

**AFFORDABLE HOUSING COOPERATIVES**

***CONDITIONS AND PROSPECTS  
IN CHICAGO***

## ACKNOWLEDGEMENTS

The Chicago Mutual Housing Network (CMHN) requested the assistance of the UIC Nathalie P. Voorhees Center for Neighborhood and Community Improvement (VNC) to assess conditions and prospects of the affordable housing cooperative model in Chicago.

The CMHN is a federation of mutual housing organizations and their allies. CMHN works to promote the development and sustainability of affordable mutual housing through the provision of training and technical assistance, member services, advocacy and co-sponsorship of development projects for low and moderate income people.

The Nathalie P. Voorhees Center for Neighborhood and Community Improvement is a technical assistance and applied research center at the University of Illinois at Chicago. Its mission is to improve the quality of life for all residents of the metropolitan area through assisting community organizations and local governments in efforts to revitalize the many and varied communities in the city of Chicago and surrounding area.

Based on an analysis of census information; legislation, policies and practice in other jurisdictions; and focus groups discussions and surveys conducted for this purpose; this white paper will examine housing cooperatives, particularly the affordable housing cooperative model, and explore its viability as an affordable housing option for Chicago residents.

The project team extends its appreciation and gratitude to the many people who offered information and assistance in the course of this study, particularly residents of cooperatives who participated in the focus groups. The support, assistance and comments provided by the leadership, staff and members of the Chicago Mutual Housing Network are particularly noteworthy.

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## ***EXECUTIVE SUMMARY***

Cooperative housing has a long history as a vehicle for homeownership and resident control since the early 1900s in this country. It was the most prominent form of homeownership in multi-unit buildings until the onset of the condo movement not too long ago. In cooperatives, members jointly own the building they live in through their ownership of shares in the cooperative corporation unlike in condos where individuals own their respective units.

Housing cooperatives are generally divided into affordable and market rate. The fundamental difference between these two forms is that affordable housing cooperatives promote long-term affordability primarily through agreed upon limits on resale prices of shares. In addition, income restrictions also apply to buyers of affordable housing cooperative shares in order to ensure that the housing is affordable to targeted low and moderate income households.

In cooperatives in general and those that are affordable in particular, the cooperative corporation secures and holds the mortgage for the whole building; as such, individuals buying shares in an affordable housing cooperative once it is up and running do not have to secure a mortgage (although they have to come up with the share prices which are typically very modest because of the limit in share prices), unlike in condos where each and every transaction for a condo unit triggers the mortgage lending process with its associated costs.

This study involved review of the literature; review of legislation, policies, and practices in other regions; analysis of relevant data and information; surveys of cooperatives in Chicago; focus group discussions with affordable housing cooperative members; and conversations with individuals and entities who work with cooperatives including lenders, funders, managers, experts, advocates, etc. Based on these, the following are some key findings:

1. Historically, cooperatives have been used as a tool to alleviate housing shortages in times of crisis. Both the federal government and some states and local jurisdictions have implemented policies and programs supporting cooperatives. At the Federal level, the Section 213 program was responsible for 200,000 units of cooperative housing in the 1950s and 60s while the Section 221(d)(3) and Section 236 programs granted more than 600 loans to cooperatives in the 1960s and 70s. In the 1980s and 90s, the Emergency Low Income Preservation and Homeownership Act (ELIHPA) and Low Income Housing Preservation and Resident Homeownership Act (LIHPHRA) programs helped to convert 18,000 units into LECs.

New York has been at the forefront in the promotion of housing cooperatives both at the state and city levels: the New York Housing Act of 1927 promoted affordable housing cooperatives statewide through tax exemptions

while the 1955 Limited Profit Corporations Law (Mitchell-Lama Act) was responsible for 60,000 units. In New York City, the launching of the Tenant Interim Lease (TIL) program and the creation of the Urban Homesteading Assistance Board (UHAB) in 1973 assisted the conversion of 20,000 units into cooperative housing. There are now about 160,000 units of cooperative housing units in New York City while that number in Chicago is approximately 12,000, constituting only about 1% of the housing stock.

2. Traditional fee simple single family and condominium homeownership is getting more and more costly for low and moderate income households where only less than 20% of Chicago's residents are able to afford the median home price that has escalated from \$198,000 in 2001 to \$224,000 in 2002; a 13% jump in one year. Rental housing costs are rising at a disproportionately higher rate than income; during the second half of the 1990s, rents outpaced the Consumer Price Index at a rate of almost 2 to 1 and, in 2000, 40% of Chicago renters were paying more than 30% of their income for rent while 21% paid over half of their income. At the same time, the number of subsidized rental housing units is diminishing with 10,000 expiring Section 8 units at risk of being lost in the next five years and the public housing stock going down by 14,000 units.

In this scenario, where low and moderate income families are exposed to excessive rent burden, displacement and overcrowding, affordable housing cooperatives offer a viable option for affordable housing that is stable for the long term.

3. Members of affordable housing cooperatives in Chicago who participated in the **focus group** discussions conducted by the Voorhees Center voiced their satisfaction with their living conditions and highlighted the benefits they derive from living in their housing, including, affordability, stability, community, security, skills development, control, as well as tax and other benefits of ownership.

Most of the members of the older affordable housing cooperatives surveyed for this study represent professionals in careers in education, civil service, low and mid-level management, etc. A large number have lived in their cooperatives for a long time, some as long as the cooperative itself, raised and educated their children, and many have "aged in place", where they continue to live because of the comfort and security offered by their communities.

The study found that pooled resources of the members and resident participation and oversight in property affairs reduce the monthly cost to the owners by as much as one third less than comparable rental properties. In addition, residents realize about 5% annual appreciation of their share prices. In terms of stability, the tenure of affordable housing cooperative residents is more than twice as much as that of renters. These and other attributes

documented in this report as well as *“The sustained success of housing cooperatives developed in the past forty years points to the viability of this model and its importance in expanding homeownership opportunities.”*<sup>1</sup>

As demonstrated by the following, studies and the literature identify many economic and social benefits of housing cooperatives in general, and affordable housing cooperatives in particular:

*“Based on a study of over 3,000 low-income minority residents in over 700 buildings completed by the City University of New York, tenants viewed the most successful buildings (both socially and physically) were resident owned cooperatives.”*<sup>2</sup>

Similarly, in 487 buildings (comprising five different housing programs) surveyed in New York City, affordable housing cooperatives were found to have lower crime rates and the highest quality housing. Residents of LECs were more likely to participate in the civic life of the neighborhood, had longer tenure, and expressed a strong desire to remain in the neighborhood. *This “social capital”, which was higher in affordable housing cooperatives than any other housing model, “adds value to government investment in housing.”*<sup>3</sup>

4. There are barriers and challenges to cooperative development and sustainability; they include lack of funding, lack of education & information, lack of member participation and management related problems. These are critical areas to address in order to ensure the viability and attractiveness of this housing option. There are policies, programs and practices employed at the federal, state and local government as well as organizational levels that address these barriers. If adopted, these models can inform policy initiatives and practices and promote affordable housing cooperative development in the Chicago region.
5. There are clear opportunities in terms of population groups and property types that are conducive to cooperative housing development in Chicago. The study documents the demand for this type of housing and identifies significant population groups that would benefit from this housing model. This target groups largely constitute households with incomes between \$20,000 and \$50,000 and include:
  - a) Single women between the ages of 45-65 who are attracted to affordable housing cooperatives because of the security, sense of

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<sup>1</sup> Lawyers Committee for Better Housing, May 2001. *Housing Cooperatives in Chicago*

<sup>2</sup> Shelterforce, 1999. *“CDCs, Social Capital and Housing Quality.”*

<sup>3</sup> Saegert, Susan and Lymari Benitez. 2002. *Limited-Equity Housing Cooperatives: An Attractive Alternative to Rental Housing in the United States*. New York: City University of New York Graduate Center.

community and affordability offered by this housing type: there are approximately 20,000 single head of household females in this category.

- b) Likewise, single female heads of households between the ages of 15 and 65 with children below 18 years old are also attracted to this housing model for the reasons under 1 as well as the support and protection their children receive from their neighbors: approximately 120,000 households are included in this category.
- c) Moderate-income 2 headed households with incomes between \$20,000 and \$50,000 and with children below 18 years of age find this housing model attractive primarily because they cannot afford traditional homeownership in today's market and view cooperatives as a stepping stone to traditional homeownership: there is a pool of 450,000 families in this category.
- d) Young recent college graduates between the ages of 22-34 who are entering the job market with modest incomes and who are interested in living arrangements where they would have some control of their housing with like minded and similarly situated individuals is another group attracted to coops: there are over 260,000 individuals in this category in Chicago.
- e) In addition, intentional communities of social justice activists who prefer this living arrangement and recent immigrants who desire to live close to each other constitute other groups that are attracted to this housing model.

With an aggregate potential number easily exceeding half a million households, the target market for cooperatives is substantial.

6. The cooperative housing market is largely untapped and offers significant business opportunities for financial institutions. Lending for cooperatives is estimated to be in the hundreds of millions of dollars in cities like New York. Recent loans to some older affordable housing cooperatives that are refinancing or improving their properties in Chicago runs in the millions of dollars; examples include, \$10 million by Chatham Park Village, \$8 million by Harper Square, \$2 million by Noble Square, etc.

These findings should inform the work of the Chicago Mutual Housing Network and place it in a strong position to mobilize resources and challenge stakeholders to play a more active role in supporting and promoting affordable housing cooperatives as a tool for affordable and stable housing for low and moderate income residents of Chicago and its environs. The study should also be useful to all stakeholders who are interested in understanding the meaning and role of affordable housing cooperatives as an affordable housing option. In addition, we hope that it will be helpful in policy and program development.

The potential of cooperative housing as a significant business prospect, a viable affordable housing option and a vehicle for community stability renders it a subject of interest that should be investigated by all concerned. It is crucial that policy makers, public agencies entrusted with the promotion of affordable housing and stable communities, financial institution active in the housing market, as well as other stakeholders earnestly explore the possible place of cooperative housing as an affordable housing model and evaluate their respective roles for its success.

In particular, the major public funders of affordable housing in Chicago, the Illinois Housing Development Authority (IHDA) and the City of Chicago Department of Housing (DOH), can play a pivotal role in implement appropriate initiatives and strategies in order to promote cooperative housing as a significant affordable housing option. In addition, cooperative ownership by Housing Choice Voucher holders is highly feasible and deserves the focus and attention of the Chicago Housing Authority as well as the Chicago Housing Choice Voucher Program Administrator (CHAC). We offer the following suggestions for consideration:

1. The City of Chicago Department of Housing (DOH), the primary city agency responsible for the development and preservation of affordable housing, can support the development of affordable housing cooperatives in Chicago through:
  - a) Extension of the existing New Homes for Chicago and Vintage Homes for Chicago Programs to cooperative housing;
  - b) Institution of First Right of Refusal and support to tenants in case of sale or conversion of rental properties;
  - c) Establishment of a program such as the Tenant Interim Lease Program (TIL) in New York to enable tenants and/or community groups to have the “First Right of Refusal” to acquire and control city owned, neglected or abandoned properties;
  - d) Development of a program to facilitate the preservation of at risk properties (Section 8 and Tax Credit) through resident control and ownership.
2. Likewise, the State of Illinois, via its housing agency, the Illinois Housing development Authority, is urged to implement the following measures:
  - a) Establishment of a program to facilitate the preservation of at risk properties;
  - b) Extension of 1<sup>st</sup> time homebuyer benefits to buyers of cooperative shares;
  - c) Promotion of cooperative homeownership initiatives;
  - d) Targeting of Trust Fund resources for cooperative housing development.
3. The Chicago Housing Choice Voucher Homeownership Program launched in Chicago is very suitable for cooperative homeownership. Most voucher holders are very low-income families and lack the resources for traditional homeownership in Chicago; on the other hand, what is needed to buy a share in an established affordable housing cooperative is the price of a share (which

is limited and largely affordable even to very low income households) while the voucher holder's share of the mortgage and other expenses would be covered by the monthly charge or rent paid by the tenant and the Section 8 Voucher. This would indeed be a very effective way of promoting ownership for voucher holders, deserving attention and focus by CHAC. The following steps are recommended for consideration by CHAC:

- a) Train Mobility Counselors about affordable housing cooperatives;
- b) Maintain a list of vacancies in cooperatives;
- c) Train Section 8 tenants and maintain a list of eligible voucher holders to match with vacancies; and
- d) Work closely with the Mutual Housing Network to facilitate cooperative home ownership by voucher holders.

This report documents initiatives similar to the foregoing that have been instrumental in developing and preserving a substantial number of affordable cooperative housing units. We believe that implementation of these and other similar strategies in Chicago will mitigate the affordable housing shortage and stabilize communities for the long term.

## ***INTRODUCTION***

There is wide spread recognition that low and moderate-income families have a hard time finding quality affordable housing in most large US cities. In Chicago, the economic boom of the 1990s made this issue real for renters and homeowners alike. Housing costs are skyrocketing while incomes are stagnating or are not keeping pace with the rate of housing cost increases. Meanwhile, effectively reacting to the current housing shortage has become particularly difficult because of changes in national housing policy.

Low and moderate-income households are the most affected by this trend. Nationwide, the percentage of low and moderate income families (earning between 50% and 120% of the area median income) paying more than half their income for housing costs has increased 80% from 1997 to 1999.<sup>4</sup> Foreclosure and delinquency rates are reaching record highs<sup>5</sup> and homelessness is on the rise.<sup>6</sup> In addition, existing renters and homeowners are being displaced through large-scale gentrification in many city neighborhoods. Rental housing has been lost during the 1990s as many buildings have been converted to condominiums; demolition of both public and private subsidized housing has further reduced the stock. The result has been a sharp decrease in vacancy rates and further price escalations<sup>7</sup>.

These circumstances warrant exploration of other viable housing options and policies. Cooperative housing is one such option. Cooperative housing has been used successfully in similar situations through the years across the globe to increase ownership opportunities, to promote resident control and participatory decision-making, and to preserve affordability. These are key attributes that would make cooperative housing a viable strategy that can help to mitigate the current housing shortage.

Simply put, a housing cooperative is a form of homeownership where individuals own shares in a corporation that owns or controls the land and buildings that provide the housing. Share ownership entitles one to occupy a unit within the cooperative and confers other rights and responsibilities. Cooperatives stress resident participation and representative decision-making in order to achieve maximum benefit for all.

Within housing cooperatives, there is the “limited equity cooperative” (LEC) model where members collectively decide to limit the resale value of membership shares and where income maximums are instituted in order to keep the housing permanently affordable to families and households of modest means. This model guarantees long term affordability and stability for both residents and neighborhoods.

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<sup>4</sup> *Mayors National Housing Forum Fact Sheet*. Washington, D.C.: The United States Conference of Mayors, available at [http://www.usmayors.org/uscm/news/press\\_releases/documents/housingfactsheet\\_052102.pdf](http://www.usmayors.org/uscm/news/press_releases/documents/housingfactsheet_052102.pdf). Accessed July 8, 2003.

<sup>5</sup> Pitcoff, Winton. “Has homeownership been oversold?” *Shelterforce* #127, January/February 2003, available at <http://www.nhi.org/online/issues/127/homeownership.html>. Accessed August 15, 2003.

<sup>6</sup> *Homelessness: Causes and Facts*. Chicago: Chicago Coalition for the Homeless, available at <http://www.chicagohomeless.org/factsfigures/causesandfacts.htm>. Accessed August 11, 2003.

<sup>7</sup> Smith, Janet. “Chicago Regional Rental Market Study.” Metropolitan Planning Council, 2003.

Besides affordability, affordable housing cooperatives have some major advantages that are documented in this paper. There are social benefits, such as the often-cited strong inter-resident networks which can provide a support structure to residents. The collective decision-making process allows residents to work towards shared goals in the building and the larger community. Through greater participation, members build skills in a wide range of activities that are broadly applicable in both individual and community life.

Capital is primarily accessed through the cooperative corporation. The pooled buying power of the members through the cooperative enhances the ability of individual households to access homeownership. Once the cooperative is developed, incoming members are required to come up only with the price of a share in the corporation (which is generally modest particularly in limited equity coops) in addition to having to pay the regular monthly charges; they do not need to go look for a mortgage. In contrast to traditional condominium and single family homeownership, cooperatives offer great economic advantage because there is no transaction cost involved every time a member leaves and another one takes their place; similarly, the time, energy and resources associated with looking for individual mortgages is spared. Cooperative members also have considerable financial benefits that are available to traditional homeowners such as income tax deductions and equity appreciation.

Cooperatives, particularly those that are affordable, offer an option between the instability of renting and the cost of owning. Affordable housing cooperatives offer hope that low and moderate income households need not be left at the mercy of market pressures and that stable and mixed-income neighborhoods can become more of a reality through effective use of this housing model.

In Chicago, cooperatives remain an anomaly, particularly when compared to New York or many other large cities of the world. Despite their involvement in affordable housing issues, non-profit community based organizations have had a fairly limited exposure to the cooperative model. There are many reasons for the lack of visibility of the model; it is largely a result of unsupportive housing policy, as well as financing and regulatory environments that favor either renting or traditional homeownership over cooperative living. Misconceptions about cooperative housing abound. The findings in this paper demonstrate that this housing option works and that there is significant market for it.

### *Study Design*

This study relies on a variety of resources. Literature, legislation and practices pertaining to housing cooperatives in general and affordable housing cooperatives in particular have been reviewed. Data from the US Census and American Housing Survey have been utilized. Information on Chicago cooperatives maintained by the Chicago Mutual Housing Network as well as that contained in the Illinois Assisted Housing Research and Action Project (IHARP)<sup>8</sup> compiled and updated by the UIC Voorhees Center has also been used.

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<sup>8</sup> IHARP is a joint project of the UIC Voorhees Center, the Statewide Housing Action Coalition (SHAC) and Latinos United that maintains a database on subsidized housing units in the State of Illinois.

To supplement this information, surveys<sup>9</sup> were sent to contact persons (usually property managers or board presidents) at 206 housing cooperative properties listed in the CMHN database<sup>10</sup>. The survey asked about monthly costs, household income, cooperative policies and regulations, as well as information on financing, vacancies and waiting lists.

In addition, the Voorhees Center conducted 10 focus group discussions in the course of several months with LEC members representing 17 cooperatives throughout the City of Chicago. In these sessions, residents were asked to speak about day-to-day life in cooperatives and their general impressions about this form of housing. A total of 64 members participated in the focus groups. These residents were also asked to fill out questionnaires in order to get a better sense of the current profile of residents of affordable housing cooperatives. Questionnaires filled by an additional 57 residents were also received. The focus group discussions and questionnaires were very useful in supplementing the information available on cooperatives.

These resources form the basis for the discussions in this paper. The first section provides a brief historical overview and background of housing cooperatives. This is followed by a discussion of different housing options. The third part covers housing cooperatives in Chicago. The fourth part deals with the benefits and attributes of affordable housing cooperatives and the challenges and barriers that pertain to them. Strategies and practices that may be useful in addressing these challenges are also discussed in this part. The fifth part identifies target market groups and property types suitable for cooperative development. The paper ends with a short conclusion and recommendations that we hope will promote wider use of cooperative housing in Chicago.

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<sup>9</sup> Two different surveys, one for market rate co-ops, and a more detailed version for limited equity co-ops were developed. Copies of the surveys are included as an Appendix.

