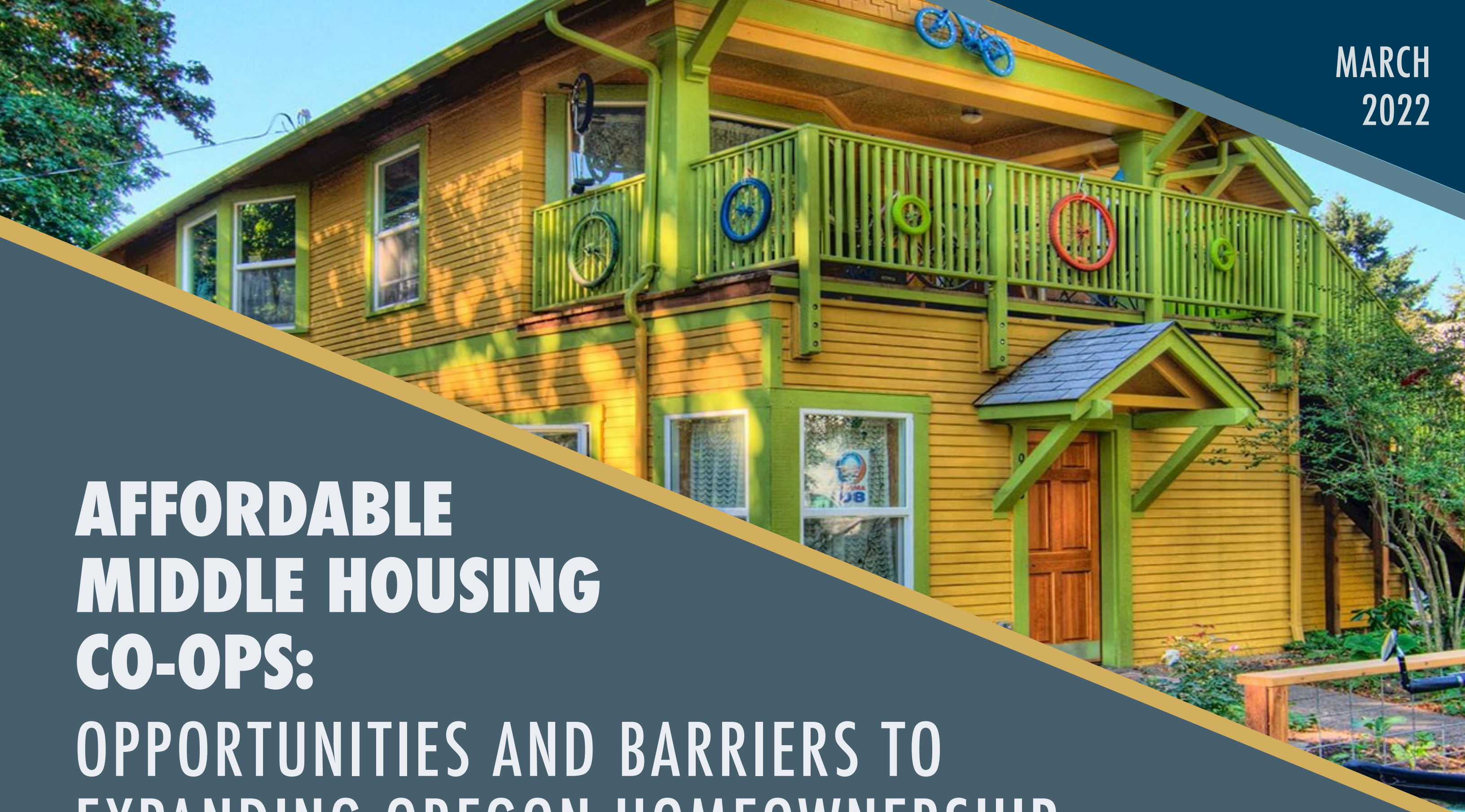

MARCH 2022

# AFFORDABLE MIDDLE HOUSING CO-OPS:

## OPPORTUNITIES AND BARRIERS TO EXPANDING OREGON HOMEOWNERSHIP

Photo: Todd Cooper


Dylan Lamar, Emily Picha, & Anne Thrall-Nash



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# AFFORDABLE MIDDLE HOUSING CO-OPS: OPPORTUNITIES AND BARRIERS TO EXPANDING OREGON HOMEOWNERSHIP

## THE CHALLENGE

Communities across Oregon are interested in increasing access to affordable homeownership opportunities. Access to homeownership has long been uneven; low-income and BIPOC populations have faced systematic barriers to homeownership, limiting their economic stability.

