THE VILLAGE MODEL

OWNERSHIP STRUCTURE

Most affordable housing development today consists of conventional rental properties without strong requirements for long-term affordability. For example, a recent development in Lane County, Oregon included 35 one-bedroom units at a cost of $213,000/unit, and was financed almost entirely (85%) by Low-Income Housing Tax Credits. This sizable use of public subsidies comes with a required affordability period of just 30-years before the housing could turn to market-rate.

Due to inadequate funding of the public subsidies that these developments depend on, alternatives must be identified to respond to the growing need for more affordable housing. **The Village Model provides a more cost-effective and sustainable solution by combining two forms of shared-equity homeownership: Community Land Trusts and Limited Equity Cooperatives.**

Community Land Trust - Limited Equity Cooperative (CLT-LEC) Hybrid

Community Land Trust (CLT)

CLTs realize affordability by dividing ownership of the land and ownership of buildings and improvements, thereby mitigating speculative market forces. Typically, a household owns its individual dwelling unit while the CLT retains title to the underlying land. A long-term ground lease connects the household to the CLT and is used to enforce affordability controls. This division of land and building rights simultaneously enables access to affordable homeownership while allowing the broader community—through a non-profit steward—to retain a stake in the land. However, because individual households generally must rely on conventional bank financing to purchase their house, it can still be inaccessible to lower-income households.

Limited Equity Cooperative (LEC)

LECs realize affordability through shared resources, self-management, and operating at-cost. In a co-op, multiple households join together to collectively own multiple dwelling units by forming a cooperative corporation. Each household purchases a membership share in the co-op, granting them a right to a dwelling unit, a vote in the co-op's governance, and an ownership stake. Co-ops also operate at cost. Members pay monthly carrying charges to the co-op to cover all operating costs, including maintenance, reserve funds, and any debt service. A *limited-equity* co-op preserves long-term affordability by limiting the appreciation in value of the membership share with a simple formula. However, in "hot" housing markets, members may be enticed to amend their bylaws and convert to a market-rate co-op in order to cash out their shares at whatever prices the market will bear.

Our Village Model addresses some of the shortcomings of traditional CLTs and LECs by combining elements of each in complementary ways. Together they offer a promising model for operating within existing real estate law to provide a more accessible and sustainable homeownership option for low-income households.

In this shared-equity arrangement, SquareOne (or another entity acting as a CLT) retains ownership of the underlying land and the co-op owns and manages the housing and improvements on the land. A long-term ground lease ties the interests of both parties together, creating a partnership that helps to ensure the longer-term viability of the co-op. SquareOne is able to serve in an advisory role, providing support to the co-op in the form of technical assistance, training, and leadership development. And due to its sustained involvement in the project, SquareOne also serves as a "mission steward" during periods of leadership change and member turnover within the co-op.

Advantages of a CLT-LEC ownership structure:

1. Accessible Homeownership

>> Enabling owner-occupied housing for very low-income households…

CLTs commonly consist of single-family houses where individual households must qualify for individual bank loans. This poses major barriers to lower-income households and those with poor credit histories. In our collective ownership model, residents do not need to qualify for a mortgage individually. Instead, the CLT is able to provide a blanket mortgage for the entire LEC project, and any loans remaining from construction can be assigned to the LEC, rather than individual households. Co-ops have also proven to lower monthly housing costs by more than 20% compared to physically similar affordable rental housing managed by the same management companies.[1]

2. Long-Term Investment

>> Once a dollar is invested once, it's there forever…

Our Village Model guarantees that housing developed will be permanently retained at affordable rates for people with low-incomes, whereas conventional low-income rental housing generally only guarantees affordability for 30 years or less. That means that each dollar invested by banks, government, foundations, or donors will go further. LECs preserve the affordability of housing by setting income limits for prospective members and restricting the resale value of a membership share. A partnership with a CLT adds an additional backstop to ensure perpetual affordability.