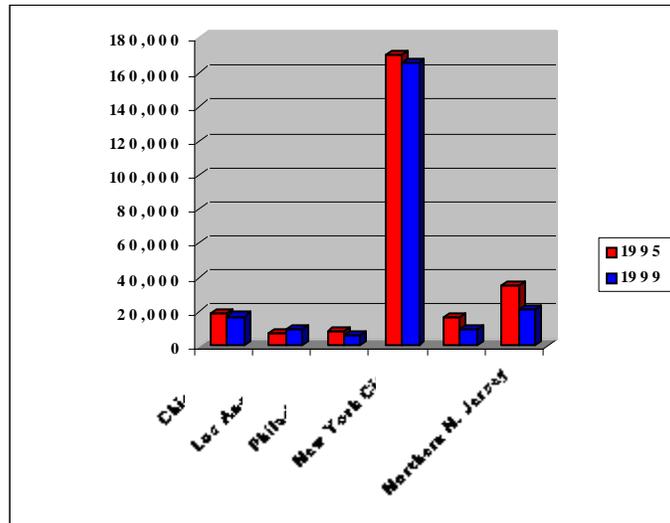
<sup>10</sup> These 206 properties represent the vast majority of cooperatives in the City, though some non-LEC properties may be missing.

## I. BACKGROUND

There are approximately one million cooperative housing units in the United States serving households with a range of income levels and housing needs.<sup>11</sup> In the Chicago metropolitan area, roughly 17,000 households live under the cooperative housing structure, with 11,700 (69%) of the units located in Chicago.<sup>12</sup> Of these units, roughly half fall under the “limited equity cooperative” model. In terms of the number of developments, the majority (nearly 80%) are market rate cooperatives although these developments are typically small while affordable cooperatives are typically large.

The number of cooperatives in Chicago is comparable to other major cities in the United States except New York City where the cooperative housing stock is significantly higher. Over the last decade, conversions to rental or condos as a result of financial restructuring have led to a decline in the number of cooperatives in most cities. Exact numbers are hard to come by, but the American Housing Survey reports that about 12% of cooperative units in Chicago have been lost since 1995; this loss is primarily a result of conversions and sale as rental property<sup>13</sup>. This is fewer lost units than in most large cities but more than in New York City or Los Angeles – Los Angeles actually recorded a 34% increase in cooperative units since 1995.<sup>14</sup> (See Chart 1 below for comparison in the change in the number of cooperatives from 1995 to 1999).

**Chart 1. Change in Number of Cooperative Units in Chicago area, 1995-1999**



This section on background will first present information on the cooperative model with particular focus on affordable housing cooperatives. It will then highlight some of the relevant and interesting history of cooperatives.

<sup>11</sup> *Co-op Month Fact Sheet*. 2002. Fargo: North Dakota Cooperative Coordinating Council, available at <http://www.ag.ndsu.nodak.edu/qbcc/NDCCC/coopmonth.htm>. Accessed May 1, 2003.

<sup>12</sup> American Housing Survey for the Chicago Metropolitan Area. US Department of Commerce, Bureau of the Census.

<sup>13</sup> For instance, the 439 unit Eden Green Cooperative (130<sup>th</sup> and Indiana) was recently restructured – it received tax credit funding for redevelopment and phased out as a cooperative over five years. Merril Square, Bethel Terrace and some other smaller properties are converted to rental property or condominium.

<sup>14</sup> The change in cooperative units from 1995-1999 was only able to be calculated for six metropolitan areas (PMSAs) using the American Housing Survey.

## A. Housing Cooperatives Defined

Cooperative housing is owned by the residents through a cooperative corporation rather than through direct ownership of the real property itself. Each member purchases shares of stock<sup>15</sup> in the corporation which entitles them to live within a specific unit and participate in the decision-making and governance of the corporation. Shares in the cooperative are bought and sold like any stock, with one significant difference; shares are sold by outgoing members to incoming members, with the approval of the corporation (usually through a membership committee or the full board of directors).

A housing cooperative member's stock is their equity investment, and carries with it the right to occupancy under a proprietary lease agreement. Unlike rental housing, where the landlord alone has discretion to terminate the lease, members in a housing cooperative have security in their housing provided they abide by the terms of their occupancy agreement.

In addition to share prices, housing cooperative members pay a monthly assessment, which is referred to by HUD as "carrying charge," that covers their share of the mortgage payment, management and operating costs, as well as taxes, insurance, and reserves. Cooperative members generally pay their own utilities and the cost (if any) of a loan obtained to purchase their share of stock in the corporation. Many cooperatives retain an outside property management firm to carry out day-to-day management activities. This is true of most affordable housing cooperatives in Chicago except for London Towne Homes, Lafayette Plaza, Stone Soup & Logan Square coops that are self-managed.

Cooperatives are self-governing organizations that depend on participation of members for success. All cooperatives have shared ownership, a democratically managed organization, and a board of directors made up of the residents themselves. A board of directors is elected by the membership, generally on a one share one vote basis. The board of directors is responsible for developing policies and procedures for management, budget, membership, and occupancy. This basic organizational and governance structure is shared by all housing cooperatives.

Over 150 years ago, the Rochdale experience in England laid the principles that guide cooperatives. The modern cooperative movement is rooted in this philosophical response to challenges that the Industrial Revolution posed to traditional agrarian life in England. Robert Owen popularized the philosophy that cooperation rather than competition offered people the opportunity for better living conditions and greater achievement; people could always live better and achieve more through cooperation. In 1844 a group of weavers in Rochdale, England applied his ideas as a response to the oppressive working conditions and economic difficulties they faced. They combined their resources and established a cooperative store where they sold household goods. The profits were distributed among members of the cooperative. The Rochdale principles are in common use today both in the formation and maintenance of cooperatives.<sup>16</sup>

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<sup>15</sup> The HUD prescribes the one member/one share formula which is the case with limited equity cooperatives. Most older cooperatives issue a number of shares associated with specific apartments and assessments are made on a per share basis.

<sup>16</sup> *What is a Coop?* Delton: Circle Pines Center, available at <http://www.circlepinescenter.org/governance/coops.htm>. Accessed August 7, 2003.

The ways in which cooperatives practice these principles include<sup>17</sup>:

*Open and voluntary membership:* cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

*Democratic control:* cooperatives are democratic organizations controlled by their members who participate in setting policies and making decisions. Residents serving as elected representatives are accountable to the membership. Cooperatives operate in a democratic manner where members have voting rights based on the number of shares they own; most affordable housing cooperatives follow the HUD formula where each member has one share where the one member one vote rule would apply.

*Limited rate of return on investment (particularly in limited equity cooperatives):* in order to preserve affordability in the building for future generations, many cooperatives decide to limit the monetary return on capital investment. In fact, some cooperatives do not pay any dividends on capital beyond inflation increases. Others pay a modest return, in line with state and federal statutes that bar substantial payments. Limiting returns on equity supports the principle of maximizing benefits to the community. It also discourages others from taking control of a cooperative in order to operate it as a profit-generating concern.

*Surplus:* members allocate funds to develop the cooperative, to set up reserves and to support other activities approved by the membership. Any surplus is owned by the corporation which under certain circumstances may, by majority vote, decide to refund a portion of it to the share holders.

*Cooperation among cooperatives:* cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

*Constant education:* cooperatives provide education and training for their members, elected representatives, managers and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public about the nature and benefits of cooperatives.

### ***Affordable Housing Cooperatives***

Affordable housing cooperatives have many of the same characteristics as market rate cooperatives. However, they are designed to regulate individual sales of units in order to make homeownership affordable to low and moderate-income people for the long term. Through their agreed upon bylaws, affordable housing cooperatives limit the maximum price at which shares can be sold and restrict the re-sale of cooperative shares to designated low-income groups.

Most cooperatives developed during the 1960s and 1970s used federally insured mortgages. In Chicago, some of the well known and significant affordable housing cooperatives such as Chatham were developed during this time period under Section 213, the HUD mortgage insurance program. Many other significant properties such as Lakeview East and Carmen Marine in Chicago were

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<sup>17</sup> *What is a Coop?* Washington, D.C.: National Cooperative Bank, available at <http://www.ncb.coop>. Accessed June 7, 2003.

developed in the early 1990s under the federal Low Income Housing Preservation and Resident Homeownership Act (LIHPHA) program when properties subsidized under the federal 221(d)(3) and 236 programs were converted into cooperatives. The federal Low Income Housing Tax Credit Program has also recently been used to develop properties for eventual conversion to cooperatives. The 31 unit Nuestro Hogar cooperative is one such development in Chicago. Through these programs, the federal government has historically played a significant role in promoting and facilitating the development of affordable housing cooperatives.

In Chicago, in spite of the lack of resources, individual and community efforts have resulted in the development of numerous housing cooperatives. There are a number of **member sponsored** cooperatives where a group of motivated individuals come together around a common ideal such as affordable housing and social justice and proceed to acquire property and live cooperatively. Stone Soup and Logan Square Cooperatives are examples of such initiatives. **Community sponsored** cooperatives, where non-profit organizations or CDCs develop properties and identify and train members, also abound. Non-profit organizations in Chicago have undertaken community sponsored projects; Good News Partners in Rogers Park has developed 5 affordable housing cooperatives with 55 units,<sup>18</sup> while TWO built the 148 unit Park Shore East Cooperative in 1979. CDCs such as Bickerdike have also undertaken community sponsored projects such as the Nuestro Hogar as a joint venture with the Chicago Mutual Housing Network. In most cases, affordable housing cooperatives are built and residents are selected just as in affordable rental developments.

From a community development perspective, many have commented on the unique attributes of Affordable housing cooperatives as a vehicle to achieve community goals. A survey cited in the *American Journal of Economics and Sociology* confirms that cooperatives have been "effective in obtaining for low-and moderate-income families decent housing at an affordable price, with effective resident control."<sup>19</sup> Cooperatives maintain long term affordability while also ensuring that current residents receive a fair return on their investment upon resale based on an equity formula.<sup>20</sup>

The production of a large number of the affordable housing stock today depends mostly on non-profit organizations. The goals of non-profit community development corporations (CDCs) go beyond providing affordable housing opportunities and extend to resident empowerment, economic revitalization, and community participation, among others. Affordable housing cooperatives are democratically controlled by their residents and promote resident empowerment. Restrictions on share prices upon resale and income maximums ensure long term affordability. These aspects are making housing option more and more attractive to CDCs. Cooperatives developed by non-profit sponsors have been noted in studies to have an outstanding record compared to other types of housing.<sup>21</sup> However, the lack of federal and local funding for affordable housing severely limits what CDCs can accomplish.

Private lenders too have had limited involvement in the financing of cooperatives. Financial institutions often have misunderstandings about Affordable housing cooperatives and have few incentives to break with their lending policies. As a result, only a few banks such as the National

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<sup>18</sup> Hope House (6 units), Esperanza (17 units), Fargo (5 units), Bos (6 units), Phoenix (21 units).

<sup>19</sup> Sazama, Gerald, "Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy." *The American Journal of Economics and Sociology*, 59 (4): 573-608.

<sup>20</sup> Cooper-Levy, Herbert J. "An Introduction to Limited Equity Cooperatives." Washington, D.C.: National Association of Housing Cooperatives.

<sup>21</sup> Sazama, Gerald, "Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy." *The American Journal of Economics and Sociology*, 59 (4): 573-608.

Cooperative Bank or other community lending agencies specialize in and engage with cooperatives. There is broader private lender participation in New York where banking and insurance laws have been amended in order to promote private lending for cooperatives.<sup>22</sup>

Some non-profit developers now use Low Income Housing Tax Credits in the production of leasehold cooperatives, such as the 31 unit Nuestro Hogar (Our Home) Cooperative in Humboldt Park in Chicago that received \$2.3 million in tax credits and HOME funds from the City Department of Housing. The co-developer of Nuestro Hogar, Bickerdike Redevelopment Corporation has also broken ground to develop the 87 unit Harold Washington Unity Cooperative at a cost of \$17 million in the west side of Chicago. Similarly, another CDC, LUCHA, is preparing to develop a 36 unit cooperative for single mothers on scattered sites in the 1<sup>st</sup> and 26<sup>th</sup> Wards in Westtown and Humboldt Park.

### ***Leasing or Master Lease Cooperatives (MLCs)***

A master lease cooperative (MLC) is a type of affordable cooperative where the corporation does not own the building but instead leases it from an owner. This kind of cooperative is most commonly used when developing affordable housing using the Low Income Housing Tax Credit (LIHTC) program which will be discussed later in this section. In this model, residents do not own the property or enjoy the tax benefits of homeownership until the long-term master lease expires. They do, however, enjoy the benefits of affordability during the term of the master lease, and have significant control over property management through their board of directors.

### ***Mutual Housing Associations (MHAs)***

Mutual Housing is housing that is either resident owned, managed or controlled. A mutual housing association (MHA) is a nonprofit association that may develop, own, manage, organize and/or assist any type of housing cooperatives or other forms of nonprofit resident-controlled housing. It is usually thought of as a “co-op of co-ops.” MHAs provide services to their membership, including training, management, development and advocacy. The majority of seats on the governing board are typically set aside for residents of affiliated properties.<sup>23</sup>

### ***Co-housing***

Co-housing can be thought of as housing that advocates resident interaction and shared space. It can be combined with cooperative ownership but is more often legally established under the condominium structure. Co-housing is designed, planned, and developed with a high degree of resident participation in order to enhance social contact between neighbors. Individual households have a self-contained private residence, complete with kitchen, but also share common facilities such as a community dining hall, activity center, children's playrooms, workshops, guests rooms, and laundry facilities.<sup>24</sup> The common facilities are seen as an important aspect of the design for both social and practical reasons.

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<sup>22</sup>Billand, Charles, “Refinancing—To Do or Not to Do: That is the Question Facing Many Cooperatives Today.” Washington, D.C.: National Association of Housing Cooperatives.

<sup>23</sup>*The Mutual Housing Association*, in “Social Housing: The Housing Cooperative.” Fall, 2002. Wilmington: Delaware Housing Coalition, available at <http://www.housingforall.org/mutual%20housing.htm>. Accessed August 13, 2003.

<sup>24</sup>McCament, Kathryn, “Co-housing Communities: A Model for Reinvigorating Urban Neighborhoods,” *New Village Journal*, Issue 1, 1999, available at <http://www.newvillage.net/Journal/Issue1/1urbaninfill.html>. Accessed May 1, 2003.

## ***Community Land Trusts (CLT)***

A Community Land Trust is a democratically controlled non-profit organization that owns real estate in order to provide benefits to a local community. Ordinarily, the community land trust is established to make land and housing available to residents who cannot otherwise afford them. CLTs are created by acquiring vacant land (land and buildings can also be acquired together) and arranging for the development of housing, businesses, parks, or structures on it. The land is held permanently by the CLT as a benefit to the community, while buildings can be owned by those who buy them. When an owner wants to sell a structure on the land, the price is set by a resale formula established by the CLT to give owner of such structure a fair return on investment while keeping prices affordable for other low-moderate income people.

When a CLT sells homes, it leases the underlying land to the homeowners through a long term renewable lease which gives the residents and their descendants the right to use the land. Residential buildings on the land trust can be rental, condominium, cooperative or single family homes. Rental properties are usually owned by the CLT; and affordability standards are determined by the members.

Community land trusts can be a powerful tool to protect long-term affordability. The concept is for a community organization to buy property in order to preserve it “in trust” for the purpose of maintaining affordability down the line. Cooperatives that build on community land trusts would be dependent on a third party, as the land trust is often a separate entity. The Burlington Community Land Trust in Vermont has preserved affordability of over 500 units of housing, including single-family homes, rental housing, cooperatives, and condominiums. Because the land is held in trust, the cost of land is removed from the sale price of the housing, thus promoting and preserving affordability.<sup>25</sup>

## ***B. History and Development of Affordable Housing Cooperatives***

The development of housing cooperatives is marked by the efforts of many low and moderate-income people fighting for decent housing in difficult times. Understanding the history of the cooperative movement and of affordable housing in general is important in order to develop policies that will provide adequate housing options.

The origins of the cooperative movement are based on the philosophy of common ownership and democratic control that was put in place for the first time in 1844 in Rochdale, England. The Rochdale Cooperative was founded by a weavers’ collective whose members formed the cooperative out of a desire for mutual self-help. This cooperative was based on democratic control of capital through the principle of “one member one vote”. The cooperative model resulted in a flourishing business that was quickly expanded to other business sectors including housing. By the early twentieth century housing cooperatives were common throughout Europe, especially in Germany and the Scandinavian countries.

The first housing cooperatives date back to the 1870s in New York; however it was not until after World War I that the model became significant in housing development. The early housing cooperatives were organized by immigrant groups and/or unions to provide affordable housing for their members during the post World War I period. Housing cooperatives extended the mutual self-

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<sup>25</sup>*The Community Land Trust Model*. Springfield: Institute for Community Economics, available at <http://www.iceclt.org/clt/cltmodel.html>. Accessed June 12, 2003.

help patterns of unions and immigrant groups to the residential sphere, and were seen as not just a housing option but also a lifestyle. Particularly in urban settings, where multifamily housing was the norm, the cooperative model was the “only practical way of ownership in multifamily buildings”<sup>26</sup> before the 1960s.

A desire for resident control combined with the need for affordable housing (given the increasing cost of urban land), and the influence of the union movement resulted in The New York Housing Act of 1927, the first large scale government program promoting affordable housing cooperatives.<sup>27</sup> This legislation had a profound impact on the development of moderate and low-income cooperatives. It granted “tax exemptions on the increase in value resulting from the construction of new projects for a period of up to 50 years, and also provided for condemnation to permit assemblage of adequate sites at fair prices.”<sup>28</sup>

A subsequent initiative by the State of New York was the enactment of the Limited Profit Corporations Law, otherwise known as the “Mitchell-Lama Act”, in 1955. This law encouraged the development of moderate-income housing through property tax exemptions and low interest loans (financed by state revenue bonds) to developers who agreed to restrict their dividends.<sup>29</sup> These developments were provided with state mortgage interest subsidies and incorporated income limits designed to ensure occupancy by middle-income households.<sup>30</sup> Around 60,000 units of affordable housing were developed under this statute in the 1950s and 1960s.<sup>31</sup> Approximately one-third of these units have been successfully converted into cooperatives.

New York continued to take the lead in promoting cooperative housing through the years. In the 1970s and early 80s, housing conditions were deteriorating rapidly as landlords were abandoning whole apartment buildings particularly in the Lower East Side. Many low income residents and “urban pioneers” sought to stabilize the community and provide affordable housing by claiming abandoned buildings and providing sweat equity to bring them back to habitable condition. Meanwhile, the City was seeking to substantially reduce the stock of subsidized housing it owned. In an effort to address these concerns, the City’s Department of Housing Preservation and Development (HPD) established several programs so that “tenants associations, community groups and landlords with proven records of providing good low-income housing could buy city-owned buildings.”<sup>32</sup>

The Urban Homesteading Assistance Board (UHAB) of New York City was created in 1973 to facilitate this initiative and to help tenants living in city owned buildings to take control of their

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<sup>26</sup> Goodman, Allen and John L. Goodman, Jr. “The Co-op Discount.” *Journal of Real Estate Finance and Economics*, 14 (1): 223-233.

<sup>27</sup> Sazama, Gerald, “Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy.” *The American Journal of Economics and Sociology*, 59 (4): 573-608.

<sup>28</sup> Siegler, Richard and Herbert J. Levy, “Brief History of Cooperative Housing.” Washington, D.C.: National Association of Cooperative Housing.