To preserve Oregon's middle class and expand opportunities for historically marginalized people, middle housing developments must deliver owner-occupied housing. This is particularly challenging for small, attached housing units on a single lot, which can't always support fee simple owner-occupancy and are costly to develop as condos. Additional pathways to facilitate owner-occupancy of forthcoming middle housing developments could expand homeownership access for Oregonians.

## THE OPPORTUNITY

Housing cooperatives (co-ops) offer a more flexible and affordable legal structure to create owner-occupied shared-lot housing. Limited-equity housing co-ops (LEHCs), in particular, can extend homeownership access to low and middle-income populations and guarantee permanent housing affordability. A recent co-op pilot project in Springfield, Oregon demonstrates that such cooperatives can deliver permanently affordable homeownership opportunities using only a fraction of the subsidy required of conventional affordable rental housing.

## NEXT STEPS: OVERCOMING THE THREE CHALLENGES TO LEHC DEVELOPMENT

This brief presents several opportunities and challenges to the creation of affordable limited-equity, middle housing co-ops in Oregon.

### FUNDING

Policymakers and agencies should prioritize homeownership with existing subsidies, and support new opportunities through middle housing. Well-designed co-op pilot projects are a place to start building familiarity among lenders. In addition, Oregon's communities should explore subsidized revolving loan funds and opportunities for social impact investing.

### EDUCATION

Oregon lenders, developers, and residents are unfamiliar with co-op housing. Communities should consider supporting predevelopment services for co-ops, engaging co-op advocacy organizations, and building awareness among potential residents and tenant advocacy organizations as part of housing implementation planning.

### NEIGHBORHOOD INCLUSION

Communities may lose older homes to middle housing development, and Neighborhood Associations often obstruct affordable housing development. Community land trusts can help to stabilize neighborhoods. In addition, communities should consider approaches to protecting middle housing co-ops from neighborhood obstruction.

# CONTEXT AND PURPOSE

Oregon's housing market has priced out an increasing proportion of middle-income households. A lack of entry-level homes has denied many people access to the economic security which has historically sustained the American middle class. This is an extension of a decades-long trend, in which exclusionary, single-family zoning has limited homeownership access among lower-income populations, especially people of color.

To address these challenges, the State of Oregon and many of its communities have re-legalized "missing middle" housing types. Oregon House Bill 2001 seeks to moderate housing costs by bolstering housing supply and allowing the development of multiplexes, townhouses, and cottage clusters throughout many cities beginning in Summer 2022. Senate Bill 458 also enables middle housing subdivisions. This enables middle housing units to occupy their own lot, which can support "fee simple" ownership and conventional mortgage financing.

ECONorthwest's research[1] finds that new single-family detached housing is often affordable only to those earning more than 120% of the area median income (AMI). Yet many communities' housing implementation plans seek to extend homeownership opportunities to households earning less than 80% AMI. Unfortunately, there are few public funding resources tailored to support this goal.

Additionally, middle housing development could replace a portion of currently owner-occupied properties with multiplex rental housing. This may further diminish potential homeownership access.

**Limited-equity housing cooperatives (LEHCs) expand the pathways to affordable homeownership development.** As a more affordable alternative to fee simple and condominium development, LEHCs could help ensure a larger portion of middle housing delivers homeownership opportunities, especially if targeted with appropriate financing and subsidies.

