2001).

The subsidy and regulatory requirements and support structures needed to increase and sustain the LEC supply are similar to those that exist for home ownership and subsidized rental housing: tax advantages and tax caps to reflect limitations on resale potential; low-cost development loans and mortgage insurance; regu-

lation and oversight to ensure proper adherence to governance, management, and resale agreements; and shareholder education, counseling, and technical assistance. Just as home ownership and rental housing are sustained by large networks of government, financial, legal, and technical organizations with an interest in their success, LECs' prosperity would be aided by the creation of formal and informal associations of the professional, governmental, financial, and technical institutions that contribute to their functioning. LECs should have access to existing venues for financing low-income housing, especially tax credit financing which is now not used for LECs (if still valuable after tax cuts take effect). Finally, LECs need better public education and marketing campaigns to increase awareness of the nature of LECs, their benefits and demands, and the evidence for their success. To this end, a stronger body of research on LECs would be desirable. But even in its absence, enough evidence exists to indicate that LECs could usefully expand to define a unique and valuable niche in the housing market.

In summary, LECs have the potential to fill a larger niche in the housing market for low-income households and others who have less ability or desire to own a single-family home. While the private rental stock will no doubt continue to be the main housing supply for these groups, *The State of the Nation's Housing* reports, written by the Joint Center on Housing Studies, have for a decade indicated that the rental stock is an often costly and inadequate housing alternative. The ownership, governance, and financial structure of LECs will and should vary according to local conditions and current funding mechanisms for low-income housing. However, there is room for innovation in all of these areas. The ability of shareholders to make decisions about their residential environments has given rise to successful housing forms that support the needs of the elderly and those with physical disabilities. Many cohousing schemes among wealthier populations employ limited equity cooperative ownership to assure continuing community control over housing decisions and community norms. These examples indicate that LECs provide a structure for innovative physical housing and community forms that could provide more satisfactory living environments for some households than those commercially available, especially for people with limited financial resources.

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