<sup>29</sup> Sazama, Gerald and Roger Willcox. “An Evaluation of Limited Equity Housing Cooperatives in the United States.” Storrs: University of Connecticut Department of Economics Working Paper Series. March, 1995

<sup>30</sup> Schill, Michael H. and Benjamin P. Scafidi. “Housing Conditions and Problems in New York City: An Analysis of the 1996 Housing and Vacancy Survey.” New York: New York University School of Law Center for Real Estate and Urban Policy and the NYC Rent Guidelines Board. May, 1997. Available at <http://www.tenant.net/Alerts/Guide/papers/schill/schill2.html>. Accessed May 30, 2003.

<sup>31</sup> Sazama, Gerald, “Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy.” *The American Journal of Economics and Sociology*, 59 (4): 573-608.

<sup>32</sup> Leavitt, Jacqueline and Susan Saegert. 1990. *From Abandonment to Hope: Community Households in Harlem*. New York: Columbia University Press.

property and become homeowners with a long-term vested interest in their neighborhood. This was largely a response to the significant squatters' movement of the time in New York City where many city-owned properties were taken over by squatters who fixed them up and lived in them. The most important initiative in this regard, the Tenant Interim Lease (TIL) program, provided for an eleven-month interim period where a tenant association would manage a building while receiving technical assistance and training. If the association's management performance passed HPD's review, the building would be sold to a legally constituted tenant cooperative corporation.<sup>33</sup> Approximately 20,000 units have been converted to affordable housing cooperatives in this manner<sup>34</sup>.

At the federal level, a provision (Section 213) promoting cooperative housing was added to the 1949 Housing Act in 1950. Section 213 allowed FHA market interest rate loan guarantees for "blanket" mortgages for new construction of housing cooperatives. Those guarantees were later extended to cover the conversion of existing projects into cooperatives.<sup>35</sup> HUD's Section 213 program has been the most successful cooperative housing program, responsible for 200,000 units in the nation; it requires no appropriation, assistance, or subsidy, and annually returns dividends to participants. Default rates on Section 213-insured cooperatives are lower than any other HUD multifamily program, and Section 213 loans outperform all other loan programs in HUD's portfolio.<sup>36</sup>

The federal government promoted the development of more low-income housing through the "War on Poverty" initiative in the sixties. There was a gradual shift from direct construction of public housing to private development of publicly assisted housing through insured loans, below market interest rates and other subsidies to groups that provide low-income housing. The principal source of financing was Section 221(d)(3) which provided below market interest rate loans (BMIR). This program could cover up to 100 % of construction or rehabilitation costs; for cooperatives, loans were for forty years. This section also included "income limits on new members, strong restrictions on increases in share value, and substantial penalties for prepayment of mortgages so that the housing would remain under federal affordability regulations for the full term of its HUD-insured mortgage."<sup>37</sup> Section 221(d) (3) was later replaced by Section 236, which offered BMIR loans subsidized down to 1%. Both programs granted more than 600 loans to housing cooperatives in 29 states.<sup>38</sup>

In Chicago, where housing cooperatives have represented an important housing resource since the 1920s, these federal housing programs have been instrumental in creating some of the city's most recognizable icons, such as the Edgewater Beach Apartments, the majority of East Lakeshore Drive high rises facing Oak Street Beach and a multitude of high rises and small courtyard buildings that dot Hyde Park and South shore. Developments funded through these HUD programs provided an effective mechanism to address the crisis in accessing decent housing by African-Americans, creating substantial numbers of housing units that were available in compliance with recently passed federal

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<sup>33</sup> Schill, Michael. 1999. *Housing and Community Development in New York City: Facing The Future*. Albany: State University of New York Press.

<sup>34</sup> Sazama, Gerald, "Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy." *The American Journal of Economics and Sociology*, 59 (4): 573-608.

<sup>35</sup> Sazama, Gerald, "Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy." *The American Journal of Economics and Sociology*, 59 (4): 573-608.

<sup>36</sup> National Association of Housing Cooperatives. "Housing Cooperatives: An opportunity to expand homeownership for moderate income families." November, 2000, available at <http://www.mhc.gov/responses/053001.doc>. Accessed June 12, 2003.

<sup>37</sup> Sazama, Gerald, "Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy." *The American Journal of Economics and Sociology*, 59 (4): 573-608.

<sup>38</sup> Sazama, Gerald, "Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy." *The American Journal of Economics and Sociology*, 59 (4): 573-608.

fair housing legislation, when housing discrimination was still persistent in other segments of the private housing market. The 803-unit London Town Houses is an example of one such development that grew to 803 units because demand for the initial phase of the development was so strong; this development was completely sold out in 18 months in the mid-sixties. Similarly, all 482 units of the Noble Square cooperative were sold in less than one year after completion in 1971. Chatham Park Village, another long-term success in Chicago's cooperative community, converted from rental to an affordable housing cooperative, with most of the African-American tenants deciding to remain because the cooperative offered them the benefits of homeownership which were then difficult to access in the private market.

Most of the research into the demand for affordable cooperatives reaches a similar basic conclusion: "The critical limiting factor for affordable housing cooperatives seems to be not demand, but supply."<sup>39</sup> When funding is available for affordable cooperatives, they are absorbed as soon as they are built. Unfortunately, federal funding has largely dried up and few states or localities have stepped in to fill the role played by older HUD mortgage programs.

With the onset of the Nixon Administration, the housing cooperative movement and the development of affordable housing in general experienced significant changes in the early and mid 1970s. An emphasis on the private market to provide affordable housing resulted in the eventual elimination of direct federal funding of new low-income cooperatives. BMIR loans and direct subsidy programs shifted to Section 8 project-based rent supplements and certificates. Project-based Section 8 remained the major source of federal financing for cooperative development until the massive Department of Housing and Urban Development (HUD) budget cuts of the 1980s. It is important to note that, unlike Section 8, the cooperatives developed earlier through federal programs did not require continued subsidy that depended upon an annual appropriation. The success of these cooperatives flowed from the below-market interest rate. As a HUD official commented: "Section 8 is easier for the government, but on a long-term basis the cooperative is more cost effective."<sup>40</sup>

Since the 1980s the budget for HUD assisted housing has been drastically reduced and many federally owned and assisted housing developments have been privatized. With housing policies shifting away from direct public investment in the creation of affordable housing, the "third sector" (local non-profit organizations), as well as private corporations, became key players. Non-profit organizations as well as resident groups also become increasingly involved in the preservation of affordable housing and conversions of government owned properties into cooperatives.

This was facilitated by the Emergency Low Income Housing Preservation Act (ELIHPA) of 1987 which was later replaced by the Low Income Housing Preservation and Resident Homeownership Act (LIHPHRA) in 1990. This came in response to the large number of Section 221(d)(3) and 236 properties that were leaving the affordable housing stock when owners either pre-paid their mortgages or their program contracts expired. ELIHPA placed a moratorium on pre-payment and promoted preservation until it was replaced by LIHPHRA in 1990. LIHPHRA viewed resident or non-profit purchasers with favor.<sup>41</sup> Two key elements of this program were the technical assistance funding provided to tenant associations and non-profit organizations to apply for financing to purchase

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<sup>39</sup> Miceli, Thomas J., Gerald W. Sazama and C.F. Sirmans. *Housing Policy Debate*, 5 (4): 469-490.

<sup>40</sup> Chicago Mutual Housing Network, "A Home of our Own Workshop on Cooperative Conversions." June 12, 2002.

<sup>41</sup> Goldberg Gray, Deb. "Resident Participation in HUD Affordable Housing Preservation Projects: What Works?" Davis: University of California Center for Cooperatives. September, 2000.

buildings<sup>42</sup> and incentives (in the form of favorable refinancing and funds for major systems improvement) for owners who chose not to sell. Through these initiatives, about 18,000 federally subsidized housing units have been converted to affordable cooperatives<sup>43</sup>.

A number of 221(d)(3) and 236 developments in Chicago have been acquired by not-for-profit organizations and tenant groups. Some of these properties, such as Carmen Marine on the north side, the 202 unit Lakeview East cooperative established in 1999, and more recently the 500 unit Lakeview Towers are now controlled by residents; the former two are already affordable housing cooperatives while the third is expected to follow suit. Because of this program, many low-income households have been provided with homeownership opportunities. The deep subsidies provided through the LIHPHRA program were instrumental in maintaining affordability; without them, resident purchase would not have been possible because of the high cost of rehab that was often necessary in these properties because of deferred maintenance. The success of the LIHPHRA program in preserving affordable housing in Chicago is “a lesson in coordinated local and national action.”<sup>44</sup> Table 1 shows transactions involving Section 221(d)(3) and Section 236 properties in Chicago in the 1990s.

**Table 1: Preservation Activity in Chicago Under ELIPHA and LIHPHRA, 1990-1996**

<i>Resident Homeownership</i>		<i>Non-Profit Sales to Priority Purchasers</i>	
<b>Building</b>	<b>Units</b>	<b>Building</b>	<b>Units</b>
Carmen Marine*	300	Greenwood	120
West Park Place**	69	Lake Village East	248
Lakeview East*	220	<b>Total Units</b>	<b>368</b>
820 W. Belle Plaine Apts.	270	<i>Sales to Limited Dividend Owners</i>	
Northwest Towers**	150	<b>Building</b>	<b>Units</b>
Kenmore Plaza**	324	850 W. Eastwood	231
Cambridge Manor**	312	840 Sunnyside	124
Lakeview Towers**	500	<b>Total Units</b>	<b>355</b>
<b>Total Units</b>	<b>2,145</b>	<i>Refinancings by Stay-in Owners</i>	
* Indicates Limited Equity Cooperative ** Indicates Ownership by Tenants through Tenant Association		<b>Building</b>	<b>Units</b>
		3936 N. Pine Grove	110
		Island Terrace	240
		Long Grove	440
		510 Belmont	220
<i>Sales to Tenant-Endorsed Non-Profit Corporations</i>		Sheridan-Gunnison	187
<b>Building</b>	<b>Units</b>	Ridge Gardens	121
4640 N. Sheridan	240	Indian Trails	100
Lawless Gardens	750	<b>Total Units</b>	<b>1,418</b>
<b>Total Units</b>	<b>990</b>	<b>Total Units All Programs</b>	<b>5,276</b>

Source: Chicago Community Development Corporation

<sup>42</sup> Schenkelberg, Douglas. “Affordable Housing Cooperatives Feasibility Study.” Chicago: University of Illinois at Chicago, Unpublished Masters Project. November, 2001.

<sup>43</sup> Sazama, Gerald, “Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy.” *The American Journal of Economics and Sociology*, 59 (4): 573-608.

<sup>44</sup> Nyden, Philip and Joanne Adams. 1996 “Saving Our Homes: The Lessons of Community Struggles to Preserve Affordable Housing in Chicago’s Uptown.” Chicago: Loyola University of Chicago in collaboration with Organization of the Northeast.

The LIHPHRA program was discontinued in 1996. There is no similar federal initiative promoting affordable cooperatives since then. The affordable cooperatives developed recently have primarily been a result of efforts by dedicated residents or community organizations that generate resources from cooperative or other community oriented financial institutions, or the Low Income Housing Tax Credit program. These resources are however very limited and, in addition, the tax credit program does not confer ownership rights; these are no match to the earlier federal programs.

### **C. Low-Income Housing Tax Credits and Leasehold Cooperatives**

The Low Income Housing Tax Credit (LIHTC) program has become a major source of federal government funding for affordable housing since its enactment in 1986. Although much less in scale, it largely replaced many of the previous HUD deep-subsidy programs and is today used in nearly 95% of all subsidized multi-family rental developments. The LIHTC program is intended to stimulate private sector investment in low-income rental housing development by providing tax incentives for investors. The Federal government allocates tax credits to states on a per capita basis and the funds are distributed to developers for the creation of low-income rental housing. The developer sells their credit allocation to private investors for a certain amount on the dollar.<sup>45</sup> The developer then uses the equity generated by the sale of the credits to build affordable housing. The investors use the full amount of the tax credit to reduce their tax bills for the subsequent ten years.

The program is designed in such a way that the private investor benefits not only from the tax credits, but can also deduct the property's depreciation and losses from its tax bill. In order to do so, the private investor has to have majority ownership. In the partnership, the private investor is the limited partner and typically has 99 % ownership interest. The remaining 1 % is owned by the developer/the general partner. The private investor retains ownership and enjoys the tax benefits.

Because this structure vests ownership of the property in the investor, the program is not easily compatible with cooperative housing which is supposed to vest ownership in the members. However, there is room in the program to allow a property owner to enter into a lease agreement with a cooperative. In these "leasehold cooperatives", the private investor leases the property to the cooperative under a long term "master lease". The master lease becomes the key document that sets up the responsibilities between the limited partnership and the cooperative. The cooperative pays rent and is given substantial operating control over the property, except some key decisions that are retained by the partnership.

The use of low-income housing tax credits for the development of affordable cooperatives has become a subject of conflicting opinions. On the one hand, some view it as a resource that can help to lay down the basis for the development of affordable housing cooperatives. On the other hand, others question this leasehold concept because it imposes a new layer of restrictions for tenants, and residents do not have ownership and direct control over the property for at least 15 years and cannot take advantage of tax benefits until year 16 at the earliest.<sup>46</sup>

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<sup>45</sup> Schenkelberg, Douglas. "Affordable Housing Cooperatives Feasibility Study." Chicago: University of Illinois at Chicago, Unpublished Masters Project. November, 2001.

<sup>46</sup> Klein, Jonathan. "Using the Low -Income Housing Tax Credits to Develop Cooperative Housing." Washington, D.C.: National Association of Housing Cooperatives

As a result, there are only a few leasehold cooperatives funded under the tax credit program. Some CDCs experimented with leasehold cooperatives using the tax credit program in the late 1980s and early 1990s in Chicago. Bethel New Life in the west side had two properties designated as leasehold cooperatives in 1987. Peoples' Housing in Rogers Park and Covenant on the south side had similar projects in the early 1990s. None of these have materialized as cooperatives as planned, although one of the now defunct Peoples' Housing projects, the Pratt-Ashland, eventually became an affordable housing cooperative through intervention by the Chicago Mutual Housing Network.

More deliberate strategies are now employed by some CDCs to promote affordable housing cooperatives through an initial leasehold arrangement in tax credit developments. The 31 unit Nuestro Hogar co-developed by CMHN and Bickerdike is one example that demonstrates the careful and deliberate structuring of a master lease cooperative for ownership by members at the end of year 15 – the tax credit period. Funds to pay off the private first mortgage at year 15 are being set aside out of gross rents every month so that the members will only have to service the debt by IHDA after year 15. The same developer, Bickerdike Redevelopment Corporation, has also broken ground on the 87 unit, \$17 million Harold Washington Unity Cooperative recently using the same strategy.

It is expected that others will follow suit as such promising structures are created and the difficulty and confusion surrounding the use of the program in funding affordable cooperatives is clarified. It is however important for public entities that administer housing resources to extend existing funding sources (such as the New Homes for Chicago Program) as well as create other appropriate programs (e.g. Tenant Interim Lease Program) to promote cooperatives in order for members to be able to realize the benefits of their ownership from the outset rather than making it an appendage to other programs that negate the essence of immediate and effective ownership.

#### **D. Maintaining Affordability: The Equity Formula and Limited Income Maximums**

As discussed earlier, what distinguishes affordable housing cooperatives from market rate cooperatives is the establishment of an equity formula that specifies the price at which the shares can be resold. This, coupled with establishment of income maximums, is intended to maintain long term affordability and keep the housing within the financial reach of pre-determined income groups.

The rates of equity may vary depending on the objectives of each cooperative. In most cases, the formula primarily takes into account long-term affordability, and at the same time, the protection of the economic interest of the individual shareholders.<sup>47</sup> In general, the maximum price that a shareholder can charge for a share in an affordable housing cooperative is adjusted by one or more of the following factors: inflation index, the value of the improvement, mortgage amortization, maximum interest rate, and provision for adjustment at end of the mortgage term. Share prices for typically average between \$1,000 and \$5,000 while the average annual return on investment (ROI) is usually 5%.

While the equity formula plays an important role in ensuring long-term affordability, control over initial sales and posterior resales is only one way to reach that goal. Cooperative advocates argue that just “controlling resale prices for shares will not ensure the affordability of housing.”<sup>48</sup> To achieve that

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<sup>47</sup> Cooper-Levy, Herbert. “An introduction to Limited Equity Cooperatives” National Association of Housing Cooperatives.” Washington, D.C.: National Association of Housing Cooperatives.

<sup>48</sup> Fisher, Herbert “ The Role of Limited Income Maximums.” Washington, D.C.: National Association of Housing Cooperatives.

goal, setting maximum income limits for eligibility is essential. The experiences of the FHA/HUD subsidized cooperative programs are of extreme importance to understanding how affordable housing cooperatives work. Section 221(d)(3) BMIR, Section 236 and Section 8 established limited equity formulas for resale, controlled by a figure called “transfer value”, which is the maximum price at which a member can sell a share to a new member or to the corporation if it ends up repurchasing the membership. However, through the years many designated low and moderate-income families could not afford the transfer values permitted by the bylaws. For instance, some FHA/HUD formulas reached “an average annual increase over original sales prices in excess of 15 % a year.”<sup>49</sup> This suggests that establishing an income maximum formula is equally or perhaps more important than the equity or resale formula.

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<sup>49</sup> Fisher, Herbert “The Role of Limited Income Maximums.” Washington, D.C.: National Association of Housing Cooperatives.

## II. HOUSING OPTIONS

Finding and maintaining a quality home that is affordable and located in a good neighborhood is a primary concern to all Chicagoans. The options available have further shrunk in the last few years as housing costs continue to increase faster than income, reducing the stock of housing that is affordable to many low and moderate-income households. This is true of affordable homeownership as well as rental housing, which is increasingly shrinking due to condo conversions and rapid rent increases. Particularly affected are areas close to downtown and the lakefront, where low and moderate-income groups are now largely priced out. Meanwhile, the grip of poverty continues to expand on the south and west sides, claiming more affordable housing stock through abandonment and neglect. In addition, thousands of subsidized housing units are being lost due to the expiration of Section 8 contracts and the demolition of public housing. Existing housing subsidy and community development programs have proven insufficient to stem the tide.

Cooperatives are a very small part of Chicago's (and most US cities') housing stock. The dominant housing forms are single family and condominium owner occupied and rental units. In Chicago, roughly 1/3 of residents live in single-family houses (most owner occupied), another 1/3 occupy 2-4 unit flats (a mix of owner and renter-occupied) and the last third live in buildings larger than 5 units. With the current trend leaning towards homeownership, it appears the city is heading towards 50/50 parity in terms of the rental and owner-occupied unit mix. From 1989 to 1999, the number of owner-occupied units increased more than 9%, while .5% (2,700) of rental units have been lost. In 1999, 44% of units were occupied by owners and 56% by renters, compared to 41.5% and 58.5% respectively in 1989 (see Table 2 below). Roughly 23,000 housing units (most of them owner occupied) were constructed in the 1990s in Chicago.

**Table 2. Change in Housing Tenure, Chicago, 1990-2000**

	1990		2000		1990-2000 Net Change	1990-2000 Percent Change
	Number	Percent	Number	Percent		
Owner Occupied	425,411	41.5	464,865	43.8	39,453	9.3
Renter Occupied	599,763	58.5	597,063	56.2	-2,700	-0.5
Total Occupied	1,025,174		1,061,928		36,754	3.6
Vacant	107,865	9.5	90,940	7.8	-16,925	-15.7
<b>Total Units</b>	<b>1,133,039</b>		<b>1,152,868</b>		<b>19,829</b>	<b>1.8</b>

*Source: US Department of Commerce Bureau of the Census, 1990, 2000*

With roughly 11,000 units in service, cooperatives represent just a little more than 1% of the City's housing stock. The number of condominium units, on the other hand, represent roughly 7% of the total stock with about 75,000 total units; the number of condominiums is rising at an accelerated pace.