The C Street Co-op in Springfield, Oregon, completed in 2021, demonstrated that LEHCs can deliver middle-housing ownership with lower development costs than a fee simple subdivision or condominium. It also showed how LEHCs can deliver affordable (60% AMI) homeownership with a fraction of the subsidy required of conventional affordable rental housing. There remain many challenges to developing co-ops in Oregon, including a lack of familiarity among professionals and potential homeowners, and a lack of financing and funding. The purpose of this policy brief is to:

- Highlight the opportunities that limited-equity co-ops present for the creation of affordable middle housing ownership access for Oregonians
- Suggest policies that can help establish an affordable middle housing co-op market in Oregon

## METHODS

**Methods used in generating this brief included background research on the history and structure of co-ops, case study research, and interviews with industry professionals. The authors thank the following interviewees for their insights:**

- Professionals involved in developing co-ops on the West Coast, including David Thompson (president of Twin Pines Cooperative Foundation) and Andrew Heben (SquareOne Villages)
- Oregon-based developers Shane Boland (Owen Gabbert, LLC) and Eli Spevak (Orange Splot, LLC)
- Public sector practitioners Angela Durant (City of Medford) and Emily Bower (City of Gresham)
- Mary Barlett, Vice President of Summit Bank (lender for the C Street Co-op)
- Kathryn McCamant (CoHousing Solutions)
- Anthonie Woller, an Oregon attorney with co-op legal experience

## THE PURPOSE OF THIS POLICY BRIEF IS TO:

a. Highlight the opportunity that limited-equity co-ops present to address the lack of affordable homeownership options for Oregonians, and

b. Suggest policies that can help establish an affordable middle housing co-op market in Oregon.

# WHAT IS A HOUSING CO-OP?

A housing cooperative is, along with condos, one of two legal structures that allow resident-ownership of ”shared-lot” housing, where multiple units share a single lot. Condo owners own (1) the airspace within a specific dwelling unit and (2) a share in the condo association which owns the common space and land. In a co-op, members own a share in the cooperative, which owns the entire property, and also receive a proprietary lease, allowing them to live in one of the units. Similar to fee simple and condo ownership, co-ops typically provide fixed housing costs, which grow increasingly affordable relative to area rents over time. Similar to a condo, co-op administration is governed by a volunteer board composed of members, who operate the co-op at cost.

Co-ops date back to the 1800s in the United States—for example, they comprise the majority of multi-unit buildings in New York City. While a cooperative spirit runs deep in the history of co-ops, the social character of co-ops varies. Most co-ops are not cohousing or intentional communities. Condos were established by states beginning in the 1950s, and have become more widespread in the United States because they allow for conventional mortgage financing. The “share loans” required to buy into a market-rate co-op are only offered by a few lenders in areas with a historic presence of co-ops (i.e. New York City). Thus, for market-rate housing where purchase financing is necessary, a condo structure is more viable than a co-op to market-rate developers.

## LIMITED EQUITY HOUSING CO-OPS (LEHCS):

Limited-equity co-ops (LEHCs) are a form of “shared equity” homeownership that balances an owner’s equity-appreciation with permanent housing affordability. LEHCs typically extend homeownership access to people who would otherwise rent, providing the benefit of fixed housing costs and eliminating the risks of escalating rent and geographic displacement. LEHCs are strategic in creating affordable homeownership through middle housing because of their low setup cost relative to condos, flexibility (any configuration of housing, even on distributed sites, can be co-owned), and the lessened need for purchase financing (typically purchased with cash, even by low-income households).

LEHCs typically leverage a one-time use of public subsidy to develop permanently affordable homeownership units. The LEHC bylaws limit the price appreciation of shares, often to a fixed three to five percent per year. This maintains share price affordability over time, creating a permanent stock of affordable housing, and thus the “sharing” of equity for the benefit of future residents. To ensure the permanence of affordability, LEHCs are sometimes paired with a Community Land Trust (CLT), which ensures the co-op maintains a regulated share price.

Communities across the United States have achieved affordable housing goals with limited equity co-ops, from New York City to Davis, CA. These co-ops are often the most affordable homeownership opportunity in the area (see Dos Pinos case study).