3. Low-Risk Investment

>> A multi-layered ownership structure ensures a safe and stable investment…

The CLT-LEC partnership never leaves anyone hanging. If an individual household misses a payment, all co-op members are in jeopardy and the LEC will step in to remedy the situation. As a result, co-ops offer lower risk to lenders and have proven to have lower default rates compared to rental properties owned by both for-profits and nonprofits.[2] In rare cases where the LEC cannot remedy the situation, the CLT provides an additional backstop that will step in as necessary. Studies have found that homes owned as part of a CLT have proven ten times less likely to default compared to in the conventional market.[3]

Target Population

Our Village Model is a good fit for people who are 1) interested in being involved in the shared ownership and management of their housing, and 2) are able to participate in the day-to-day life and governance of the co-op in a cooperative manner. It is not necessarily a good fit for households in need of housing that is accompanied by extensive supportive services, and we believe permanent supportive housing remains a necessary option for this population.

Being a member of a housing co-op is a form of homeownership. As homeowners, co-op members enjoy the benefit of security of tenure, but they must also assume additional responsibilities. Co-op members are ultimately responsible for fulfilling core property management functions, and must also plan ahead for the co-op's long-term financial health. A partnership with a CLT provides ongoing training and support to ensure the co-op is successful in these efforts.

Our Village Model aims to serve people with very-low incomes, between 30 to 60 percent of the area median income (AMI), though it is also suitable for households between 60 to 120 percent AMI. **The co-op ownership structure is a particularly good housing option for this population, because it pools the limited resources of each individual into a collective fund for operating quality housing at-cost.** This allows residents to act as owners of their housing, without being exposed to the risk of owning and maintaining their own home in isolation. As a result, studies have shown that co-op housing has proven to produce a significantly higher quality of life for the residents when compared to traditional affordable housing.[4] Furthermore, the higher level of resident engagement in co-ops has proven to be effective in preventing crime in comparison to standard rental housing.[5]

LEC Costs: Share Purchases & Monthly Fees

When a household joins a co-op, they must typically make an up-front purchase of a share in the cooperative. This represents their investment in their housing. In a *limited-equity* cooperative, shares increase in value according to a formula outlined in the co-op's bylaws. While this means that co-op owner-members may not realize as significant of a financial return on their investment as a conventional homeowner, such restrictions on share appreciation are an important mechanism that preserves affordability and community stability over time. Thus, CLT-LEC housing is more about creating a stable place to call home than a financial asset for accumulating wealth.

When a co-op is being developed as new construction, share purchases serve as an important source of the equity to help finance the project. Additionally, our research and experience has found that it is critical for co-op members to have "skin in the game" financially from the beginning of the project. Because their own resources are invested in the project, share purchases help ensure a member's commitment to the functioning and sustainability of the co-op.

Given the income levels our model targets, even a modest share price of $5,000-$15,000 may be difficult for a household to pay in a single, up-front payment. **There are at least two mechanisms for making share purchases more accessible to very low-income households: sweat equity and share loans.**

Sweat Equity

Sweat equity is a direct contribution of labor during the construction process that helps offset labor costs. In a simple sweat equity model, households enter into a construction agreement with the sponsor/developer committing them to contribute a minimum number of hours during construction, under the supervision of the lead contractor. Hours spent working during construction are valued at an agreed upon rate, and reduce the price of a share purchase dollar for dollar.

Share Loans

Prospective co-op members can also find financing for share purchases through a share loan. A share loan is an agreement between a lender and a member-owner, and the co-op itself does not directly participate (though the co-op will need to agree to the terms of the loan). Lenders will typically have their own underwriting standards based on the creditworthiness of the borrower, and may secure the loan with the borrower's share and occupancy rights. Some community development lenders, like the National Cooperative Bank, have community loan funds that can be used for share purchases in co-op housing. And some co-op developers, like the Lopez Community Land Trust, maintain their own revolving loan funds used specifically to help finance co-op share purchases.

While the share purchase represents the upfront cost for membership in a co-op, the carrying charge is the monthly amount each member pays to cover the ongoing costs to operate and maintain the co-op. This includes a proportionate share of the blanket mortgage payments, property taxes, management fees, maintenance costs, insurance premiums, utilities, and contributions to a reserve fund. When the co-op is partnered with a CLT, the carrying charge also includes a proportionate share of the ground lease fee, which helps to financially sustain the CLT's involvement.