This section will discuss the most common housing options for Chicagoans. Both larger policy issues and local Chicago factors will be surveyed. The discussion will provide a context to evaluate the role of affordable housing cooperatives can play to mitigate the current housing shortage.

### A. Single Family Homeownership

Owning one's home has long had a revered status in American life. Considering its association with individual comfort, freedom and security, this should not be surprising. Homeownership is promoted

by federal policies, and many financial advantages exist for owners. Ownership acts as a de-facto savings account and often results in substantial gains through property value increases when the home is sold. It also allows one to use their home for equity against loans and reap many tax benefits. While the financial benefits of ownership vary widely by race, class and geography, owning one's home is usually a major wealth-booster for those with the ability to buy in an appreciating area. One often-cited statistic indicates that the wealth of low-income homeowners is 12 times that of low-income renters<sup>50</sup>

However, recent trends that have opened homeownership opportunities to lower income households are beginning to show serious side effects. In Chicago, the number of foreclosures jumped 74 % from 2000 to 2001, with minority neighborhoods being most affected.<sup>51</sup> Nationwide, an all time high in delinquencies and foreclosures was reached in 2002, with more than one million households losing their homes. Most troubling perhaps, is that foreclosures on FHA-backed loans to low-income households have grown the fastest, to a rate of nearly 3 %. An additional 12 % of homeowners were behind in their payments in the second quarter of 2002.<sup>52</sup>

Homeownership is becoming a difficult proposition for many low and moderate income families in Chicago due to rapidly and steadily rising home prices and property taxes. In 2002, the City's median home price jumped 13% from the year before - from \$198,000 to \$224,000.<sup>53</sup> As a general rule, households are considered to be able to afford a home that is a little more than 2.5 times their annual income. To afford the median Chicago home in 2002 therefore, a household would need to earn about \$85,000 a year. Using 2000 Census data adjusted for inflation, only about 17% of Chicago households (181,000) could afford the median Chicago home in 2002. In comparison, in 1990 the median home cost \$77,600 and was affordable to 44% of the population.<sup>54</sup> This means that nearly 200,000 households have been priced out of the homeownership market since 1990.

**Table 3. Decline in home-buying power in the City of Chicago**

	1989	1999	2002
Median Income	\$26,301	\$38,625	\$42,410
Median Home Value	\$77,600	\$132,400	\$224,000
Income Needed to Afford Median Home Value	\$31,040	\$52,960	\$89,600
Percent of Chicagoans to whom Median Price Home is Affordable	44%	36%	17%

Source: US Bureau of the Census, Claritas

The effects of increasing home prices have hit low and moderate-income households the hardest. As prices in lakefront and central area neighborhoods go through the roof, higher prices have rippled westward into the old bastions of quality, affordable single-family housing on the northwest and southwest sides. As the map below shows, incomes have been unable to keep pace with the increase in housing costs, particularly in these middle and outer ring communities. For the majority of low and

<sup>50</sup> Federal Reserve Bank, 1995 Consumer Finance Survey.

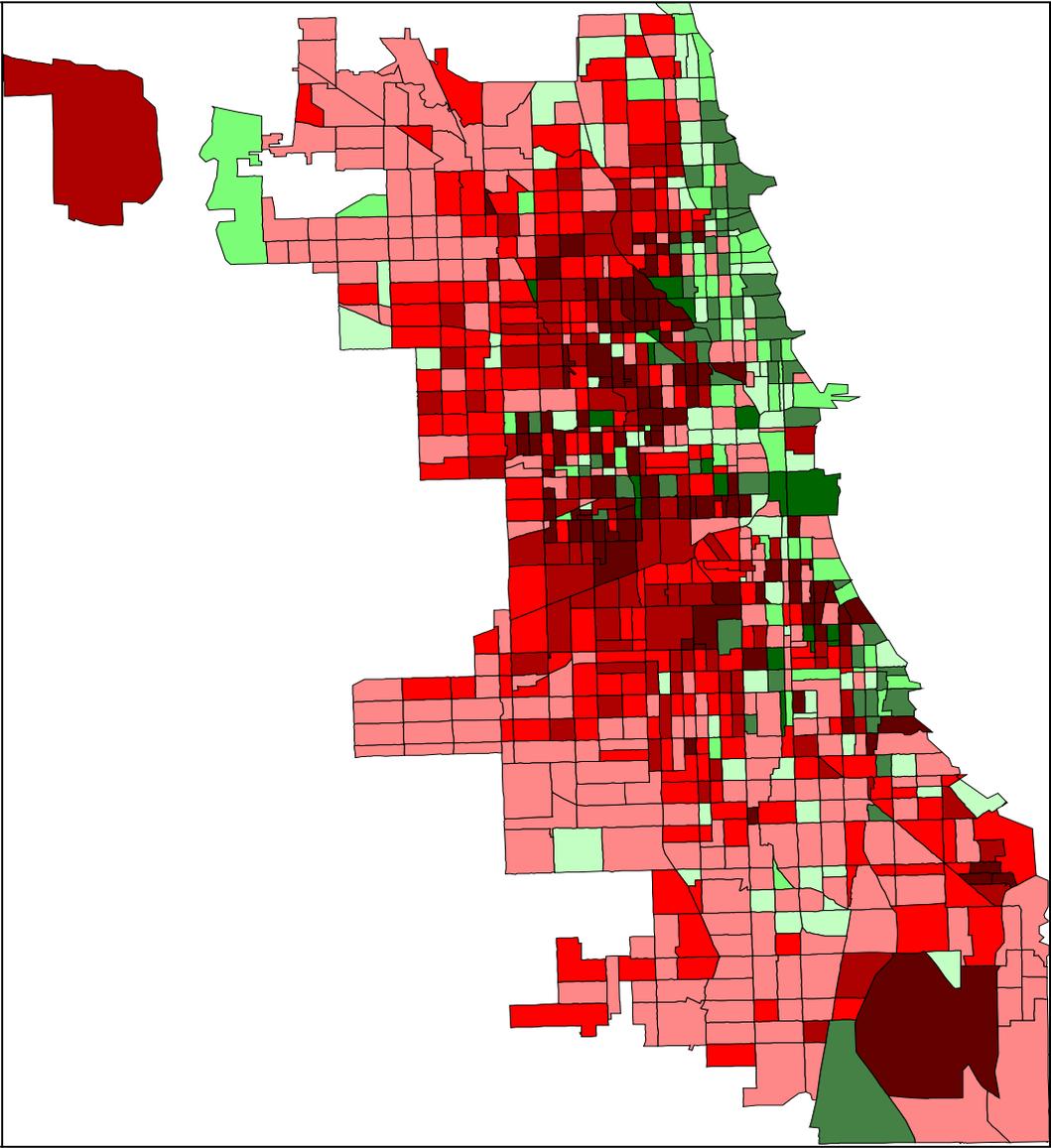
<sup>51</sup> Van Slyke, Tracy. "Analysis of Chicago Foreclosures." Chicago: National Training and Information Center. February 18, 2003, available at <http://www.ntic-us.org/currentevents/press/press-analysis-chicago-foreclosures.htm> . Accessed August 18, 2003.

<sup>52</sup> "Home foreclosures at record high: Mortgage group blames job losses, personal bankruptcies." New York: Reuters. 2003, available at <http://stacks.msnbc.com/news/929194.asp>. Accessed August 15, 2003.

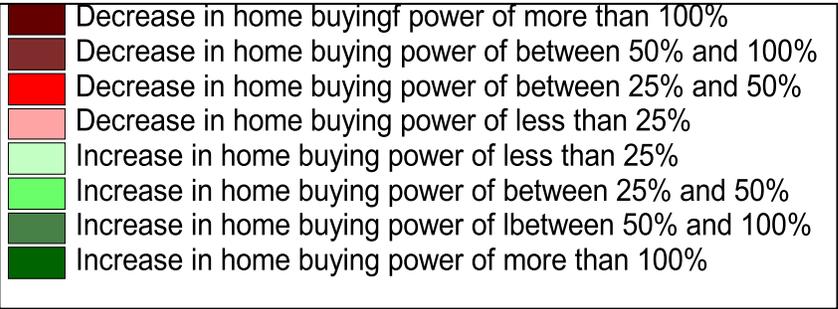
<sup>53</sup> Pitcoff, Winton. "Has homeownership been oversold?" *Shelterforce* #127, January/February 2003, available at <http://www.nhi.org/online/issues/127/homeownership.html> . Accessed August 15, 2003.

<sup>54</sup> U.S. Department of Commerce, Bureau of the Census. Census of Population and Housing, 1990.

moderate-income Chicagoans therefore, traditional homeownership is hardly an affordable housing option.



**Map 1. Changes in home buying power - local median income less change in median home values**



## **B. Condominium Ownership**

Condominium ownership is spreading fast throughout Chicago. From 1995 to 1999, more than 50,000 condo units were created in the Chicago metro area.<sup>55</sup> More than half of these units were converted from pre-existing rental properties, while the balance are newly constructed. Most converted condo units are located in up and coming neighborhoods. This has substantially reduced the stock of rental housing in these areas. In the Lincoln Park community of Chicago, for example, more than 2,000 rental units were lost to condo conversion from 1989 to 1999, while over 3,000 owner-occupied units were added to the stock.<sup>56</sup>

A condominium refers to a form of co-ownership where a resident has fee simple title to their own unit, and joint ownership of common facilities and grounds. Condos are typically developed by for-profit developers and units are sold to individual owners, as in the case of single family homeownership. When resold, there typically<sup>57</sup> is nothing to restrain the price appreciation on individual units. Condominium prices in Chicago average about 30-40% higher than average single-family properties.<sup>58</sup> This is in contrast to most other major cities where condos are often seen as more affordable than their single-family counterparts. Although “affordable condos” has become a new buzzword in some locales, in most Chicago neighborhoods, condos are not only very expensive to acquire, their ongoing operating costs are also very high because of assessment fees paid by owners on top of their mortgages. And unlike cooperatives, condos do not typically preserve long-term affordability.

One type of condo, limited equity condominiums, allow a measure of long term affordability. Like in affordable housing cooperatives, the condo board has authority to place limits on the resale prices of units in limited equity condominiums. The condominium model is well known both by the general population and in the development and finance community. This makes these units relatively easy to finance and sell. Since they are usually smaller developments, limited equity condos are also easy to develop, maintain and self-manage.

The Acme Artists Community condominium is one such limited equity condo in Chicago. This is a 25-unit development that was funded by the City of Chicago Department of Housing to provide affordable live-work space for low and moderate-income artists and their families in a gentrifying neighborhood. Originally structured as a cooperative, the sponsors made the decision to develop it as a limited equity condo after they were offered a source of subsidy through the city’s New Homes for Chicago program. This subsidy was critical in making the housing affordable to the target population of artists with annual incomes of \$17,000 to \$40,000.

Acme Artists Community pioneered the limited equity condo model in Chicago. The Chicago Community Loan Fund (CCLF) provided \$350,000 of acquisition funds to this project early on when it was conceived as a cooperative when no other banks were willing to invest in artists housing. Limited equity condo ownership requires that buyers individually obtain mortgages, and although the condo model is well understood by mortgage bankers, several residents were denied mortgages by a large

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<sup>55</sup> U.S. Department of Commerce, Bureau of the Census. American Housing Survey, 1995, 1999.

<sup>56</sup> U.S. Department of Commerce, Bureau of the Census. Census of Population and Housing, 2000.

<sup>57</sup> Unless it is a limited equity condominium where resale value is restricted by agreement as in the case of Acme Artists Community condominium discussed below.

<sup>58</sup> Carr, Anthony. 2002

Chicago bank because it was not comfortable with the limits on equity specified in the condominium bylaws; this increased costs in both time and money to individual purchasers. Again, the Chicago Community Loan Fund provided mortgages to the Community TV Network and the Chicago Mutual Housing Network, both members of the ACME Artists Community.

There are few sources of subsidy for condo development. However, the City of Chicago has recently expanded its New Homes for Chicago Program to apply to condominium developments. Under this program, condo developers receive subsidies of \$10,000 or more (based on the buyer's income) per unit in exchange for making the development affordable to buyers making less than 120% of the area median income, which, for the Chicago, is approximately \$80,000. Limits are also placed on selling prices. This is a very significant step towards promoting affordability in condos; this program should be extended to cooperatives as well.

Condo ownership differs from affordable housing cooperatives in the level of individual control over management and maintenance decisions. In condos, bylaws that regulate the building are largely boilerplate, not tailored to the individual residents' aspirations, and participation in everyday affairs can be minimal. There is generally less room for resident control in matters such as approving new residents and imposing penalties. Condo owners are not trained to work together as cooperative members are. It is more difficult and time-consuming in a condo to remove a disruptive or financially delinquent owner. Affordable housing cooperatives are much more effective at addressing these issues.

### **C. Rental Housing**

Rental housing is the choice for some, but it is more commonly thought of as an only option for families that cannot afford to buy their own home. Rental housing is usually cheaper than buying, at least as far as upfront costs are concerned. It also allows more flexibility in getting in and out and minimizes the amount of maintenance one must do. For these reasons, both the young and old often prefer rental housing to single-family homeownership.

According to the 2000 Census, Chicago lost rental units since 1990 despite a 4% increase in population. This was due largely to demolition and condo conversions of rental units, as well as a general lack of new rental housing production. The need for quality housing for low-income families and individuals has therefore been growing despite the increase in owner occupied units. The rental vacancy rate for Chicago declined from 9.5% in 1990 to 5.7% in 2000 and registered a decrease (or stayed the same) in 61 of the 78 Chicago community areas. A 6% vacancy rate or less is defined by HUD to constitute a "tight market." In high demand areas on the north and northwest sides, rental vacancy rates were very low in 2000 – below 3% in 11 community areas.<sup>59</sup>

The annual rate of rent increases in Chicago exceeded the inflation rate throughout the 1990s.<sup>60</sup> During the last half of the decade, rents outpaced the Consumer Price Index at a rate of almost two to one.<sup>61</sup> By 2000, 40% of all renters in Chicago were paying more than 30% of their income for rent while 21% paid over half of their income. As low and moderate-income renters are forced to seek affordable housing options in new neighborhoods, far southwest and northwest side communities are becoming more dense and multifamily in character. The number of overcrowded housing units (more than one

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<sup>59</sup> U.S. Department of Commerce, Bureau of the Census. Census of Population and Housing, 2000.

<sup>60</sup> U.S. Department of Commerce, Bureau of the Census. Census of Population and Housing, 2000.

<sup>61</sup> Chicago Rehab Network

person per room) in Chicago increased 13.2% over the last decade, from 8.9% in 1990 to 10.1% in 2000.

While the lack of ownership rights and financial rewards discussed earlier make renting less than appealing for many families, renting is the only available option to most under current conditions. Renters have little to no security in many neighborhoods; they can be displaced by a landlord in a gentrifying area either through condo conversion, major rehab or simply through excessive rent increases. Because of lack of sense of ownership, rental housing, particularly in larger developments, often burdens residents with a larger number of problems than resident owned and/or controlled property.

It is worth noting that there is a variation of rental housing that is resident controlled which represents only a small proportion of the rental stock. Under this system, rental housing is owned by a tenant or resident association and leased to members of the association. This system shares much in common with affordable housing cooperatives. The members can collectively decide on matters such as rent levels and management decisions. The biggest difference is that individual renters in resident-controlled buildings have no equity or ownership in the property and do not enjoy the tax and other benefits of homeownership.

#### **D. Publicly Subsidized Housing**

For many years, public subsidy programs have been the major vehicle for the production and preservation of affordable housing for millions of low income families. However, we are today left with fewer and more difficult tools because of shifting national policies. Serving those with extremely low incomes is particularly difficult.<sup>62</sup> To make matters worse, affordability provisions have begun to expire for much of the existing affordable housing stock. In most American cities, including Chicago, this has led to the conversion of many older subsidized buildings to condominiums or to the private rental market in recent years.

The federal programs (S8, S236, S221(d)3, etc.) that were responsible for the production of millions of HUD subsidized multifamily rental units in the last 40 or so years have been repealed. In addition, the affordability requirements on developments funded by those programs are expiring, taking millions of affordable units out of the affordable stock. For instance, approximately 10,000 project based Section 8 units are at risk of being lost in the next 5 years in Chicago. They are being joined, now in 2003, with the first batch of expiring Low Income Housing Tax Credit projects. Chicago has already lost thousands of affordable units and will lose many more unless something is done to protect this vital stock. Conversions to resident control through cooperative structures have been very limited in Chicago. There has been no policy impetus to encourage such action and owners of buildings are reluctant to cede control, particularly with the favorable condo and rental market in many neighborhoods. The loss of federally subsidized affordable units is therefore proceeding largely unimpeded.

The Low Income Housing Tax Credit Program is successful at creating moderate income units in high poverty neighborhoods but has had far less success in providing for those truly in need, or in preserving vital affordable housing stocks in gentrifying areas.<sup>63</sup> The program is less than ideal as a tool for funding affordable cooperatives as the discussion in the previous section demonstrates.

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<sup>62</sup> Illinois Assisted Housing Action and Research Project (IHARP). "Low Income Housing Tax Credit Report." May, 2002.

<sup>63</sup> Illinois Assisted Housing Action and Research Project (IHARP). "Low Income Housing Tax Credit Report." May, 2002.

Public housing has traditionally been the bastion of long-term affordability. However, federal policy has led the Chicago Housing Authority to embark on a controversial “Plan for Transformation.” This plan will ultimately end up reducing the public housing stock in Chicago from approximately 40,000 to 25,000 units, displacing thousands of current public housing residents who are expected to find housing in the private market through the Housing Choice Voucher program. This is difficult for many because of the tight rental housing market. Voucher holders routinely report facing discrimination and other hurdles in the moving process. Most are relocating to segregated, high poverty neighborhoods further from the central city.<sup>64</sup>

With favorable public policy initiatives and funding, most at risk affordable housing resources including public housing developments could be preserved. The LIHPHRA program has helped to preserve thousands of units until it was repealed - including through the creation of affordable housing cooperatives. The same could be done with public housing developments. Public housing residents have been demanding that their homes and communities be spared. Resident leaders at LeClaire Courts and the 422 unit Wentworth Gardens developments, for instance, are aggressively pursuing the preservation of their homes and communities through cooperative conversion. With political will and commitment, this goal is achievable.

Chicago has a successful experience with the conversion of public housing to affordable cooperative from as far back as 1968. The 121-unit Racine Courts public housing development was purchased by the tenants and established as a cooperative, one of the first such conversions in the nation. At the time, then Chicago Mayor Richard J. Daley had this to say about the cooperative conversion of Racine Courts:

*“This cooperative plan will provide a means of home ownership at reasonable rates for families living in public housing who have moved up the economic ladder. It will also meet the urgent need of families whose earnings are too high to qualify for public housing and too low for the purchase of private housing.”*<sup>65</sup>

Today, the **Racine Courts Cooperative** remains a stable affordable housing resource 35 years after its conversion. The cooperative continues to serve low and moderate-income families (including ten households with Section 8 vouchers), and is well suited to first-time homebuyers. The cooperative has both minimum and maximum income limits. Share payments are an affordable \$450 (a one time fee) while monthly carrying charges average \$350 for a three-bedroom unit and \$369 for a four-bedroom unit. The cooperative has few vacancies and a long waiting list.

This successful Racine Courts model can be replicated to preserve thousands of public housing units and help residents stay in their homes and communities. With this successful experience as their model and assistance by the Chicago Mutual Housing Network, it is hoped that residents of LeClaire Courts and Wentworth Gardens will receive support from policy makers to preserve their homes.