Because LEHCs limit the share value over time, share values are often low enough for low-income residents to use cash on hand (similar in scale to the security deposit plus first/last rent required for rentals), and can be supplemented with other sources like subsidized Individual Development Account (IDA) savings accounts or homeowner down-payment assistance funds.

CASE STUDY

# C STREET CO-OP—Springfield, OR, 2021

## A demonstration expanding homeownership access through Oregon's middle housing

This limited-equity co-op consists of six one-bedroom suites within a newly built single-family house and detached accessory dwelling unit (ADU). Due to the low project costs of $100,000 per suite (less than half the cost of area affordable rental housing developments), the C Street Co-op achieved affordability for 60% AMI households with only about 10% of the subsidy ($21,000 per suite) required of affordable rental housing built in the same region.

Square One Villages, a local nonprofit, is serving as a Community Land Trust to ensure permanent housing affordability and to provide on-going administrative support.

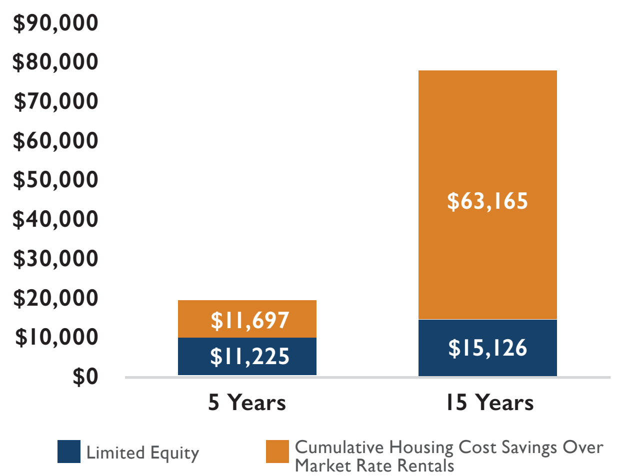
The C Street Co-op provides homeownership opportunities in a neighborhood setting to those who would not have the chance otherwise, lending not only financial stability to their lives but also the pride associated with being a homeowner. The homes are Net Zero Energy Ready and are located a ten-minute walk from downtown Springfield, thus offering resident-owners the opportunity for a low-carbon, walkable lifestyle.

Because of the lack of residential loans for co-ops in Oregon, C Street Co-op's architect and developer, Cultivate, Inc., partnered with five local social impact investors to fund construction. Upon completion, the co-op acquired a blanket mortgage loan through a local commercial bank, Summit Bank. SquareOne received foundation grants from the McKay Family Foundation ($20K), Wells Fargo ($10K), and the Collins Foundation ($40K). The City of Springfield provided $60K in CDBG downpayment assistance, lowering the owners' share purchase price.

The share price to each member was $10,000, which proved to be a difficult price point for households at this income level—SquareOne provided partial share purchase loans for two buyers. Total costs to each member are about $790/month, including utilities and maintenance reserves. Members save about $130 per month over Lane County's 2021 Fair Market Rent. If recent area rent escalation trends continue (6% annual increases over the past five years), these savings grow substantially as shown in the figure at left.

*The pro forma for the C Street Co-op development is included in the Appendix. The source for this information is Cultivate, Inc. and SquareOne Villages.*

**C STREET CO-OP —** Housing Cost Savings and Equity Over 5 and 15 Years, Per Owner[2]




**C STREET CO-OP**

Total Cost to Owner/Residents

# COMPARING OWNERSHIP AND RENTAL MODELS

Limited-equity co-ops offer substantial benefits to people who would otherwise be limited to rental housing.