In essence, residents are collectively acting as their own landlord, allowing them to operate their housing at cost. Members have no reason to substantially increase monthly charges unless taxes or operating costs increase, and therefore monthly charges typically remain reasonable and stable. **The major financial advantage here, in comparison to other low-income housing, is that a co-op housing is able to remain affordable to low-income households without dependence on ongoing subsidies.** The less debt a co-op has to take on in order to finance the housing, the more affordable it can be. **This makes co-op housing an ideal candidate for the prudent use of one-time capital subsidies.**

Monthly Carrying Charge (Example)	
Ground Lease & Management Fee	$140
Utilites	$60
Maintenance	$25
Reserve Fund	$25
PITI (principle, interest, taxes, and insurance)	$300
TOTAL	$550

Share Purchase (Example)	
Initial Share Price	❖ $5,000-$15,000 ❖ Can be a combination of cash, sweat equity, and/or loan.
Resale Formula	❖ Initial Share Price ❖ + 3-5% simple interest/ year

How It Works: CLT Stewardship & Resident Governance

For groups trying to replicate this approach as well as residents interested in living in the type of housing, it is critical for them to have a clear understanding of what a co-op is and how they operate. An important point to highlight is that a co-op is not necessarily an intentional community; it is a business relationship between people whose main common interest is in affordable housing. There are several benefits to this model, but there are also additional responsibilities. Organizations like the National Association of Housing Cooperatives provide a plethora of resources for learning more about the topic. We've found the "Cooperative Housing Toolbox," published by Northcountry Cooperative Foundation, to be a particularly comprehensive and practical guide for starting a co-op.

From our experience in establishing our first co-op at our Emerald Village tiny home community, we have learned that upfront education and training are critical to the success of the co-op. This requires staff capacity that must be accounted for. Our site visit to Lopez Community Land Trust, which has developed six co-ops since it's formation in 1992, highlighted that this process can be streamlined with experience. We found that things go much smoother if the co-ops legal documents and community agreements are well established prior to move-in, along with a clear understanding of when and how the CLT interacts with the co-op.

Ownership Structure		Management Structure	
Land	Owned by CLT	**Common Spaces**	Maintained by LEC
Dwellings	Owned by LEC	**Dwellings (Exterior)**	Maintained by LEC
Improvements	Owned by LEC	**Dwellings (Interior)**	Maintained by Member
		Technical Assistance	Provided by CLT

Key Legal Documents	How it Works
Ground Lease	• Two-party contract that leases land from CLT to LEC while • Establishes a lease fee to cover CLT operating costs • Protects the LEC's interests in security, privacy, legacy, and equity • Enforces the CLT's interests in preserving the appropriate use, the structural integrity, and the continued affordability of any buildings located upon its land.
Co-op Bylaws	• Rules and regulations for how the LEC is operated and managed • Establishes membership fee and outlines transfer of membership • Requires carrying charges to remain at an affordable rate • Defines membership, board of directors, officers, meetings, etc.
Occupancy Agreement/ Proprietary Lease	• Grants LEC member the exclusive right to occupy a specific dwelling • Requires residents to pay monthly carrying charge • Defines responsibility for maintenance, alterations, and improvements • Establishes grounds for termination of membership

ECONOMIC Advantages of Co-op Housing…

☑ **Affordable:** Lower down payment, much lower closing costs, economies of scale, and a longer mortgage term all make cooperatives more affordable than other ownership housing.

☑ **Living in a Cooperative Stays Affordable.** Members have no reason to substantially increase monthly charges unless taxes or operating increase; typically monthly charges remain reasonable.

☑ **Tax Deductions.** For income tax purposes, the cooperative member is usually considered a homeowner and, as such, can deduct his or her share of the real estate taxes and mortgage interest paid by the cooperative.