It is worth noting at this juncture that there is a little known “Homeownership Program” run by the Chicago Housing Choice Voucher Program administrator, CHAC that allows for the use of vouchers

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<sup>64</sup> Fisher, Paul. “Section 8 and the Public Housing Revolution: Where Will the Families Go?” Chicago: Woods Fund. March, 1999.

<sup>65</sup> Chicago Tribune, February 8, 1968.

towards homeownership. The program targets working families with incomes of \$10,300 and up. Eligible families have to participate in the Family Self Sufficiency Program designed to prepare and assist them to become homeowners. The program is run in collaboration with participating banks such as Citibank, who also provide down payment assistance. Forty one deals have closed to date and some others are pending.

Although this program can be used for cooperative ownership, none of the deals closed or in the pipeline are cooperatives; it should be marketed more aggressively to voucher holders and to public housing residents. The program could be a significant homeownership vehicle even if only a small minority of the 30,000 voucher users in Chicago could benefit from it.<sup>66</sup> Cooperative homeownership through this program would be easier to achieve in already established cooperatives because a buyer needs to come up only with the share price; the monthly charge, which includes the mortgage and other operating expenses, will be covered each month by the voucher and the tenant's portion of payment. It is hoped that CHAC will work closely with the Chicago Mutual Housing Network and with individual cooperatives in order to actively promote purchases through its ownership program; for instance, vacancies that could be filled through this program currently exist in Noble Square and Chatham Park village.

In light of the foregoing discussion that demonstrates that traditional housing options are too expensive to address the needs of low and moderate-income residents, it is indeed appropriate to pursue cooperative housing as a homeownership option. The cooperative structure makes it more affordable for low income households to join existing cooperatives by just paying the prices of their shares - no closing costs and transaction fees are involved. Monthly payments are normally lower because of leveraged/longer term mortgages; taxes are also lower than comparable buildings because cooperatives are assessed less frequently than typical condos or homes which get assessed every time there is a transaction.

Cooperatives offer many other benefits and advantages in addition to affordability, such as resident control, security, stability, etc., which will be discussed later. Shareholders set standards for all aspects of the development including financial issues and tenant selection. Research suggests that this type of self-management is responsible for substantial reductions in potential externalities such as loudness, criminality, and abuse of the facilities or even excessive utility usage.<sup>67</sup> Social and family life can be positively impacted by cooperative living; studies have found that residents of cooperatives have higher levels of participation in neighborhood organizations, longer tenure in their neighborhoods, and a greater sense of belonging in their community.<sup>68</sup>

Affordable housing cooperative represent an underutilized resource; if pursued in earnest, they stand a good chance to offer homeownership options to the 40% of Chicago households that make less than 60% of the Area Median Income.

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<sup>66</sup>The CHAC website reports that 32,000 Vouchers were in service in 2002. A listing in 1999 found about 2% of these units were used outside of the City of Chicago, though CHAC reports that number has been increasing of late.

<sup>67</sup> Miceli, Thomas J., Gerald W. Sazama and C.F. Sirmans. "The Role of Limited-Equity Cooperatives in Providing Affordable Housing." *Housing Policy Debate* 5(4). Washington, D.C.: Fannie Mae Foundation.

<sup>68</sup> Saegert, Susan and Lymari Benitez. 2002. "Limited-Equity Housing Cooperatives: An Attractive Alternative to Rental Housing in the United States." New York: City University of New York Graduate Center.

### III. HOUSING COOPERATIVES IN CHICAGO

Cooperatives in Chicago have a rich, diverse, and generally successful history. More than 17,000 Chicago area households currently benefit from cooperative housing, approximately half being affordable. Many affordable housing cooperatives in Chicago were built during the 1960s and 1970s with federally insured mortgages and many, such as London Towne Houses in Pullman, Hermitage Manor on the near west side, Chatham Park Village on the south side and others have been functioning well for decades. The LIHPHRA program was also responsible for adding a significant number to the LEC stock in the 1990s.

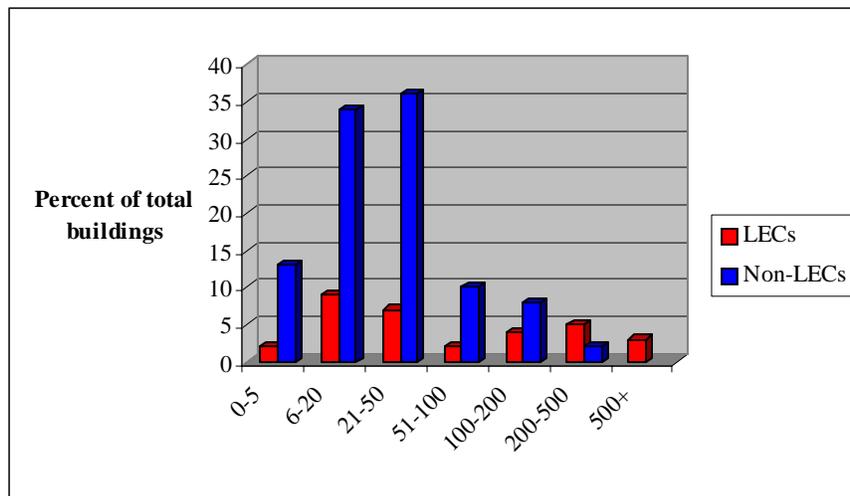
#### A. Cooperative Housing Stock Inventory and Characteristics<sup>69</sup>

**Cooperatives come in all sizes and shapes:** Cooperatives can take many shapes and forms; they can be high rises, mid-rises, small complexes, townhomes, and even single family developments. In fact, buildings range from 3 unit walk-ups to sprawling 803 unit multi-building developments. This versatility in physical form makes the cooperative model very flexible with regard to who may find it attractive. On the other hand, this makes the cooperative model somewhat complex because what may work for one cooperative building type may not work well for another. The Table below shows the distribution of affordable and market rate cooperative developments.

**Table 4. General coop building profiles in Chicago**

	Number of Developments	Approximate Number of units	Average Number of units	Range in Number Of units	Sample size
LEC	38	5,500	148.6	3-803	29/38 (76.3%)
Non-LEC	168	6,200	37.3	3-270	104/168 (61.9%)
Total	206	11,700 <sup>70</sup>	59.2	3-803	133/206 (63.3%)

**Chart 2. Building sizes in Affordable housing and market rate cooperatives in Chicago**



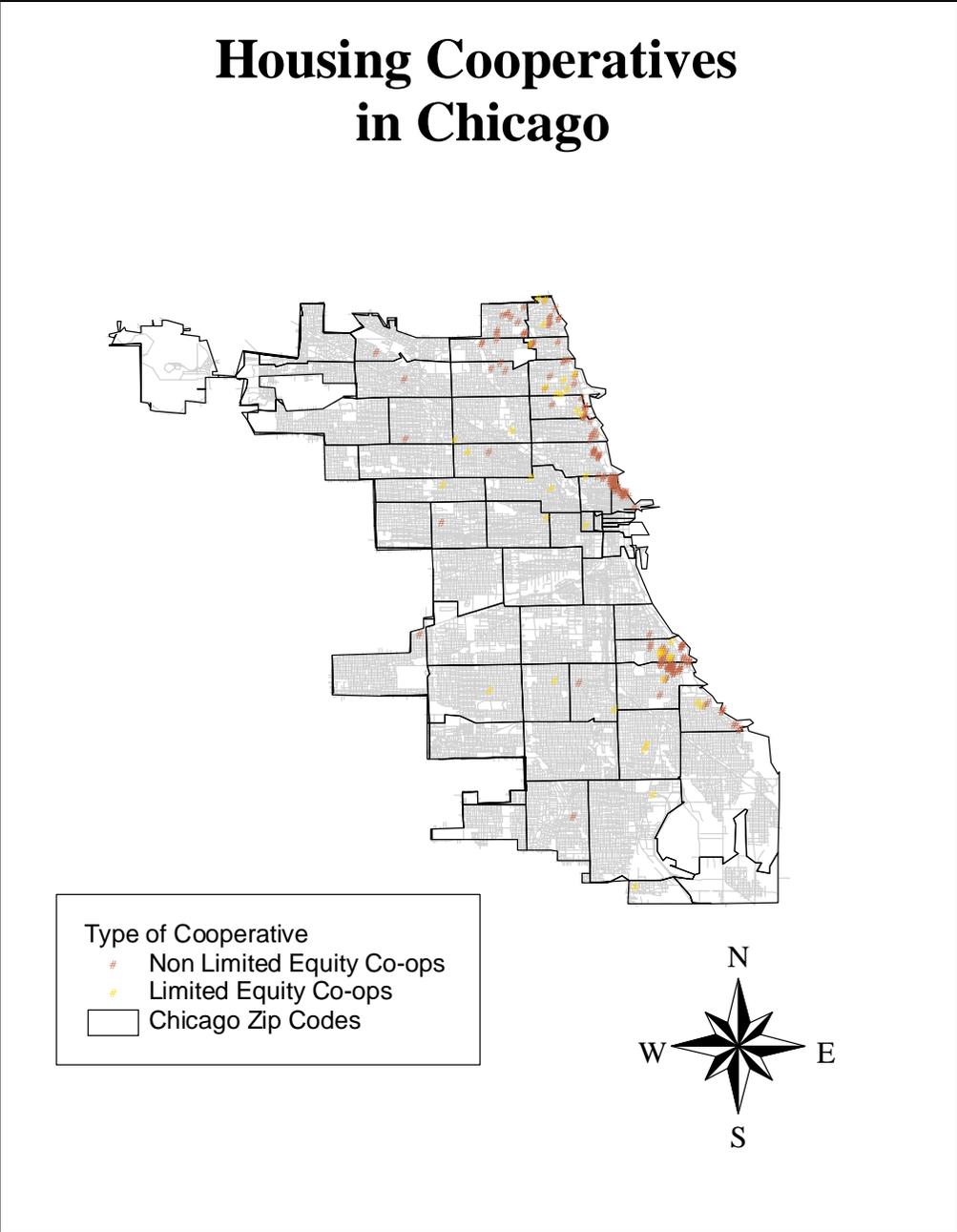
<sup>69</sup> The discussion in this section is based on a survey of cooperative managers and board members combined with additional data pulled from IHARP's subsidized housing database as well as information maintained by CMHN on its members.

An updated map of existing cooperatives is available on CMHN's website at <http://www.chicagomutual.org/resources/resourcehome.htm>

<sup>70</sup> The number of total units in LEC and non-LEC buildings is based on an estimate.

**Most market rate cooperatives are located near the lakefront** and affordable housing cooperative developments are much more likely to be located in lower and moderate-income neighborhoods outside the lakefront area. Market rate cooperatives are clustered in the central area, north lakefront and in the Hyde Park/South Shore area (see Map below). Rogers Park, Uptown and Hyde Park are communities with particularly strong histories of cooperative development. Newer cooperative developments appear to be moving further out from the lakefront into communities poised for the next wave of gentrification such as Humboldt Park and western Logan Square.

**Map 2. Housing Cooperatives in Chicago, 2003**



**Table 5. Geographic distribution of cooperatives in Chicago**

Location		Central	North	Northwest	West	Southwest	Southeast	Total
LEC	Percent	5.3%	34.2%	7.9%	5.3%	2.6%	44.7%	100.0%
	Number	2	13	3	2	1	17	38
Non-LEC	Percent	23.8%	35.7%	2.4%	1.2%	1.2%	35.7%	100.0%
	Number	40	60	4	2	2	60	168
Total	Percent	20.4%	35.4%	3.4%	1.9%	1.5%	37.4%	100.0%
	Number	42	73	7	4	3	77	206

Source: Chicago Mutual Housing Network & UIC Voorhees Center

**Most cooperative units are family sized:** The majority of units in both affordable and market rate cooperatives have 3 bedrooms or more. This compares to just 20% of the City’s entire housing stock and only 14% of the units produced using the Low Income Housing Tax Credit Program. This illustrates that cooperatives are meeting the needs of (larger) families who often face the most difficulty in finding adequate sized units.

**Table 6. Bedroom size distribution in cooperatives**

Bedrooms	Studio	One Bedroom	Two Bedroom	Three Bedroom	Four Bedroom	Five or more Bedrooms	Sample Size
LEC	6.0%	8.8%	32.4%	47.2%	5.6%	0.0%	15/38
Non-LEC	8.8%	4.7%	8.1%	46.8%	28.1%	3.6%	19/168

Source: Chicago Mutual Housing Network & UIC Voorhees Center

**The vast majority of affordable housing cooperatives serve families or aging adults** although there are a few student-centered cooperatives near the University of Chicago and a couple of others that cater to younger residents. Many cooperatives have elderly residents, many of whom simply aged in place. The American Housing Survey reports that 20.5% of all cooperative residents in the Chicago metro area are over 65 years of age. One can conclude from this that cooperatives provide a positive living arrangement for seniors.

In recognition of the number of seniors living in cooperatives, the Naturally Occurring Retiring Communities (NORC) program, which has operated in New York City for many years, has recently been introduced to Chicago by the CMHN; it has been adopted at Harper Square, Gill Park and Lakeview East. NORC programming is delivered on-site and encompasses a wide range of health, wellness, educational and social activities to assist the aging in place process and to alleviate many of the feelings of isolation, loneliness and anxieties over health and wellness issues experienced by older adults and their families.

**Share prices vary** depending on the type of cooperative, its financing arrangements and current assets; there are typically three general ranges: at the low end, there are cooperatives that require only the equivalent of a security deposit and/or first month’s rent (typically \$500-\$3000). This generally applies to the larger HUD financed buildings and those that received subsidies. This is estimated to be about 35-40% of the total affordable cooperative stock. The second category is those that require a share price of \$3,000 and up. These include the balance of affordable housing cooperatives. The third is market rate cooperatives, which sell for their market value.

**Most cooperatives have waiting lists and few vacancies:** Only one of the cooperatives surveyed did not have a waiting list.

**Monthly “carrying charges” in affordable housing cooperatives are less than comparable market rate and condominium properties** and similar to Chicago subsidized rental housing developments. The charges, which are generally regarded as monthly rent, are used to service debt and to pay operating expenses including real estate taxes.

**Table 7. Monthly charges**

Monthly Charges		One bedroom	Two bedroom	Three bedroom
LEC	Average	\$471	\$567	\$667
	Median	\$440	\$508	\$570
	Sample	11	14	13

*Source: Chicago Mutual Housing Network & UIC Voorhees Center*

**Cooperatives are financed in different ways and most are not publicly subsidized:** Cooperatives are financed in a myriad of ways. This plays an important role in how the cooperative is managed and operated. Contrary to expectations, it appears the majority of affordable housing cooperatives (26/38) did not receive any public subsidy during their history. Approximately a third are subsidized and only a handful of properties (excluding LIHPRHA properties) have received new injections of funds. Very few (3/168) of non-LEC properties received subsidies.

The most common examples of funding for affordable housing cooperatives include, Federal (HUD) programs such as 221(d)(3), 213 and LIPHRA, other public sources such as IHDA and DOH as well as national and local cooperative banks and loan funds such as the Chicago Community Loan Fund.

**Table 8. Financing sources**

Funding source	Chicago example
<b>HUD</b>	
--LIHPRHA	Lakeview East
--Project Based Section 8	Lafayette Plaza
--Sec221(d)(3)	Noble Square, Park Shore East
--Sec236	Harper Square
--Section 8 Loan Mgmt. Set Aside	Carmen-Marine, Park Shore East
--Sec202/Section 8	Silent Co-op
Chicago Dept. of Housing (LIHTC, HOME, other)	Nuestro Hogar
Illinois Housing Dev. Authority (Multi-family bonds, etc.)	Harper Square
CDFIs (Chicago Community Loan Fund)	Freedom Road, Logan Square Stone Soup
Other banks	Good News Partners, Lafayette Plaza

*Source: Chicago Mutual Housing Network*

The Illinois Housing Development Authority (IHDA) had been active in funding numerous cooperative housing initiatives through the Illinois Affordable housing Trust Fund (IAHTF) program. For example, it has funded a number of projects sponsored by the now defunct Peoples’ Housing in the Rogers Park neighborhood in the early 1990s. It has also funded a cooperative project sponsored by

Covenant Development Corporation in the south side and another one by Habitat for Humanity on the west side. It also funded the tax credit master lease hold cooperative, Nuestro Hogar. In recent years, however, it seems to be moving away from funding cooperatives, perhaps because of the experiences of the groups it has funded, which apparently have not been able to sustain the projects. It is important that IHDA, as one of two major public funders of affordable housing in Chicago, should continue to be involved in funding feasible cooperative housing initiatives. The grim records of projects it has funded in the past should not cloud the merits of the cooperative model which has a lot of promise as an affordable homeownership option.

The City of Chicago Department of Housing funds cooperative developments in the context of master lease cooperatives financed by tax credits. The City has funding programs such as the New Homes and the Vintage Homes programs which could be very useful tools in promoting affordable housing cooperatives in Chicago if extended to cover this housing model. Such gestures by the public funding agencies will in turn give confidence to private lending institutions to get involved in the cooperative market.

### **B. Some Chicago Affordable Housing Cooperatives: Experiences and Resident Profiles**

Affordable housing cooperatives vary considerably, both in their physical and social aspects. Yet there are some common challenges they face, and successful cooperatives have developed policies and procedures that equip them to meet these challenges. Below are profiles of some “success stories” in Chicago:

**London Town Houses** was incorporated as an affordable housing cooperative in 1965 under Section 221(d)(3) of the National Housing Act. Located on Chicago’s far South Side, it represented an ownership opportunity for African Americans in what was then a very limited and discriminatory private housing market. One of the original members characterized the early days of the cooperative, and the cooperative concept generally, as exciting because it was “democracy in action.”

London Town Houses resembles a suburban neighborhood, with townhouses spaced along winding streets. The development has 803 units and 801 members; two of the units are set aside for on-site personnel. Maintenance is available 24 hours a day. Because the leadership was dissatisfied with previous property management which lacked a true “vested interest” in the cooperative, it now has a property manager living on site.

The neighborhood surrounding London Town Houses has a mix of industrial, commercial and residential uses. Housing in the cooperative is more attractive than the surrounding area, yet a three-bedroom townhouse has a carrying charge of less than \$500 a month. In the early years, members actively organized and succeeded in having a school built in the area to serve the needs of the many children in the cooperative.

Many of the members have aged in place, and encouraging participation in the cooperative is a challenge. The cooperative has developed a strategy to attract and involve younger residents. For example, the Participation Committee provides orientation on the history of London Town Houses, as well as the rights and responsibilities of residents, the board, and management. Another strategy such as a recent “Steppers Set” focuses on encouraging interaction through sponsorship of social events geared to younger people.

In the focus group at London Town Houses, residents spoke with pride not just about the quality of their homes, but about the contributions they have made to the local community, including playing a key role in having a new school built.

**Lakeview East Cooperative** is located on Chicago's north lakefront in a neighborhood that has gentrified and lost most of its affordable housing. Because of local market conditions, the owner intended to pre-pay his HUD-insured mortgage which would have resulted in the loss of any affordability controls. Other HUD-insured buildings in the area had experienced rent increases as high as 300% in similar circumstances.

When residents learned of the owner's intention to pre-pay, they approached a local elected official and a community organization that had experience with the LIHPHRA process. This was shortly before the LIHPHRA provision of the National Housing Act was due to expire in 1996. Because they were motivated by their knowledge that they could not hope to stay in the neighborhood at their current rent levels, residents organized a council and successfully presented HUD with a plan to convert the property into a cooperative. Lakeview East was the last conversion to resident ownership under LIHPHRA in Chicago.

