



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, limited equity cooperatives 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. While historically cooperatives in the U.S. were supported by federal programs, today these cooperatives are formed and sustained through local efforts.

HOW A LIMITED EQUITY COOPERATIVE WORKS

Like all cooperatives, limited equity cooperatives 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.

Limited equity cooperatives are different from other cooperative models 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 a limited equity cooperative, the building itself is formally under the ownership of a non-profit 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.

Limited equity cooperatives set their own conditions for joining. The most significant of these conditions is the income limitation for 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 limited equity cooperatives is more successful **when tenants are organized**. This organizing is most effective when tenants build on networks of existing interpersonal relationships.
- Jurisdictions with **right of first refusal** are more likely to promote limited equity cooperative creation. This legal provision gives existing tenants the opportunity to make the first bid on a building when the owner puts it up for sale.
- **Nonprofit financial institutions** can provide key support to help tenants buy their buildings, including financing for acquisition and rehabilitation, and offering **share loans** for tenants to buy into 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 limited equity cooperative 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 limited equity units have also been converted to unrestricted cooperative or market-rate housing. Presented with the opportunity to take in a huge financial windfall, many limited equity cooperatives in hot housing markets have chosen to go market-rate upon resale. In other cases, co-ops have been unable to obtain necessary financing to maintain their buildings and lost limited equity status as a result.

Given the loss of limited equity cooperatives over time, there have been recent attempts to restructure limited equity cooperatives as permanently affordable housing in combination with community land trusts. While land trusts are primarily stewards of single family homes, they can hold long-term ground leases for multi-unit buildings as well. Like a traditional land trust, a non-profit land trust entity would own the land underneath a multi-unit 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 community land trust / limited equity cooperative partnerships is small, with approximately 10 in operation nationally.

CONSIDERATIONS

Tenant Burden

When institutional support for limited equity cooperatives 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 limited equity cooperative 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. This is why converting a traditional rental building to a limited equity cooperative is most successful when the building's tenants are already organized, with support to distribute responsibilities among the collective.