☑ **Equity.** Cooperatives can provide for accumulation of individual member equity. For market-rate cooperatives, the accumulation of equity and resale prices are based on the market. Limited-equity cooperatives establish limitations on the accumulation of equity to ensure long-term affordability to new members.

- ☑ **Limited Liability.** Members have no personal liability on the cooperative mortgage. The cooperative association is responsible for paying off any mortgage loans. This can often make it possible for persons whose income might not qualify them for an individual mortgage to buy a membership in a limited equity cooperative.
- ☑ **Consumer Action.** Through their cooperative association, members can jointly exert influence to change tax rates and utility prices and obtain improved services from local governments. The cooperative, as consumer advocate, also can join with other organizations and/or coalitions.
- ☑ **Savings.** Cooperative members can benefit from economies of scale in cooperative costs as well as from not-for-profit operation. Also, when there are "transfers," only the out-going member's equity must be financed by the incoming member. Transfers of shares are subject to fewer settlement costs.

SOCIAL Advantages of Co-op Housing…

- ☑ **Elimination of Outside Landlord.** Cooperatives offer control of one's living environment and a security of tenure not available in rental housing.
- ☑ **Community Control.** As mutual owners, member residents participate at various levels in the decision-making process. This is not true of tenants who usually do not have the opportunity to exercise input into the landlord's decisions. Members own the cooperative collectively and can remain in their homes for as long as they wish, as long as they meet their monthly obligations, and abide by the cooperative bylaws, rules, and regulations.
- ☑ **Cultural Diversity.** Many cooperative members say that the possibility for interacting with people from different backgrounds, cultures, and income levels is a positive factor in their decision to become a member.
- ☑ **Extended Services.** By establishing cooperative procedures and working together, people can provide services for themselves that otherwise would be impossible to obtain. When one cooperatively organized venture is successful, it often becomes clear that people can be successful in another area as well. As a result, the original effort often can be strengthened. Examples include athletic teams, cooperative preschools, credit unions, tutoring, food-buying clubs, arts and crafts, and senior health care and support services.

PHYSICAL Advantages of Co-op Housing…

- ☑ **Shared Maintenance Responsibilities.** Cooperative members usually have limited direct maintenance responsibilities. The cooperative association is responsible for major repairs, insurance, equipment replacement and upkeep of common grounds and facilities.
- ☑ **Vandalism and Security.** Cooperative members vigorously protect their association's property. An important benefit of converting rental properties to cooperative ownership is reduction in vandalism and abuse of property and improved and shared security arrangements. And recent studies show that a cooperative's presence in the neighborhood reduces neighborhood crime.

Source: National Association of Housing Cooperatives [6]

Lopez Community Land Trust (CLT) formed in 1989, and has since gone on to develop six limited-equity co-ops (LEC's) located on Lopez Island, WA. While each co-op is small, ranging from just 4 to 11 units per co-op, the scale works well for the rural community and also allows for a more engaging sweat equity component for residents.

> *"They have to show up, they have to watch, they have to look at what's going on, they have to be involved, and they have to work with people—it's a requirement and offers huge long-term benefits."*

Despite lowering unit costs through sweat-equity construction and subsidy contributions, the selected families were unable to qualify for bank financing to purchase their homes. A local banker suggested they consider establishing a co-op for the development, which allowed the CLT to obtain blanket financing for the project and did not require families to be qualified individually.

> *"Once Islanders Bank understood the model, guess what? They want our business because we are so stable."*

Focusing their resources on LEC's instead of the traditional CLT model, allows them to: (1) offer affordable housing to a broader spectrum of the population, including those who don't qualify for financing on their own; and (2) direct their organizational capacity towards supporting the co-ops, growing their affordable housing portfolio, and doing innovative projects—like community agriculture and renewable energy.