The property has 220 units in a single high-rise building that is indistinguishable from other market rate properties of similar size and age in the area. This affordable property is located near the lake, has good transportation and is convenient for shopping. In addition, the quality of maintenance and amenities as well as the presence of two full-time security staff at all times are cited by the residents as major attributes of the cooperative. The board chose an experienced property management firm – the cooperative is functioning smoothly.

**Stone Soup Cooperative** is an intentional community whose members work in social services and as community organizers, artists, environmentalists, human rights activists, teachers, volunteers and students. They came together because of their mission that commits them to "joy and justice." In the spring of 1997 the founders began meeting; by that fall they had identified and rented a vacant convent on Chicago's north side. Members share all space except individual bedrooms, and all members are single young adults.

Stone Soup has connected with the community surrounding it in many ways. Several members work in local organizations and schools. Meeting, event, and conference space is available for other organizations. Members founded a food cooperative program to offer healthy and affordable food to people from around the neighborhood.

In 2000, the cooperative purchased and converted a double duplex nearby for Stone Soup II, housing 11 members. More recently the model was replicated on Chicago's Southwest side, where Stone Soup III houses 7 members. Stone Soup provides an affordable, resident-controlled housing option to an age and income group that would not be able to afford traditional homeownership. The group works with cooperative banks and the Chicago Community Loan fund to put its financing together.

The age group served by Stone Soup is very mobile, with less than 10 of the original 30 members still living at the cooperative. This poses particular challenges for recruiting new members. One strategy Stone Soup has employed is hosting weekly potlucks open to anyone. This has introduced a large number of people to the coop and helped the cooperative to pursue the joy as well as the justice that their mission calls for.

**Chatham Park Village Cooperative** was established as an affordable housing cooperative in 1962 when the property was converted from rental property with FHA insured mortgage under Section 213 of the National Housing Act. The 40-year mortgage was retired in 2002. There are 553 units in 63 buildings, ranging from 1-bedroom units, to 2-bedroom townhouses/duplexes, and 3-bedroom deluxe units. Most residents of the development chose to become cooperative owners at the time of conversion in 1962. There are 50 who are original charter members who have lived there for the past 40 years. Over 50% of the residents who became members during the 1960s, 1970s, and 1980s have remained in the cooperative.

Today Chatham Park Village Cooperative is an intergenerational community with approximately 800 residents of all ages. Ninety-eight percent of members are African-American, 75% are over 50 years of age, and 79% of residents are female. This cooperative has secured a \$10 million rehabilitation loan from the National Cooperative Bank. Chatham Park Village was the recipient of last year's Chicago Mutual Housing network Excellence Award.

**Logan Square Cooperative** was formed by a group of interested individuals. In the spring of 2000 one member began searching for individuals interested in creating a cooperative housing development. By the fall of 2001, there were eight individuals (four individuals and two couples) committed to the idea. To begin the process the group formed a non-profit corporation. This required a lot of learning by the members – learning both about the intricacies of cooperatives and the real estate development process.

The corporation located an 8-flat building in Logan Square, in an "up and coming" area, and they found it early. The members collectively put \$100,000 down on a \$580,000 deal. The remaining amount was covered by two mortgages with non-profit community lenders, one of which is the Chicago Community Loan Fund. The mortgages are being paid off through the member's monthly carrying charges. Gentrification, or the '*condo frontier*' as the group refers to it, is roughly one mile south and east of them. In a few years real estate prices in this area are bound to skyrocket and make the neighborhood unaffordable for long time residents. At Logan Square Cooperative, however, a share in their 8-flat will be as affordable tomorrow as it is today.<sup>71</sup>

One useful strategy the Logan Square Cooperative employed is that it increased the loan amount to cover closing costs, urgent repairs and some, to put aside in a reserve fund. The establishment of a reserve fund is important because it creates a safety net in case emergency repairs are required. It also protects the new cooperative from defaulting on its loans in case one or more members are temporarily unable to cover their monthly payments.

**Pratt-Ashland Cooperative** is a cooperative in East Rogers Park. Members of the cooperative were successful in maintaining the cooperative after the failure of the sponsoring organization, Peoples' Housing. According to one resident, success depended on members learning "a lot of things on a fast pace." Another resident cited her attraction to cooperative living because it allowed her "to have some type of control over my environment and...be part of a business/organization where I can grow and learn different aspects of business management." This resident cites her experience on various committees as allowing her to "learn a lot, grow a lot, and extend that out into my community."

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<sup>71</sup> Henderson, Harold. "Home, Home in Your Range" Chicago: *The Reader*. 32(18). January 31, 2003. p 16.

**Park Shore East Cooperative** was founded in the mid-1960s by The Woodlawn Organization and is an example of a community-sponsored cooperative. Park Shore East residents have become active participants in community building. A member says: “Coops depend on residents to ‘build the community.’ They have a broader vision of community and they build things by asking ‘what’s in it for the children’. Park Shore East members were instrumental in establishing the Southside YMCA.”

## **Resident Profile**

The UIC Voorhees Center conducted 10 focus groups with residents representing 17 cooperatives throughout the city<sup>72</sup> in order to document who lives in affordable housing cooperatives, what living conditions are like and to shed some light on what population groups would benefit most from cooperatives. Sixty four participated in the focus groups. The participants were predominantly women - 86%. They identified themselves as 63% African-American, 19% white, 11% Latino; the remaining 7% identified themselves as either Asian or mixed race.

Half of the participants were working, 63% in professional or management positions. Of those not working, most were retired. Fifty percent of the participants had incomes between \$25,000 and \$75,000; 40 percent had annual incomes of less than \$25,000. Ten percent earned over \$75,000.

The participants were well educated, with 82% having some college or an advanced degree. College graduates made up 42% of the participants and 23% had advanced or professional degrees. Most of the participants, 70%, had become cooperative members after being renters in the private housing market. Sixteen percent had been homeowners or condominium owners before joining a cooperative. Their average tenure as cooperative members was 15.6 years.

Most residents who live in these cooperatives represent working people including civil servants, teachers/educators, postal service workers, low and mid-level managers, real estate professionals, city and state employees, union members, etc. A large proportion of residents in the older cooperatives have now “aged in place”; they have lived in their communities for many years where they have been able to raise and educate their children. Cooperatives have indeed served them well in the past and continue to provide them with support and security as they advance in age.

As discussed earlier, households with annual incomes of under \$50,000 cannot afford to buy single family homes or condominiums in the current Chicago housing market. Most are also burdened with excessive housing costs in the rental market. According to the Bureau of Labor Statistics, nurses, biotechnicians, teachers, food service managers, job placement counselors, credit analysts, social service managers, and firefighters are among the many occupations with 2002 Chicago median incomes below \$50,000.<sup>73</sup> These population groups who are largely unable to penetrate the traditional homeownership market and who are both rent burdened and regularly destabilized by the rental market, emerge as the

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<sup>72</sup> See Appendix 2 for explanation of focus group methodology.

<sup>73</sup> U.S. Department of Labor, Bureau of Labor Statistics. 2001 Metropolitan Area Occupational Employment and Wage Estimates, Chicago, IL PMSA, available at [http://www.bls.gov/oes/2001/oes\\_1600.htm](http://www.bls.gov/oes/2001/oes_1600.htm) . Accessed April 28, 2003.

potential target market for affordable housing cooperatives. This market represents no less than half a million households in Chicago and is very well suited to cooperative housing; it deserves close attention by policy makers who should explore policies and programs that encourage the development of cooperatives that will help to provide affordable housing and stable communities to low-income households.

## IV. Affordable Housing Cooperatives

As discussed in previous sections, the major difference between affordable housing and market rate cooperatives is the restriction placed by former on resale prices in order to remove the property from the speculative real estate market and maintain long-term affordability. The following represent some common limits to share pricing on resale:

- the original share price plus one dollar;
- the original share price plus appreciation to allow for inflation, based upon a specific formula;
- the original share price plus any inflation allowance, plus the original market value of agreed upon improvements to the unit, minus depreciation of those improvements;
- any of these methods plus the amount that can be attributed to the share of the member's monthly carrying charge that was applied to the cooperative's mortgage principal<sup>74</sup>

This restriction on resale makes affordable housing cooperatives an effective affordable housing tool and promotes long term stability. This restriction on resale prices is often coupled with income maximums in order to limit eligibility to targeted low-income groups.

This section will address the track record and benefits of affordable housing cooperatives as well as barriers and challenges to develop and operate them. It is important to note at the outset that the benefits of affordable housing cooperatives far outweigh their challenges - They add significant social and economic value to their members and to society at large; and barriers and challenges to their effectiveness can be mitigated by adopting appropriate policies and strategies.

### A. Benefits and Attributes

Most of the literature on housing cooperatives agrees that economic and social benefits are two of the major attributes of affordable housing cooperatives. This is confirmed by our research. The following represents a synopsis of LEC benefits extracted from our general literature review, surveys, and the main themes that resonated throughout the focus group discussions.

#### *Affordability*

For low and moderate-income families, affordable housing cooperatives offer an affordable ownership opportunity. Through the Section 213 FHA-mortgage insurance program, up to 98 % blanket financing could be secured, allowing down payments as low as 2 %. The program also permitted the use of borrowed money for down payment<sup>75</sup> and a term of 40 years for the blanket mortgage. This opened homeownership opportunities for families that could not afford to purchase a home with a regular 30-year mortgage.

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<sup>74</sup> *Equitable Development Toolkit: Beyond Gentrification*. Oakland: PolicyLink, available at <http://www.policylink.org/EquitableDevelopment/>. Accessed April 28, 2003.

<sup>75</sup> "Housing Cooperatives: An Opportunity to Expand Homeownership for Moderate-Income Families," National Association of Housing Cooperatives. 2001. *NHC Affordable Housing Policy Review*, 1(1). Washington, D.C.: National Housing Conference.

Cooperatives “*lower operating costs, since residents have a greater financial and emotional investment in their housing development.*”<sup>76</sup> Unlike tenants in rental housing, cooperative members have control in the property either through direct management or a voice in management issues, and ensure that monthly charges are not unduly increased. Any change in monthly carrying charges (typically due to a need for major building rehab or an increase in taxes) can be foreseen in enough time to make smoother transitions and increases. Thus, monthly charges only increase when operating costs or taxes go up. Additionally, “*in most jurisdictions, property taxes are assessed on the cooperative as a whole, and tax appraisals are usually lower than the sum of appraisals on a similar building of condo units.*”<sup>77</sup>

The most consistent theme among the participants in the focus group discussions was the affordability of their living situation. The affordability issue is especially crucial in situations where the building is located in an area experiencing gentrification. This was the case for Hermitage Manor Cooperative on the west side of Chicago; this development is sitting on very valuable property due to major reinvestments in the surrounding area. Because members exercise control, this cooperative community is surviving impacts of the rise in housing costs triggered by redevelopment with its membership intact; this is not the case in the nearby Henry Horner Public Housing development where the lives of residents have been disrupted by redevelopment related displacement.

The experience of Hermitage Manor demonstrates that cooperatives that are strategically located serve as a hedge against gentrification since residents own their housing and cannot be displaced. Realizing this, community organizations are beginning to use the development of cooperative housing as a strategy to curb gentrification. This was one rationale behind the selection of the location for the Nuestro Hogar Cooperative by CMHN and Bickerdike; they leapfrogged over the gentrifying section of Humboldt Park in order to find a property that was still affordable knowing that the cooperative will remain affordable even as the neighborhood gentrifies. Affordable housing cooperatives located in gentrifying or improving neighborhoods allow members to remain in the community.

### ***Tax benefits***

Cooperative members are treated as homeowners for tax purposes. This means that affordable housing cooperative members are eligible for income tax deductions for their share of the mortgage interest and property taxes paid by the cooperative provided they choose to itemize. It should be noted that this benefit is not available in leasehold or Low Income Housing Tax Credit syndicated cooperatives since all tax benefits are allocated to the private investor.

### ***Equity growth potential***

Although affordable housing cooperatives restrict increases in share prices, they still provide room for some growth; most LECs limit the return on investment to 5 % per annum. California limits share price increases to 10 % per annum.

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<sup>76</sup> Rohe, William M. “Converting Public Housing to Cooperatives: The Experience of Three Developments.” 1995. *Housing Policy Debate*, 6(2): 439-479. Washington, D.C.: Fannie Mae Foundation.

<sup>77</sup> “Housing Cooperatives: An Opportunity to Expand Homeownership for Moderate-Income Families,” National Association of Housing Cooperatives. 2001. *NHC Affordable Housing Policy Review*, 1(1). Washington, D.C.: National Housing Conference.

It is worth to note that annual increases in share prices are an important aspect that sets affordable housing cooperatives apart from rental housing. Members realize a return on their investment (ROI) upon resale of their shares since the value of their shares appreciates over time. For example, Gill Park is a Section 8 cooperative where members paid \$300 each for their shares in the cooperative in 1981; those shares are now worth \$1,800. In Harper Square Cooperative, shares that were worth \$1,400 in 1971 have now grown to \$2,800. Shares that were worth \$260 in London Towne Homes are now at over \$3,000. LECs, therefore, offer a modest return on investment upon resale in addition to their many other benefits.

Relative to their investment, the return cooperatives members receive through increasing share prices is significant even when compared to traditional homeownership. A member's equity growth in Gill Park Cooperative, for instance, represents a six fold or 600% increase over 20 years. This is equivalent to an increase in value of a \$100,000 house to \$600,000 over the same period of time, which is highly unlikely. But most importantly, cooperative members realize wealth creation in other ways: because their ongoing housing expenses are very modest, they have more money left to save and invest on an ongoing basis, and most importantly, to provide for their families and to educate their children.

### ***Economies of scale***

Cooperative can benefit from economies of scale in their operations. Instead of purchasing supplies on an individual basis, the cooperative can get better prices through its ability to buy for the complex as a whole. This is also true with regard to maintenance because large maintenance problems are more affordable when the cost is distributed among many units. For one member, this realization came after five years of living in a cooperative; the roof of the building began to leak and she realized that she didn't have to pay for it herself as she would if it were a single family home.

Another way cooperatives benefit from economies of scale is in the initial purchase of a building. Members of one cooperative initially tried to individually locate places to buy in the city but quickly found that the properties they were looking at were too expensive. Collectively, however, they were able to come up with the funds for a building that would house all of them. The members were able to save money on closing costs because the entire building is one real estate transaction rather than each unit being a separate unit of property (resulting in individual closing costs) subject to multiple closings as is the case in condominiums.

### ***Social network***

Cooperative members typically work together in committees and are involved in all aspects of the management of the property, creating a strong social network. This social network can be utilized as an organizing arena to secure benefits that would otherwise be difficult for individuals to achieve. The constant interaction among members, in addition to enhancing proper property management and maintenance, also ensures familiarity and a sense of community. This feature of cooperatives was especially important to focus group participants with children because it was an added security knowing that neighbors would keep an eye on their children and would recognize strangers on the premises. As one member put it "*our kids have lots of 'parents' and in a sense we have built-in childcare*". This collective community watch is what makes cooperatives stand out in comparison to rental complexes and condos. Tenants of rental units and owners of condos are more apt to keep to themselves and don't have as much opportunity to get to know each other; strangers are more difficult to notice in these housing options.

Affordable housing cooperatives ensure stability for shareholders. This in turn allows for more meaningful interaction and effective community building. One member commented, "*Here, you have big shoulders, a big family that could help out,*" as she reflected on the importance of knowing and being able to trust her neighbors. This level of trust and community is difficult to reach in housing situations where the turnover is high. Events organized by cooperative provide ample opportunity for community building. Some have annual festivals, and others have special interest groups such as seniors that plan occasional outings for residents. Thirty-eight of the 64 cooperative members in our focus group lived alone. These organized activities create a great sense of community for these members. As one member put it, "*There is a sense of community through the activities that are planned here, especially those around the holidays*".

### ***Longevity***

The durability of the cooperative model is demonstrated by people's responses to the question of how long they plan on living in their cooperative. One member said, "*When I die, you can seal up my door with me inside.*" The average length of tenure for members we surveyed is 14 years. One cooperative stated that they have waiting lists of six months to a year and another decided to stop keeping its waiting list because turnover was minimal. Occupancy in cooperatives often lasts a lifetime as demonstrated by the many seniors who are aging in place in the older cooperatives such as London and Chatham. In Chatham, 50 residents have lived in there for 40 years (since its inception), while more than half of those who joined the cooperative in the 1960s, 1970s and 1980s are still there. The typical occupancy in a cooperative lasts 15-20 years when it is less than five years for rental housing. This speaks for not only stability in the lives of residents but also for the stability of communities.

### ***Opportunities for individual development and education***

Many cooperative members participate in the management of their properties, gaining practical experience on a range of activities that are necessary to run their housing. In doing so, they acquire new skills that not only benefit them as individuals, but also the entire community. Several members who serve on their boards of directors said they learned business and management skills that also helped them in their personal finances. One person observed that,

*"What has been great for me living here is learning about this alternative business structure because it nurtures the people who are a part of it and that is really appealing to me... It keeps me organized in my own life because you have to be structured; you have to be organized. So it rubs off on you and your family life."*

Another member commented on other leadership skills she learned:

*"In meetings and in the way we deal with issues we try to use consensus and that for me has been a major learning experience. Just learning how to make decisions with other people and make decisions in a really respectful way in a place where everyone has an equal voice. That was a huge benefit for me because that part rubbed off on me as a teacher. It has helped me interact with people more effectively. Using that as a model has worked out really great in my life."*

### ***Community control and prevention of displacement***

Members participate at various levels in the decision-making process. They have the ability to screen potential incoming members. The residents as a group exercise democratic control over the property and have security of tenure unlike in rental properties where control is exercised by the landlord. There is no third party who may be motivated by profit to displace them. This aspect is especially crucial in gentrifying neighborhoods.

As one member put it "*in a co-op there is security because you own a piece of a home; you are not at the mercy or whim of landlords.*" This was a particularly important benefit for those who rented prior to moving into a cooperative. Forty-five of the 64 cooperative members we surveyed rented in the private rental market prior to moving into their homes. As renters, they frequently experienced rent increases, which often forced them to move.

### ***Maintenance***

Many cooperative members stated that they enjoyed the benefit of not having to worry about maintenance issues as is necessary in traditional homeownership; maintenance and repairs are a collective responsibility and add to the attractiveness of cooperatives for many. People in cooperative living situations have a voice in how the building and units are to be maintained and repaired but don't necessarily have to do the actual work on their own. Everyone is watchful of conditions in the entire building; one female focus group participant observed that every member has a vested interest in what happens in the building as a whole. Each member feels connected to their unit as well as to the entire property; this spirit plays a role in protecting the property from becoming a slum or getting infested with bugs.

### ***Flexibility***

In rental situations, the tenant would have to break the lease if they wanted to move out before the term in the contract expires; this would typically result in a financial penalty. Owners of homes and condominiums typically must sell the home/unit before they can leave because of mortgage obligations. Cooperatives offer more flexibility in this regard; shareholders could turn their unit over to the cooperative corporation and have the corporation assume responsibility for filling the vacancy. Another area that lends itself to flexibility is that members may customize their units. When improvements are made to units with authorization by the board, the cost will be added to the original share price.