| | RENTAL | FEE SIMPLE (ONE UNIT PER LOT) | CONDO | LIMITED EQUITY CO-OP |
|---|---|---|---|---|
| DEVELOPMENT COST | Lowest | High when including lot subdivision time/ fees | High due to registration costs and insurance premiums | Moderate (legal fees and administrative time) |
| OWNERSHIP | None | Single owner | Units: single owner<br>Commons: shared ownership | Shared ownership of entire property (private occupancy of each unit) |
| OCCUPANT ECONOMIC SECURITY | Low, especially if tenant protections are limited and rent increases exceed wage growth. | Excellent (given fixed mortgage costs) if monthly housing costs are less than 30% of household income. | Excellent (given fixed mortgage costs) if monthly housing costs are less than 30% of household income. | Excellent relative to rental. Good relative to market-rate ownership. |
| INITIAL COST | Low | Medium to high | Medium to high | Low to medium |
| MONTHLY COSTS | Vulnerable to market fluctuations | Fixed mortgage + maintenance & taxes | Fixed mortgage + maintenance (HOA) & taxes | Fixed mortgage + maintenance & taxes (paid by Co-op, at cost) |
| MANAGEMENT, LIABILITY & MAINTENANCE COSTS | Property owner and/ or manager | Individual owner | Units: Individual owner<br>Commons: HOA | Interiors: Co-op owner-occupant<br>Everything else: Managed by co-op board |
