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

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Abstract

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

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Introduction

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

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

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

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

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

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

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

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

Data and Limitations

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

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

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

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

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

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

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

Homeownership: One Size Fits All Solution?

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

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

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

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

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

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

Shared Equity Homeownership: A Better Model?

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

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

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

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

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

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

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

Community Land Trusts

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

- The CLT, a non-profit organization, owns the land. This land is "rented" to a homeowner via a long-term (e.g., 99-year), renewable ground lease, transferrable to the homeowner's heirs.

- CLT residents own their homes, which are typically single-family dwelling units. Homeowners acquire traditional mortgage loans to finance their purchase, often from banks partnered with the CLT program.

- As a condition of the ground lease, homeowners are permitted to a limited amount of appreciation upon resale of the home. CLT resale formulas generally allow sellers to claim all of their principal equity and a percentage of price appreciation. In the event of depreciation, resale formulas typically enable homeowners to recover most, if not all, of their principal equity.

- CLT membership is open to all individuals within a geographically defined service area, including non-CLT residents. The organization is governed by a board, which includes equal representation from leaseholders (i.e., homeowners on CLT land), non-leaseholders (i.e. non-CLT residents within the community), and representatives of the "public interest" (Institute for Community Economics 1982).

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

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

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

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

Limited Equity Cooperatives

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

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

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

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

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

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

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

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

Discussion: CLT-LEC Hybrid Projects

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

Starting a CLT-LEC Project: Importance of Social Feasibility

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

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

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

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

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

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

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

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

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

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

Bricks and Mortar: Physical Features of CLT-LEC Projects

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

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

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

Dollars and Cents: Affordability Characteristics of CLT-LEC Projects

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

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

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

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

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

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

Role of the CLT: Assessing Project Feasibility

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

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

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

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

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

Role of the CLT: Governance & Participation

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

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

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

Role of the CLT: Stewardship

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

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

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

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

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

Conclusion

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

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

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

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

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

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