These, in short, are some of the major social and economic benefits of affordable housing cooperatives. The social benefits surveyed above are instrumental not only in bringing security and stability to the lives of members, but also in promoting community building and sustainability. Immediate and long term affordability is the primary economic benefit. There is opportunity for some equity growth, limited by decision of the members. Limits on the resale price of shares should be balanced between controlling resale prices to ensure long term affordability; providing a strong enough incentives to keep members interested, supportive, and active in the cooperative; and creating a structure that will be supported by lenders and public agencies.<sup>78</sup>

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<sup>78</sup> *Equitable Development Toolkit: Beyond Gentrification*. Oakland: PolicyLink, available at <http://www.policylink.org/EquitableDevelopment/>. Accessed April 28, 2003.

Affordable housing cooperatives can and should be a powerful policy tool for increasing the ability of low and moderate income Chicagoans to enjoy the benefits of homeownership.

### **B. Barriers/challenges and Strategies**

The literature identifies a number of barriers and challenges to affordable housing cooperatives. The focus group discussions with Chicago based cooperative members also identified similar issues. The major challenges primarily fall into four categories:

1. Lack of financing sources
2. Lack of information and knowledge
3. Lack of adequate education and participation by all members, and
4. Property management related issues

An examination of successful cooperative practices and public policy initiatives provides encouraging ways and models that can help to mitigate challenges to the promotion and maintenance of affordable housing cooperatives. In this part, we will discuss the barriers and identify possible practices and strategies that may be employed to overcome them.

#### ***Financing***

Financing is by far the most significant barrier to the expansion of affordable housing cooperatives today. The earlier federal programs that supported the creation of cooperatives are no longer available. Local public funding agencies are largely uninvolved in the cooperative scene today in our region. The same is true of most conventional lending institutions.

The limited involvement of the private banking industry is due in part to “a lack of understanding within the financial community about cooperative ownership of property.”<sup>79</sup> Lenders have difficulty comprehending share loans because share loans are for property that is not “real,” meaning there is no title attached to the property as there is in loans for single-family homes and condominium units, for instance. Financial institutions in general view cooperatives as a higher financial risk although according to the National Association of Housing Cooperatives, “cooperatives insured under the HUD Section 213 have the best loan performance and lowest default rate of any HUD multifamily program.”<sup>80</sup> There is also little recognition of the fact that the cooperative structure provides additional security to lenders because they don’t have to pursue individual members in cases of default – unlike in the case of condos, the corporation is responsible for absorbing individual member failures and assumes responsibility for the mortgage.

Currently, many of the longtime affordable housing cooperatives are refinancing their mortgages in order to upgrade their properties and to free themselves of HUD restrictions. For example, Argyle Cooperative recently completed major rehab with funding by the Community Investment Corporation (CIC) as have Chatham Park Village and Noble Square with funding by the National Cooperative Bank. These transactions alone involve between \$30 and \$40 million dollars. Many of the older

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<sup>79</sup> Billand, Charles, “Refinancing—To Do or Not to Do: That is the Question Facing Many Cooperatives Today.” Washington, D.C.: National Association of Housing Cooperatives.

<sup>80</sup> “Housing Cooperatives: An Opportunity to Expand Homeownership for Moderate-Income Families,” National Association of Housing Cooperatives. 2001. *NHC Affordable Housing Policy Review*, 1(1). Washington, D.C.: National Housing Conference.

cooperative properties require major rehab in the next few years. This offers substantial business opportunities for local lenders who should take proactive measures to understand and penetrate this market.

One issue for local lenders has been that the secondary market for cooperative loans was not completely developed as that for condos and single-family loans. While the secondary market in Chicago might not have been fully developed yet, the Fannie Mae Washington D.C. and New York offices are working with the National Cooperative Bank bundling its cooperative mortgages and selling them on the secondary mortgage market. Fannie Mae's Chicago office should be approached to facilitate similar arrangements for local lenders.

At the present time at the national level, public financing for cooperatives is very limited and there are only a few low-income housing development programs that can be directed to cooperative developments. There is even less active public role in the development of affordable housing cooperatives in Illinois and Chicago. As a result, the number of cooperatives is very modest. This state of affairs has to change in order to enhance the place of cooperatives as a vehicle for the promotion of affordable homeownership in the Chicago region; there are best practices implemented in other jurisdictions that can inform the development of policies and programs here. The following represent some of the major initiatives:

**New York** has undertaken significant policy and legislative initiatives to promote cooperative housing both at the state and city level throughout the last century. At the state level:

- The New York Housing Act of 1927 (State Limited Divided Housing Companies Law) granted “tax exemptions on the increase in value resulting from the construction of new projects for a period of up to 50 years and provided for condemnation to permit assemblage of adequate sites at fair prices.” This legislation had a profound impact on the development of low and moderate income cooperatives.
- The New York State Limited Profit Corporations Law enacted in 1955 (“Mitchell-Lama Act”) encouraged the development of moderate-income housing through property tax exemptions and low interest loans (financed by state revenue bonds) to developers who agreed to restrict their dividends. Around 60,000 units of affordable cooperative housing were built under this statute mostly in the 1950s and 1960s. It included income limitations to ensure occupancy by middle-income households.
- The Tax Relief Bill for Housing Development Fund Corporations (HDFC) of 2002 was passed at the state level to help cooperatives with financial troubles to get back on their feet; the bill includes a regulatory agreement that helps buildings stay financially healthy. The 789 MacDonough cooperative is the first to benefit from this tax relief bill.<sup>81</sup>

**New York City** has also been very active in promoting the development of cooperatives. The Urban Homesteading Assistance Board (UHAB) of New York City was created in 1973 to help tenants living in city owned buildings to take control of their property and become homeowners with a long-term vested interest in their neighborhood. This happened in New York City because there were many city owned abandoned properties that squatters occupied and began to fix up and live in. One of the programs UHAB administers is the Urban Homesteading Program which enables residents to take title to abandoned buildings while the other is the Tenant Interim Lease (TIL) Program.

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<sup>81</sup>Reicher, Andrew. “2002 Program Highlights.” New York: The Urban Homesteading Assistance Board. March, 2003, available at <http://www.uhab.org/pubs/2002Highlights/index.htm> . Accessed April 28, 2003.

The Tenant Interim Lease (TIL) Program creates ownership opportunities for tenants in occupied city-owned buildings. This program requires tenants to form an association and apply to become owners. There is a self-management trial period when members attend UHAB classes in financial management, maintenance and repair and democratic decision-making. During this time, members also learn to operate the cooperative by collecting fees, paying for minor repairs and filing financial paperwork. If this trial period is successful, they qualify for city-financed repairs of up to \$50,000 per unit. Through this process, they are eventually able to purchase the property.<sup>82</sup>

Approximately 20,000 units have been converted to affordable housing cooperatives in this manner in New York City. The TIL continues to operate successfully, providing homeownership opportunities to many low-income households. Just this past year, 176 units of affordable housing in 11 buildings were stabilized as cooperative housing. At very low cost to the city, UHAB enabled these residents to own their own homes, recognizing the hard work and commitment they have shown over the years to their community. This is a strategy that only required political will, technical assistance in obtaining a few relatively small loans to complete needed repairs and the use of the existing TIL program.

As a result of these significant state and city initiatives, New York City has the largest concentration of cooperatives in the United States. Currently, over 160,000 cooperative units constitute part of the affordable housing stock. In contrast, the number of cooperative units in Chicago stands at about 12,000 - not even 10% of the number in New York. Chicago has never had a squatters' movement of the same level as New York City's. However, the programs developed in NYC as a consequence of this movement can be instructive in designing programs to assist tenants or community groups in Chicago to control and improve neglected and abandoned properties.

**Washington DC** too has strong track record in promoting LECs. When the City Council enacted rent control because double-digit inflation threatened excessive rent increases in the 1970's, many landlords responded by selling their buildings to condominium converters, causing displacement and worsening the shortage of affordable rental housing. The city council responded with legislation that significantly changed the picture: landlords must give their residents the first right to buy when a sale or change of use of a building is proposed.

The city also recognized barriers to development including the difficulty to secure land, buildings and start-up funds as well as the need for technical expertise and creative financing. Problems with starting a cooperative "from scratch" were acknowledged, and converting existing occupied or vacant buildings was preferred as an alternative to building from ground zero. The program allocates up-front funds required to arrange for a purchase.<sup>83</sup> The following initiatives were put in place to facilitate affordable housing preservation through control and ownership by low income residents.

- ❑ The First Right Purchase Assistance program provides direct short-term and permanent-financing to low and moderate-income individuals and tenant groups to exercise their rights under the District's First Right to Purchase law. (Cities like Tacoma Park, Maryland and Berkeley, California, have similar laws<sup>84</sup>). Uses include the following:

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<sup>82</sup> *History*. New York: The Urban Homesteading Assistance Board, available at <http://www.uhab.org/about/history.htm>. Accessed April 29, 2003.

<sup>83</sup> Ross, Altonia B. "Tenants' "right of first refusal" Brightens Washington, DC Housing Picture." *Journal of Cooperative Development* 2(4), available at <http://www.development.coop/pdf/journal/CDJspring01.pdf> Accessed April 28, 2003.

<sup>84</sup> Sazama, Gerald, "Lessons from the history of affordable housing cooperatives in the United States: a case study in affordable housing policy." *The American Journal of Economics and Sociology*, 59 (4): 573-608.

- Loans may be used for earnest money deposits, actual purchase of property, interim rehabilitation financing, operating costs, or for "soft costs" such as legal, architectural, engineering, and other technical services related to the purchase of a property.
  - First Right Purchase loans may be converted to or used to provide permanent financing for cooperative purchasers on any properties in Washington, DC.
  - The program provides funds for application review, tenant certification, and related program administration activities.
  - Tenant organizations rely on a favorable second mortgage loan program using mostly federal CDBG assistance to help them finance conversions.
- Similarly, the Homestead Housing Preservation program enables first time home buyers to purchase tax delinquent real properties and Department of Housing and Community Development foreclosures for as little as \$250 per unit.
- Low and moderate-income participants receive a \$10,000 deferred mortgages to assist them with gap financing.
  - In exchange, the homebuyer must complete a homeownership training course, rehabilitate the property, reside in the property for a minimum of five years, and return it to the tax rolls.
- The Home Purchase Assistance program provides interest-free and low-interest loans to qualified residents, which enables them to purchase houses, condominiums, or cooperative apartments.
- Residents who are accepted into the three-tiered program are eligible for loans to meet down payment and closing cost requirements.
  - The loan amounts are based on a combination of factors, including income, household size, and the amount of assets that each applicant must commit toward a property's purchase price.
  - Loans provided are subordinate to private first trust mortgages.

Many buildings in Washington DC, including the 474 unit *Benning Heights Cooperative* and the 19 unit *1429 Girard Street Cooperative* supported through these programs, were converted to LEC's. Several non-profit organizations and consultants help low and moderate-income tenants throughout the conversion process.

Likewise, the *San Francisco Redevelopment Agency (SFRA)* has developed a Section 8 focused policy to preserve at risk properties. Estimating that half of 88 project-based Section 8 properties (approximately 3,500 units) are at risk of being lost in the coming several years, San Francisco initiated a preservation program with three components: education and outreach to tenants; regulation activity; and direct contact with owners to facilitate property transfer.<sup>85</sup>

- Under this program, owners of HUD subsidized housing must give 18 months' notice of intent to sell to SFRA. SFRA reaches out and assists tenants in understanding their options to take control.

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<sup>85</sup> Goldberg Gray, Deb. "Resident Participation in HUD Affordable Housing Preservation Projects: What Works?" Davis: University of California Center for Cooperatives. September, 2000.

- Capacity Grants of up to \$25,000 are available for democratically controlled resident groups to hire their own consultants and decide whether it is feasible or not to pursue some form of homeownership. In case they decide to do so, there is additional money in the form of Predevelopment Grants of \$75,000.

In addition to reaching out and educating tenants on their options, SFRA controls at risk properties by having the Right of First Refusal to purchase the property based on a negotiated fair market price during a six-month period after notification. It also requires from the current landlord a “public notice process that discourages for-profit buyers from acquiring affordable properties.”<sup>86</sup> This San Francisco initiative is a significant step that will help to preserve most at risk project based Section 8 properties; likewise, thousands of units could be preserved in the affordable housing stock if similar strategies are pursued in Chicago.

The foregoing demonstrates how initiatives employed by some state and local government jurisdictions have helped to mitigate financing barriers by getting directly involved in the financing and promotion of affordable coops. The impact they have is certainly much more than the funding they provide; their active participation creates a positive environment for conventional lenders to also get involved. This results in the infusion of both public and private funds into the development of affordable housing cooperatives, thereby expanding affordable ownership options at a time when affordable housing resources are diminishing. The State of Illinois and the City of Chicago too would be in a strong position to address the affordable housing crisis through this housing model if they adopt similar legislative and policy initiatives.

### ***Lack of knowledge and information about cooperatives***

A major challenge to the development of housing cooperatives is the general lack of understanding by not only prospective lenders but also by the general public and cooperative members themselves.<sup>87</sup> The majority of studies on cooperatives indicate that successful cooperatives require a large investment of time and money in familiarizing the residents/members with the cooperative structure. This however is not the true in most cases particularly with larger properties recently converted into cooperatives. The same tenants largely remain in the properties upon conversion, and it is not easy for them to recognize the shift in their status from renters to cooperative members and the implications of such shift.

The concept is difficult to comprehend since cooperatives can take so many different forms. The focus group discussions brought to light the importance of education as a marketing tool as well as a tool used to retain current residents. *"People need to remember that they don't technically own their unit, they own 1/220<sup>th</sup> of the building - it is a shared ownership."* Many members stated that the cooperative model is great for those that want the benefits of homeownership without the full responsibilities of homeownership but not enough people know about the cooperative model or understand it. Continuous education to increase general understanding about the essence of cooperatives as well as to enhance members' general skills is critical so that they can become active, informed and meaningful participants in the affairs of their property. This requires resources as well as skilled technical

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<sup>86</sup> Goldberg Gray, Deb. “Resident Participation in HUD Affordable Housing Preservation Projects: What Works?” Davis: University of California Center for Cooperatives. September, 2000.

<sup>87</sup> Goodman, Allen and John L. Goodman, Jr. “The Co-op Discount.” *Journal of Real Estate Finance and Economics*, 14 (1): 223-233.

assistance providers. Through its programs such as *Cooperation works*, the Chicago Mutual Housing Network provides technical assistance and training in the Chicago Region.

It is important that resources are available for technical assistance providers in order for successful cooperatives to be organized and stay successful. Even where resources are available for cooperatives conversion, they can be used effectively only when people know how to use them. The state and local initiatives discussed earlier recognize the importance of this need; not only do they allocate resources for this purpose but also provide outreach and training themselves.

Technical assistance was a critical piece for the *Benning Heights Cooperative in Washington DC* to take advantage of existing resources, for instance. In 1979, tenants of this 474-unit apartment complex received notice that the owner was intending to sell and they would have to move out. Finding this unacceptable, the tenants organized and secured technical assistance from the non-profit Metropolitan Washington Planning and Housing Association, using resources secured from the District of Columbia Department of Housing and Community Development's First Right of Refusal program. After 2 years of work and \$2.5 million dollars, the residents have become owners of the Benning Heights Cooperative. Today new residents pay \$920.00 to get into a two-bedroom unit and pay \$460.00 for monthly carrying charges - both very affordable rates in DC's escalating housing market.<sup>88</sup>

### ***Lack of participation by members***

Lack of member education and knowledge has direct impact on the level of their involvement and participation in the affairs of the cooperative. There are indications that in some cases the lack of participation among members is high; residents' primary reason for joining the cooperative was the difficulty in accessing affordable housing in the private rental market.<sup>89</sup> This is particularly true with recent high rise conversions where the same residents shift from renter to cooperative member without a thorough understanding of the meaning of the shift. As a result, members' capacity and willingness to participate may be lacking, and one of the major struggles, as gathered from the focus groups, is that of participation. The larger cooperatives in particular struggle with maintaining active participation by the residents. Some members stated that many people do only the bare minimum and to truly make a cooperative work, all members need to put in their fair share.

All cooperatives do have a board of directors to facilitate decision-making and there rarely is lack of people willing to serve on these boards. But it is difficult to practice the cooperative framework when only the board of directors is involved. This has the potential of eventually eroding the democratic character of cooperatives since lack of participation and oversight by members may also create leaders with absolute power – a dangerous trend by itself. It is therefore important to maintain active member participation. As one person commented, "*a cooperative is a living organism, it thrives on participation.*" Another member suggested that there needs to be an annual "*renewal of vows*" just to keep people continually aware of the commitment they made when they became members.

While they largely enjoy more active member participation, smaller cooperatives face a different type of participation problem in some cases. For one small cooperative, it took 6 months to decide what color to paint the exterior hallways because there was active participation from all members. In this

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<sup>88</sup> Ross, Altoria B. "Tenants' "right of first refusal" Brightens Washington, DC Housing Picture." *Journal of Cooperative Development* 2(4), available at <http://www.development.coop/pdf/journal/CDJspring01.pdf> Accessed April 28, 2003.

<sup>89</sup> Rohe, William M. "Converting Public Housing to Cooperatives: The Experience of Three Developments." 1995. *Housing Policy Debate*, 6(2): 439-479. Washington, D.C.: Fannie Mae Foundation.

situation, members expressed the frustration of group decision-making stating "*nobody is trained to make decisions as a group*". It is a skill that has to be learned and there needs to be a structure in place to resolve issues quickly if and when a group cannot come to a decision lest problems escalate.

Both the lack of adequate participation in larger properties and the occasional over zeal in smaller buildings are directly related to the low level of understanding of how cooperatives function and succeed. It is important that there is ongoing member education, training and technical assistance to ensure that members participate effectively in the affairs of their housing and maintain effective control over their common assets. Continuous education, one of the Rochdale principles, is particularly instructive in energizing leadership within the cooperative. This is a particularly important fact when new residents replace founding members. In this respect, the role the Chicago Mutual Housing Network plays in educating cooperative members is very important.

*The Artspace Project of Minneapolis* is a nonprofit agency with the mission of providing affordable work/live space to artists. This organization dates back to 1979 when it opened as a referral service because of the problems that artists had in finding an affordable place to live and work. Today Artspace is America's leading nonprofit real estate developer for the arts. With a focus on creating space where artists can live, work, exhibit, perform and conduct business, Artspace has been able to develop 12 buildings around the country.<sup>90</sup> Its model encourages tenants to work together; user participation in decision-making is a primary focus. It is important that all cooperatives make this a primary focus and, through formal arrangements, challenge their members to stay engaged in the process. Artspace has expanded the model of user participation, having opened the 24 unit Switching Station Lofts in East Garfield Park in Chicago. CHMN has been tapped to conduct resident training.

### ***Property management***

Some issues raised at the focus group sessions pertained to management problems. Some buildings that have hired property management teams experience problems with how the building is managed. This doesn't necessarily reflect a flaw in the cooperative model but rather the flaws of a particular property management group. For one cooperative, the poor oversight of management led to the cooperative being out of compliance with income mix; for another the management group failed to act responsibly with regard to paying bills on time and compromised the budget. In both cases residents were able to resolve the issues because of their commitment to maintaining a successful cooperative. One member rightly observed that "*good property management markets the coop*". It is therefore important to make property management a priority for it can adversely affect the success of cooperatives.

What can potentially happen when cooperatives are mismanaged and members are not engaged is demonstrated by the **789 MacDonough Cooperative in New York City**. In 1989 the residents of 789 MacDonough purchased their 41-unit building from the city. The residents participated in the Community Management Program but received only minimal training about what it meant to be a member. They left most of the details and responsibilities to the management company they hired and assumed that it would responsibly care for the building. In 1999, the residents learned that no real estate taxes had ever been paid and that water, sewer and other bills had outstanding balances. The board went to the Urban Homesteading Assistance Board (UHAB) for technical assistance. By

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<sup>90</sup> *All about Artspace*. Minneapolis: Artspace Projects, Inc. 13 November 2002, available from <http://www.artspaceprojects.org/about/>. Accessed on May 30, 2003.