| PURCHASE FINANCING | — | Many financing options | Many financing options | Generally not required. Cost is low enough to allow cash purchase, perhaps with a small "share loan" through a partnering non-profit. |
| MOVE OUT COSTS | None, though security deposit may not be recouped | Realtor fees and some financing costs | Realtor fees and some financing costs | None; transfer of share, not property |
| EQUITY GROWTH | None.<br>Market appreciation value does not belong to tenant and may incentivize higher rents. Rental payments do not contribute equity. | Unlimited.<br>Owners build equity with market appreciation and as the mortgage is paid. | Unlimited.<br>Owners build equity with market appreciation and as the mortgage is paid. | Limited.<br>Owners equity growth limited (typically 3-5% max) with market appreciation, plus any share loan (if any) pay down. |

*Any of these forms of ownership can be combined with a **Community Land Trust**, which owns the land only, and functions to support and preserve permanently affordable housing.

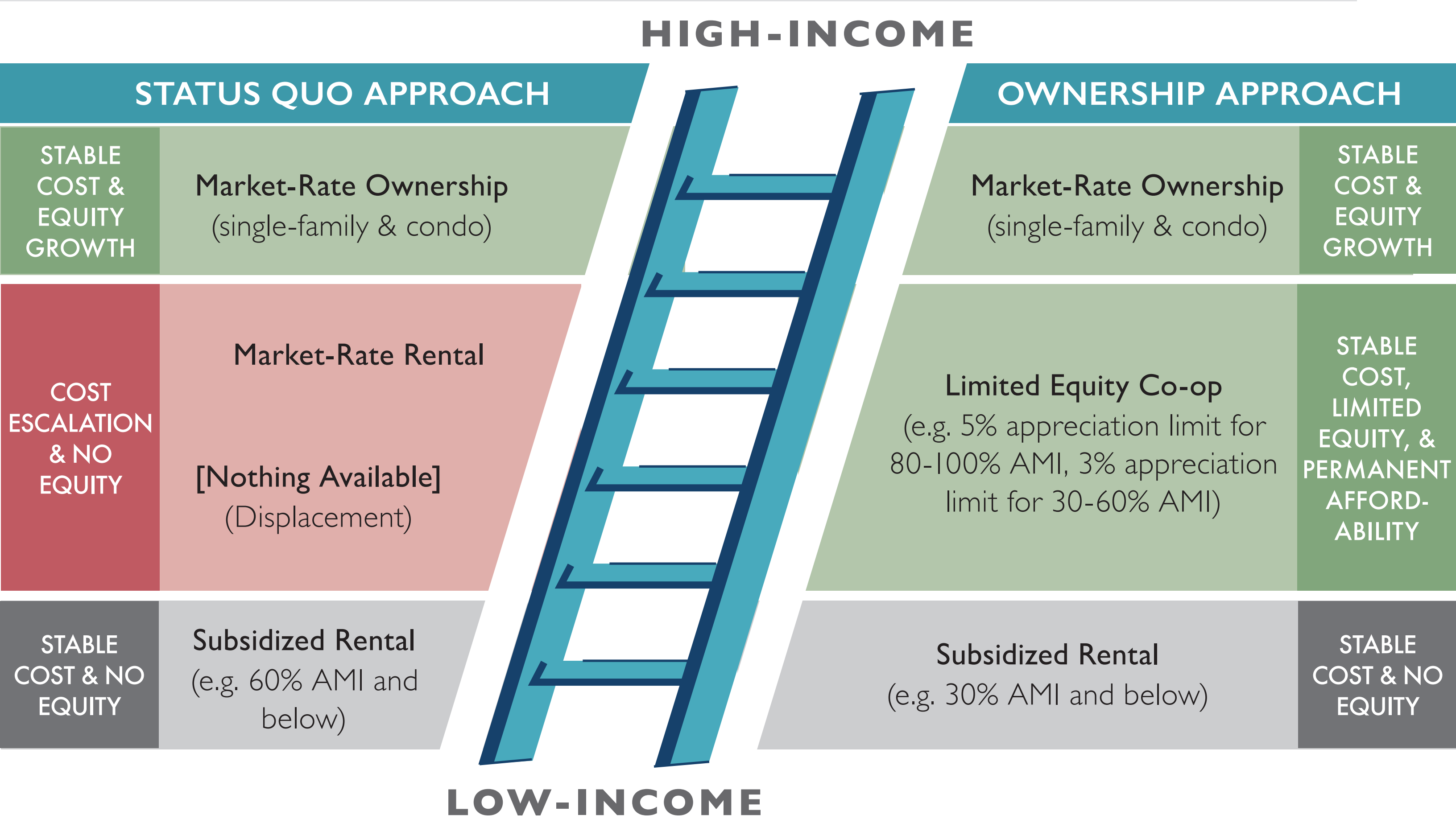
# WHY SHOULD OREGON PURSUE LIMITED-EQUITY CO-OPS?