> *"This model just works really well for us—there is a scale of economy… and the culture that is developing between the co-ops helps everyone operate more effectively. Someone would really have to convince us to employ a different ownership model because this works so well."*

Co-op	Units	Completed	Monthly Resident Cost
Morgantown	7	1992	$310-320/month
Coho	7	1995	$355-365/month
Innisfree	8	2003	$445-455/month
Common Ground	11	2009	$750-760/month
Tierra Verde	4	2012	$715-720/month
Salish Way	8	2019	N/A

Read the full case study by Meagan Ehlenz [7]

Considerations Around Co-op Size

We've found strong precedent that co-ops can operate successfully at both small and large scales. Lopez CLT has developed six co-ops, ranging from 4 to 11 households each. Residents and staff all said they preferred smaller sized co-ops for several reasons:

- Easier to manage resident participation in design and construction
- Easier for the co-op to make collective decisions, meetings are required very infrequently, less opportunity for conflict among members
- Co-op governance is more direct, where each member also serves on the co-op's board
- Smaller co-ops require less support from the sponsoring CLT if roles and responsibilities are well established from day one

Lopez CLT's newer projects are even located on the same property, yet formed as independent co-ops as the property is developed in phases. With few members they also have minimal common facilities, which reduces the need for co-op meetings and minimizes tensions between members. While this model has proven effective for Lopez CLT, progress has also been slow. They have developed just 47 units over 28 years of operation. This scale and pace works very well for Lopez Island, with a population of just 2,177 residents. However, we recognize the need to deploy more units at a greater scale in order to make a meaningful impact on the housing affordability crisis prevalent throughout the U.S.

Casa of Oregon, a regional affiliate of Resident Owned Communities USA (ROC), provides strong precedent for establishing co-ops at a much larger scale. Since 2008 they have provided technical assistance to convert 14 manufactured housing parks, ranging from 23 to 143 households each, to resident-owned co-ops. In ROC's model, the co-op owns the land (the manufactured housing park) and individual households own their own manufactured housing.

ROC provides one of many examples demonstrating that co-ops can function at a more substantial scale, but it comes with tradeoffs. Key differences include:

- Upfront training is more critical and intensive with a larger co-op
- Co-op governance becomes representative, where a few members are elected to serve on the board
- A committee structure becomes necessary, meetings are likely required more frequently
- Economies of scale allow for contracting out certain property management responsibilities

Ownership Structure References:

(1) Parliament, Vonnegut, and Parliament, "Keeping Housing Affordable: Cooperative vs. Absentee Ownership," Cooperative Housing Journal, 1998

Cooperatives lowered monthly housing costs to residents by more than 20% compared to physically similar affordable rental housing managed by the same management companies.

(2) Calhoun and Walker, Performance of HUD Subsidized Loans: Does Cooperative Ownership Matter, The Urban Institute, 1994

In an analysis of defaults of FHA-insured multi-family loans in the 221(d)(3) and 236 mortgage subsidy programs between 1958 and 1993, cooperatives had a lower default rate than rental properties owned by both for-profit and non-profit entities.

(3) Thaden, "Stable Home Ownership in a Turbulent Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts," Lincoln Institute of Land Policy, 2011

The annual rate of completed foreclosures during 2010 among CLT homeowners was 0.42%, far below the foreclosure rate in the conventional market.

(4) Mushrush, Larson, and Krause, Social Benefits of Affordable Housing Cooperatives, Center for Cooperatives, University of California at Davis, 1997

Altus and Mathews, "A Look at Satisfaction of Rural Seniors with Cooperative Housing," Cooperative Housing Journal, 1997

Cooperative housing produces significantly higher quality of life for the resident as compared to affordable rental housing.

(5) Saegart and Winkel, "Cooperative Housing, Social Capital and Crime Prevention," *Cooperative Housing Journal*, 2001

The higher level of participation in broadly-based, regularly functioning resident associations in low-income cooperatives, as compared to affordable rental housing, was effective in preventing in-building crime as demonstrated by crime statistics over a six-month period.

(6) "Buying Into a Housing Cooperative," National Association of Housing Cooperatives, https://coophousing.org/resources/owning-a-cooperative/buying-into-a-housing-cooperative/

(7) Ehlenz, "Limited Equity Co-ops by Community Land Trusts: Case Studies and a Feasibility Assessment for the Hybrid Model", National CLT Network, 2013