February of 2001 the building had become self-managed with most back bills paid off. Taxes, sewer and water bills, however, still amounted to \$365,000 worth of debt. To exacerbate the situation, the building was in need of some major repairs, which compelled the city to begin a foreclosure action on the property in August of that same year.<sup>91</sup>

The foregoing offers a lesson of the need for ongoing oversight by members in general and the board in particular; volunteer board members have indeed been in the forefront to ensure that their cooperatives are successful and well managed. This responsibility has to be shared by all members and it is important that they have the proper training to keep close tabs on the affairs of their asset. It is also important to pick a management company that has experience working with cooperatives. Advocates and technical assistance providers such as the *Chicago Mutual Housing Network* can play a significant role in this regard by maintaining a list of service providers including property managers. In the long term, it may be prudent to look into possibilities where a number of cooperatives may come together to organize a management company that they would control.

In sum, issues discussed above such as financing, education, property management and member participation that are associated with the development and success of cooperatives can all be alleviated with implementation of solid policies and technical assistance programs. Some states, local governments and organizations have been successful at combating the common difficulties encountered by cooperatives. Their approaches and methods can be instructive in guiding the design and development of effective strategies that would support cooperative development in Illinois in general, and Chicago in particular.

While encouraging homeownership for moderate income families has been a focus of housing policy at the local and national level for decades, affordable housing cooperatives have not been used consistently and effectively to meet that goal although advocates and experts view cooperatives as “the nation’s most cost effective, low-risk, and stable means to affordable homeownership.”<sup>92</sup> Affordable housing cooperative prices are often lower than down payments in traditional home purchases. They avoid the all-too-common risks that low and moderate-income homebuyers face through predatory lending practices. They have lower maintenance or carrying charges. They also avoid the tax problems faced by low and moderate-income homeowners in gentrifying neighborhoods because local taxing bodies assess the cooperative as a whole and resale of units does not cause a reassessment.<sup>93</sup> This relief from the burden of high housing costs in turn opens up opportunities for members to build savings through other means.

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<sup>91</sup> Henderson, Ann. “Tax Relief Prevents Foreclosure for Brooklyn Co-op: First Regulatory Agreement Under Tax Relief Legislation Signed.” New York: The Urban Homesteading Assistance Board. April 2003, available from <http://www.uhab.org/PressReleases/firstregagreement.htm> . Accessed May 30, 2003.

<sup>92</sup> *Welcome: Cooperative Housing Information Center*. Washington, D.C.: Cooperative Housing Coalition. April, 2003, available from <http://www.chc.co-op/chc/chcinfo.nsf/mainwelcome.htm> . Accessed May 2, 2003.

<sup>93</sup> “Housing Cooperatives: An Opportunity to Expand Homeownership for Moderate-Income Families,” National Association of Housing Cooperatives. 2001. *NHC Affordable Housing Policy Review*, 1(1). Washington, D.C.: National Housing Conference.

These benefits cannot be realized in Chicago without active state and local government support and active involvement by financial institutions. Some cooperatives in Chicago (Logan Square, Stone Soup) have successfully managed to acquire favorable financing packages; they are however the exception rather than the rule. With federal dollars for housing diminishing, state and local intervention in support of affordable housing cooperatives is very crucial if in order for this housing option to have a broader impact. Favorable state and local government initiatives will in turn energize the cooperative movement and motivate financial institutions to actively engage in this area.

Chicago has dedicated residents and advocates as well as qualified technical assistance providers. Even in the absence of active support by both public and private funders, some groups – Stone Soup, Logan Square, Bickerdike – are making headway in the development of limited equity cooperatives. Although their impact is still very limited, their experiences form a solid basis for further efforts to overcome barriers to affordable housing cooperative development. Active policy intervention by state and local government agencies is however crucial to elevate this housing model into a more prominent affordable housing option.

## V. TARGET MARKET GROUPS AND PROPERTY TYPES SUITABLE FOR LEC DEVELOPMENT

Based on the research conducted, the following groups were identified as the potential market that would find affordable housing cooperatives attractive and beneficial. These groups are then compared to the census to provide insight on how many people in Chicago would benefit from this housing option. This market groups were cross tabulated with income data, specifically focusing on income levels between \$20,000 and \$50,000 per year. Chicagoans in this income range face particular challenges in accessing traditional homeownership, and often face significant rent burdens.

### A. Target Market Groups

#### *Single women*

In our focus groups, older single women (aged 45-65) found affordable housing cooperatives a viable living arrangement because of the security, sense of community, and built in affordability of the model. One woman in her fifties moved into a cooperative because she could no longer afford her north side home due to gentrification in the area. She is a single woman in her fifties and it makes sense for her financially to be part of a LEC now. According to a recently released study affordable housing cooperatives "provide a financial alternative for many women who are heads of household, divorced, widowed, or never-married. For this population, a single-family home can be inconvenient or difficult to maintain."<sup>94</sup>

*"As a widow, it's a nice community for someone on their own not living with anybody"*

*"I like it because I don't have to shovel, rake, and plant or salt the area, it's all done and it looks beautiful and is safe"*

*"It is more beneficial than homeownership because there is less responsibility in a cooperative than owning a home, especially if you don't know how to repair anything"*

There are just over 20,000 single head of household females aged between 45 and 65 making between \$20,000 and \$50,000 per year that live in Chicago. This group would find limited equity cooperatives attractive and is a potential target.

**Table 9. Single women aged 45-65 earning \$20,000--\$50,000 per year**

<b>Race</b>	<b>Number</b>
White	9,228
Black	8,772
Hispanic	1,143
Other	1,129
<b>Total</b>	<b>20,272</b>

*Source: US Bureau of the Census, Public Use Microdata Sample (PUMS)*

Note: PUMS did not allow for isolating women without children under 18

<sup>94</sup> Saegert, Susan and Lymari Benitez. 2002. *Limited-Equity Housing Cooperatives: An Attractive Alternative to Rental Housing in the United States*. New York: City University of New York Graduate Center.

## *Single women with children*

Another target group identified through the focus group sessions is single women with children. This group, often from Section 8 properties transformed into cooperatives, value the affordability provided by affordable housing cooperatives. Other features were also mentioned such as the learning experience of managing the cooperative as a business. The women found security and support in the sense of community for not only themselves but for their children. A support network is formed among the women that often aid them in their day to day childcare needs, neighborhood watching while children play outside, and other neighborly assistance often not found readily in areas with transient rental occupancy. As one focus group participant from this target group commented, this living arrangement is best described as "safe, secure and stable" for my children and me.

*"I wanted a place where my kids would feel comfortable enough to go out into the neighborhood without a lot of problems or chaos. I wanted to be able to trust them and where they were going. I wanted them to be in a safe environment but I also worried about the rent going up and didn't want to be in that situation. I felt that if I was in an environment where we all collectively work together, I could have some control over that. I learned a lot from being there. I am on the board now and some committees and have enjoyed the process."*

*"As a single mom it would benefit me financially. I saw this as a stepping stone opportunity, a chance to save up some money and eventually move out"*

*"All my kids have handed me down clothes from other ladies in the building and that is less I have to spend on clothes. Everybody helps everybody out here"*

The group includes all female head of households (aged 15-65) with children under the age of 18 years old, making between \$20,000 and \$50,000 per year. It is further broken down into ethnic groups. In Chicago, there are almost 120,000 women that fall in this potential market niche.

**Table 10. Single women aged 15-65 with children under 18, making \$20,000-\$50,000 per year**

<b>Race</b>	<b>Number</b>
White	10,409
Black	76,412
Hispanic	27,752
Other	3,119
<b>Total</b>	<b>117,692</b>

Source: US Bureau of the Census,  
Public Use Microdata Sample (PUMS)

### *Moderate-income families with children*

This target group is most promising during periods of difficult housing times. One member from the focus group reflected on the housing market in the mid 1960's. For this member, the cooperative was a way to get out of the "hood"; it was an opportunity to get started with a family even with limited financial means. During this period, the cooperative housing option was an "oasis in the desert" as the member referred to it.

Today the housing market is also very tight and this situation makes LEC's attractive to moderate-income families with children as a stepping-stone to homeownership. The affordable up front costs allow young families to become members of the cooperative and the long-term affordability allows them to save up money for the possible next step of homeownership. In addition, the process teaches young families the responsibilities of homeownership and better prepares them for future ownership.

*"An affordable housing cooperative could be a stepping stone, a place to stay for a few years, save some money."*

This target market niche is all 2-headed households with dependents under the age of 18 with incomes between \$20,000 and \$50,000 per year. There are over 450,000 families in this market group who would benefit from this housing model.

**Table 11. Families with children under 18, making \$20,000--\$50,000 per year**

<b>Race</b>	<b>Number</b>
White	123,524
Black	95,096
Hispanic	203,957
Other	33,326
<b>Total</b>	<b>455,903</b>

*Source: US Bureau of the Census,  
Public Use Microdata Systems*

### *Young Adults (22-34)*

This target group includes recent college graduates just entering the job market and earning modest incomes. Members of this target group are often familiar with LECs through their own living experiences in one of the many student housing cooperatives in Chicago and across the nation. This experience has already provided them with hands-on management experience, team-building and decision-making skills.<sup>95</sup> Based on a study of student cooperatives, this group appreciates the social benefits of LECs as much as the affordability.<sup>96</sup>

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<sup>95</sup> Cooperative Development Foundation, "Student Cooperatives: [http://www.coopdevelopment.org/funds\\_student.html](http://www.coopdevelopment.org/funds_student.html). Accessed July 7, 2003.

<sup>96</sup> Altus, Deborah., "A Look at Student Housing Cooperatives," 1995. Rutledge: Fellowship for Intentional Community, available at <http://www.ic.org/pnp/cdir/1995/32altus.html>. Accessed May 30, 2003.

*"Coming to the city from somewhere else, I wanted to stay away from a situation where I would find a rental and then in a year prices would go up and I would have to move. I wanted to have more control over my housing especially because I am on a city teacher's salary."*

The census group that best reflects this market niche is young adults between the ages of 22-34 with a college degree. In Chicago 34.4% of young adults have a higher education degree and fit the market group that may find affordable housing cooperatives attractive.

**Table 12. Young adults ages 22-34 with college degrees as a percent of total population ages 22-34**

<b>Degree</b>	<b>Persons aged 22-34 With college degrees</b>	<b>Percent of total population aged 22-34 with college degree</b>
Associates Degree	30,668	4.00%
Bachelors Degree	170,513	22.10%
Masters Degree	43,118	5.60%
Professional Degree	17,649	2.30%
Doctoral Degree	3,498	0.50%
<b>Total population with College Degree</b>	<b>265,446</b>	
<b>Total population</b>	<b>771,645</b>	

*Source: US Bureau of the Census*

### ***Intentional communities***

There is no census data to describe this target group. Based upon the Stone Soup Cooperative model, this target group includes housing and social justice activists who are interested in living situations where they can live and share ideas with like-minded people. The comments of members from the focus groups best describes the reasons why this is an attractive alternative for some people.

*"...the co-ops were formed by groups of people working on different social justice issues and in that way I found this to be a real supportive environment. Like in my house I am a teacher along with 2 others, it creates a nice internal support group. It's a fun-stimulating place."*

*"I have always been interested in intentional community and interested in other people who are interested in building community and sharing resources. This is a really cool cooperative. I am interested in social justice; I've done different volunteer things but haven't quite found what my passion is - so it's really cool to live among such a diverse group especially during these times."*

*"...it keeps consumerism in check; we share washers, lawnmowers and we only have one vacuum for the whole building"*

*"...we are proactive on neighborhood stability and stability in our own lives. The main thing is to form community, learn consensus decision-making and support each other. We are acting out Gandhi's experiment in living."*

The demographic market groups described above are candidates who could find the cooperative model attractive; these were also groups strongly represented in the focus groups. Immigrant groups and persons with special needs would also benefit from this model and should be considered for cooperative developments.

### **B. Target Building Types**

In addition to the demographic market groups discussed above, we also identified promising types of buildings or development types for affordable cooperative housing development.

#### ***Expiring Low Income Housing Tax Credit and Expiring Section 8 Developments***

Between 2002 and 2006, affordability agreements for approximately 6,000 Tax Credit units in 100 developments in the City of Chicago will expire.<sup>97</sup> Projects developed before 1990 normally had 15-year affordability requirements. These are the developments now facing expiration. There are also many more expiring Section 8 properties that are facing the same fate.

Some observers have predicted that most of these affordable units will be converted to market rate housing. This is more likely to occur in the gentrifying areas of the city or areas experiencing growth.<sup>98</sup> This potential problem can be turned into an opportunity by converting these buildings into cooperatives.

Many of these 'at risk' properties are managed by non-profit community development corporations (CDCs) who the Chicago Mutual Housing Network should identify, approach, and explore the this model with. Because of the central role it played in the conversion of assisted properties such as United Winthrop to cooperative housing, CMHN possesses significant cooperative conversion experience that will be handy in facilitating similar transactions of at risk properties.

#### ***Low and mid-rise public housing buildings***

The Chicago Housing Authority (CHA) is in its 4<sup>th</sup> year of a major plan to demolish, rehabilitate and build new units of public housing. The overall plan is to reduce the number of public housing stock from 40,000 to 25,000 units over a ten-year period.

Nearly midway in this ten-year process, there are a number of low and mid-rise public housing developments that the CHA has not yet finalized revitalization plans for. As stated in the Chicago Housing Authority Annual Plan for Transformation for FY 2003, these developments are listed as Rehabilitated or Redeveloped Properties. This plan states that for many of these developments,

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<sup>97</sup> Illinois Assisted Housing Action and Research Project (IHARP). "Low Income Housing Tax Credit Report." May, 2002.

<sup>98</sup> Illinois Assisted Housing Action and Research Project (IHARP). "Low Income Housing Tax Credit Report." May, 2002.

"Future development plans have not been determined."<sup>99</sup> The Chicago Mutual Housing Network has received calls from residents of some of these developments (LeClaire Courts, Wentworth Gardens) inquiring about possible conversion to coops.

This is a strategy worthy of exploration. The experience and success of Racine Courts should be instructive in this process. It should be noted at the outset that these buildings are in need of major rehabilitation and repair before current public housing residents or other interested coop members should consider the transfer of ownership from the CHA to a cooperative form of ownership. This strategy would require a commitment by the CHA to first rehabilitate and bring the properties into compliance with the Chicago Building Code. Similar efforts in other U.S. cities show that converting public housing to cooperatives is feasible but requires funds for rehabilitation and the commitment on the part of the public housing residents and the public housing authority to make it work.<sup>100</sup>

The following public housing developments, among others, might be candidates for this strategy.

- ❑ Altgeld Gardens, 1,498 units
- ❑ Dearborn Homes, 800 units
- ❑ Lathrop Homes, 925 units
- ❑ LeClaire Extension, 300 units
- ❑ Wentworth Gardens, 308 units
- ❑ Washington Park Low-rises, 42 units
- ❑ Cabrini Row houses, over 550 units

### ***Smaller properties in areas with reasonable property prices***

Smaller multi-family building (6-12 units, for instance) in neighborhoods with reasonable property prices may also be suitable for cooperative development especially if they are matched with groups of willing individuals (such as recent immigrants or groups who would prefer cooperative living as a life style) who are organized for this purpose (much like the members of Logan Square Cooperative).

Developing strategies to utilize existing buildings such as those mentioned above for cooperative development is crucial. Pursuing such strategies will provide an affordable housing option for populations in need and preserve affordable housing for the long term.

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<sup>99</sup> *Annual Plan for Transformation*. 2003. Chicago: Chicago Housing Authority, page 26.

<sup>100</sup> Rohe, William M. "Converting Public Housing to Cooperatives: The Experience of Three Developments." 1995. *Housing Policy Debate*, 6(2): 439-479. Washington, D.C.: Fannie Mae Foundation.

## ***CONCLUSION AND RECOMMENDATIONS***

The preceding pages reviewed important aspects of affordable housing cooperatives. The survey of the role affordable cooperatives can play as a housing tool vis-à-vis other housing options offers significant insight as to their value as a viable housing model. In spite of their promising prospect as a tool for affordable homeownership, they have not been promoted as aggressively as they could have been. Initiatives on the federal level have been far and apart and now have reached a low point. Some jurisdictions have promoted this model more actively than others. As a result, cities such as New York have a relatively large number of cooperatives.

Considering the significant economic and social role affordable housing cooperatives can play in alleviating the current affordable housing shortage, it is important that greater attention is paid to this housing model. Both federal, state and local legislative and policy making bodies are critical to lifting up this housing model as a tool to promote affordable homeownership. Residents, advocates and housing experts too have very important roles to play in highlighting the value of affordable housing cooperatives and challenging policy makers and other stakeholders to give greater consideration to this form of housing.

In this respect, the Chicago Mutual Housing Network plays a central role to elevate the place of this housing model not only at the local and state level, but also at the national stage in collaboration with other players in the housing field. The following, among others, are some recommendations for the Chicago Mutual Housing Network to consider:

- Maintain and update data and information on existing cooperatives;
- Maintain a database of properties suitable for conversion into;
- Inform and educate members, potential members, lenders, funders, public and elected officials and the general public about affordable housing cooperatives;
- Promote and advocate for initiatives that would increase resources for cooperatives and for the preservation of existing housing in the affordable stock;
- Identify and maintain a list of qualified service providers, including property managers for use by cooperatives;
- Work with leaders to evaluate the potential of forming a city wide management entity owned/controlled by cooperative in the city;
- Work with leaders to develop a framework to ensure continued member participation in the affairs of their housing;
- Create a mechanism for organizing willing groups of people who may be interested in cooperative living and match them with appropriate properties;
- Develop a range of options for limiting equity growth in a way that balances long term affordability with the desire of individuals to realize value from their ownership;
- Keep track of trends and practices elsewhere in order to inform initiatives and developments in the Chicago region;
- Target and pursue state and local government subsidy and assistance programs (such as New Homes for Chicago, Vintage Homes for Chicago, Down Payment Assistance, First Time Home Buyers Assistance, etc.) and advocate to have the benefits under these programs extended to affordable cooperative developments;

- Focus on market groups with strong potential for cooperative ownership including: single women (age older), single women with children, moderate-income with children, and young adults, intentional communities, and recent immigrants;
- Target properties including expiring Low Income Housing Tax Credit developments, expiring Section 8 buildings, and low to mid-rise public housing properties that are at risk of being lost as affordable housing in the coming few years, as well as other small (6-12 unit) buildings suitable to match with willing participants for cooperative living.

These are some key areas that deserve focus. The four main barriers and challenges to cooperative development (financing, education, member participation, property management) identified in this study deserve special attention. The strategies identified above deal with these challenges and, if aggressively pursued, will gradually elevate the place of affordable housing cooperatives as an affordable housing option.

## **APPENDICES**

- Appendix 1:** Glossary of terms
- Appendix 2:** Comparison of housing types
- Appendix 3:** Focus group methodology
- Appendix 4:** Focus group dates and locations
- Appendix 5:** Profiles of cooperatives participating in focus groups
- Appendix 6:** Questionnaire for affordable housing cooperative board presidents/property managers
- Appendix 7:** Questionnaire for market-rate cooperative board presidents/property managers
- Appendix 8:** Survey form for focus group participants and affordable housing cooperative members
- Appendix 9:** Summary of survey results of focus group participants and affordable housing cooperative members