**LEHCs expand affordable homeownership pathways for low and middle-income Oregonians, especially through middle housing development, supporting more socially diverse neighborhoods, and offering wider access to economic security.**

- Status quo development of shared-lot infill housing tends to deliver rental housing. Developing LEHCs instead can increase a community's homeownership rate.
- Developers typically cannot deliver homeownership opportunities for 100% AMI households and below (i.e. teachers and fire fighters). LEHCs and middle housing can fill this missing niche. Across the country, 95% of shared equity housing provides affordable homeownership to households earning 80% of AMI and below.[3]
- Middle housing LEHCs, which will be constrained in size due to existing residential lot sizes, can support smaller households' access to homeownership. One-person households made up 27% of Oregon households as of 2020, and this demographic is growing.
- LEHCs can be calibrated to target different household income levels, creating a ladder of affordable homeownership allowing a wider spectrum of society to access wealth accumulation through their housing. LEHCs are also possible with any housing type, from middle housing to higher density multistory housing.

**LEHCs expand homeownership access to vulnerable middle and low-income households, delivering stable housing costs, avoiding displacement, and restoring critical steps on the housing ladder.**

## MAKING OREGON'S HOUSING LADDER WORK FOR EVERYONE



## LEHCs can cost-effectively deliver affordable middle housing ownership

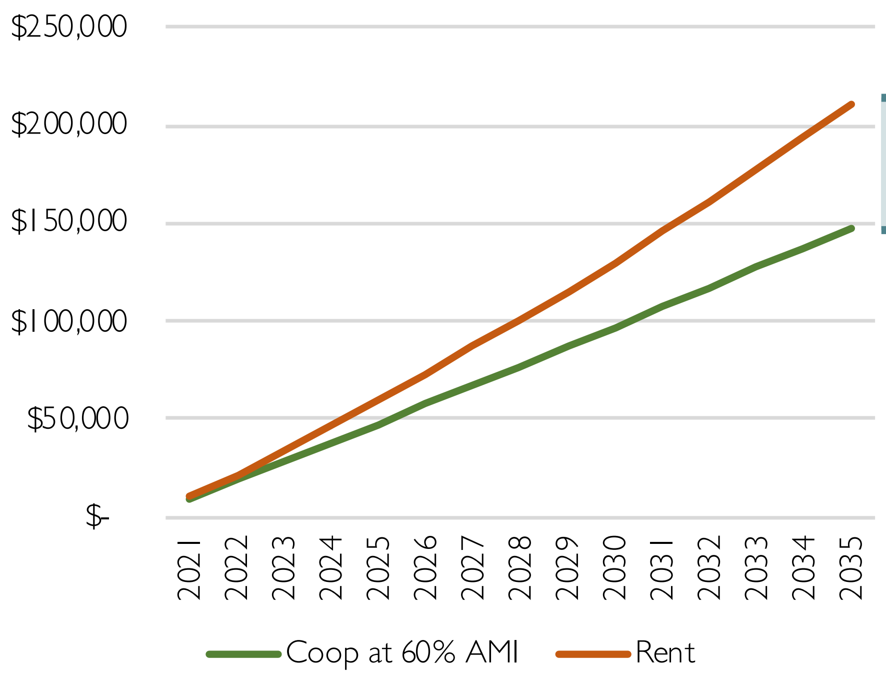
- **Co-ops require less upfront cost to develop than condos, which is especially important for small developments.** Condos require three-dimensional mapping and registration with the State, whereas co-ops can be created with standard legal forms. This results in a cost savings on the order of $20,000 per development. In the context of middle housing development, with two-to-four dwelling units, this cost savings is significant, and can tip the scale toward more ownership vs rental housing starts.
- **Middle housing LEHCs can be developed at a lower cost per unit than large multi-unit rental developments (see C Street case study).** This is due largely to the lower cost of construction for cottages, duplexes and townhouses which can be built to the residential building code as opposed to the commercial building code.
- **Lower development cost translates to a lower subsidy per unit to achieve affordability targets—even while delivering homeownership.** Middle housing LEHCs can expand the conventional 80% AMI boundary of affordable homeownership to 60% AMI and below. LEHCs leverage a one-time use of public subsidy to deliver homeownership units that grow more affordable over time. By contrast, affordable rental housing is typically limited to a 30-year term of affordability.
- **The complexity of low-income housing tax credit (LIHTC) financing may be avoided.** Middle housing LEHC developments are not competitive in Oregon's LIHTC program, but due to their lower need for subsidy, alternative sources may suffice.

## LEHCs deliver permanently affordable homeownership units to their community—and an important stepping stone between renters and market-rate owners

- **LEHC members enjoy fixed housing costs, limiting the uncertainty caused by escalating rent.** Members can use this economic stability to save for a down payment for a market-rate home, fund education, or achieve other financial goals. Analysis of the Dos Pinos Co-op revealed that the average member's income rose over time, while the carrying charges stayed fixed or rose slowly. The longer members stay in the co-op, the smaller the proportion of their income that will be devoted to housing costs.

**Total Resident Cost Over Time, Rental vs. Co-op[4]**

Lane County, OR




**A household making 60% AMI would save over $60,000 in housing costs over 15 years**

- **LEHC share prices grow more affordable over time.** Share price appreciation (ie. resale value) in an LEHC, typically limited to 3%–5% annual appreciation, will generally be lower than market rate appreciation in Oregon. An LEHC with a share purchase price initially affordable to 80% AMI households may be affordable to 60% AMI households a few years later. LEHC members can build more savings than if they were renting (typically their only housing alternative), through both fixed housing costs and resale value appreciation. They see less equity gain than market-rate owners (typically a higher economic demographic).
- **An LEHC will remain permanently affordable as long as its bylaws are protected.** Historically, some LEHCs have converted to market-rate co-ops when their membership modified their bylaws to eliminate limits on share resale values. Permanent protection against this can be provided through a deed restriction, or through a community land trust, as in the case of the C Street Co-op. A community land trust can bring important additional benefits such as ongoing stewardship by a local nonprofit to help the co-op in times of economic difficulty.

