LIMITED-EQUITY COOPERATIVES

Limited Equity Cooperatives are a type of cooperative housing characterized by restrictions on resale value to maintain housing affordability over the long term. While there are many different types of cooperative housing, LECs are specifically designed to provide permanent and affordable housing to low- and middle-income residents, often with more deeply affordable income thresholds than other limited-equity models. Historically cooperatives in the U.S. were closely linked with federal programs. Today these cooperatives are forming on more local scales.

HOW A LIMITED EQUITY COOPERATIVE WORKS

Like all cooperatives, LECs start when residents decide to organize a building, either by forming a cooperative in a new building or deciding to turn an existing building into one.

LECs are different from other cooperative models, however, because the terms of co-ownership limit the price of resale. In other words, they limit the amount of equity a unit-owner can accrue over time.

In an LEC, the building itself is formally under the ownership of a nonprofit cooperative corporation into which residents buy membership shares to cover housing and operating expenses. Members participate in the governance and management of the building, often using a voting process to create the rules that dictate how residents live and share the space.

LECs set their own conditions for joining, which includes income limitations on potential member-residents to ensure that the housing is utilized by low- and middle-income residents.

CONDITIONS FOR AN EFFECTIVE LIMITED EQUITY COOPERATIVE

- Turning buildings into LECs is more successful when tenants are organized in a building with interpersonal relationships.
- Right of first refusal is a provision that allows existing tenants to make the first bid on a building when the owner puts it up for sale. Jurisdictions that have this tenants-rights provision are more likely to promote LEC creation.
- Nonprofit Financial Institutions can provide key support to help tenants buy their buildings, including financing for acquisition and any rehabilitation, and offering share loans for tenants to buy-in to the cooperative.
PRESERVING LIMITED EQUITY COOPERATIVES USING COMMUNITY LAND TRUSTS

The Limited Equity Cooperative model first emerged in the 1960s. Governed by a mix of state and federal regulations, the growth of these cooperatives was aided by low federal interest rates, and later by a program to subsidize mortgage payments. Using these programs, almost 150,000 LEC units were created in the 1960s and early 1970s. However these subsidies were ended by the mid-1970s, drastically slowing production. As the creation of new units has slowed, existing LEC units have also been converted to traditional cooperative or market-rate housing. Presented with the opportunity to take in a huge windfall, many LECs in hot housing markets have chosen to go market-rate with resale. In other cases, co-ops have been unable to obtain necessary financing to maintain their buildings and lost limited equity status.

Given the loss of LECs to market-rate co-ops over time, there have been recent attempts to restructure as permanently affordable housing by combining with Community Land Trusts. While CLTs are most-often stewards of single family homes, land trusts can hold long-term ground leases for multi-unit buildings as well. Like a traditional land trust, the CLT owns the land underneath the building which co-op residents collectively lease. This also adds an additional layer of affordability oversight, through which the land trust can ensure that when a co-op resident sells a unit they are in compliance with affordability mandates. To date, the number of CLT-LEC partnerships is small, hovering around 10 in total nationally.

CONSIDERATIONS

Tenant Burden

When public support for LECs is lacking, co-op creation is limited to the initiative of tenants. In cases where housing conditions are substandard or landlords threaten tenants with eviction, tenants that decide to organize into a cooperative model are often already vulnerable to displacement, or retaliation.

Financial Investments

There is a cost-burden associated with the transition to member-ownership. Tenants have to acquire a share loan in order to purchase their unit. This loan type is difficult to secure because it generates less profit for lenders. Some non-profits and state agencies combat these obstacles by directly subsidizing LEC buy-in costs.

Technical Expertise

Navigating a property purchase is time-consuming and convoluted, and coordinating among several tenants only further serves to complicate the process. There are still some federal mechanisms to partially subsidize co-ops, but many groups are simply unfamiliar with how these policies work.

Maintaining the Co-op

Maintaining a co-op requires a significant time investment which many cannot spare. This is why converting a traditional rental building to an LEC is most successful when the building’s tenants are already organized, with support to go through the process as a collective.

LEARN MORE

Visit the Resources page at create.umn.edu to find examples of LECs around the country and their governance structures, resources for forming and financing LECs, and how LECs can be paired with other tools like Community Land Trusts and Right of First Refusal.