## LEHCs may be useful in preserving existing affordable housing

- **When redevelopment is a threat, co-ops can be a tool to preserve existing affordable housing.** The most common co-op housing model in Oregon is the conversion of mobile home parks to LEHC ownership, which ensures that residents can remain in their homes. However, other housing types could be viable candidates for LEHC conversion.
- **The co-op ownership structure is more flexible than a condo structure, in that it can be applied to any kind of development type, and at any scale.** Co-op City, an LEHC in New York City, has thousands of units in multiple midrise buildings. The East Blair Co-op in Eugene, Oregon is an LEHC with several single-family properties supporting shared occupancy. Both offer the most affordable ownership opportunities in their respective cities.
- **The mismatch of Oregon's housing stock with household size suggests that existing large homes may be candidates for LEHC conversion, allowing multiple small households to own a single large home.** However, one significant barrier to single-family conversions to multi-unit co-ops is the need to renovate to meet commercial building code.

## Co-ops are a stable homeownership structure with low rates of default

- **Co-ops are owned by multiple households lending them a diversified income stream and multiple stakeholders.** Every household has a stake in ensuring the mortgage is paid. The National Cooperative Bank reported in 2011 that none of its blanket loans to cooperatives were in foreclosure and its overall risk of default was 0.008%.[5] A study done in 2019 by the Lincoln Institute of Land Policy showed that shared equity homeownership was stable even through the housing crash in 2008-2009.[6]

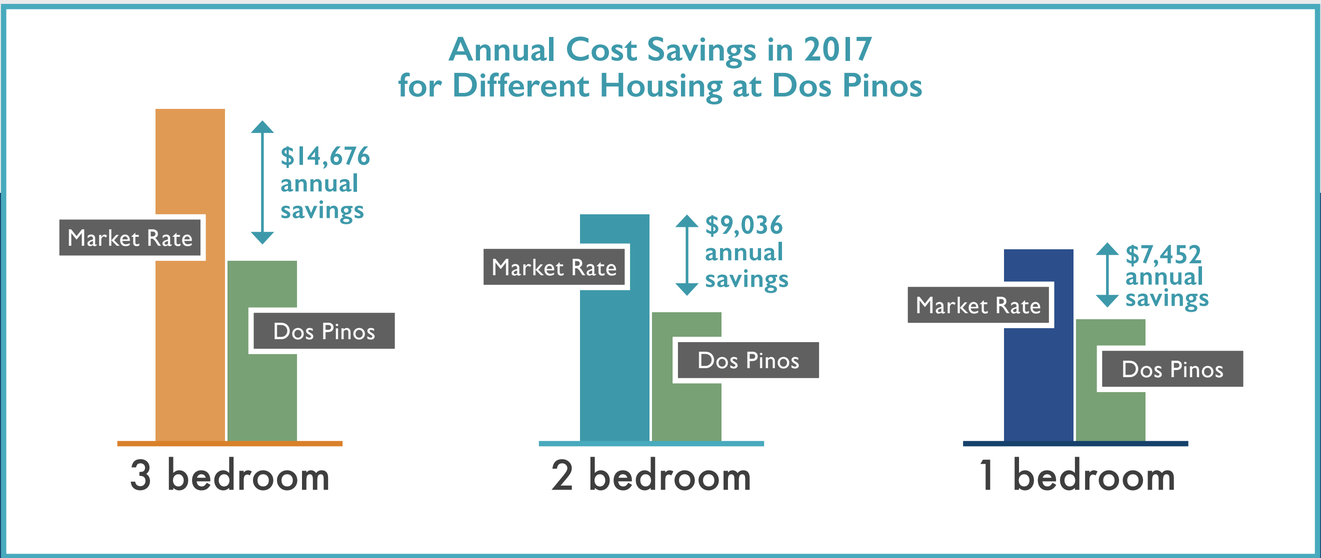
CASE STUDY

# DOS PINOS LIMITED EQUITY HOUSING COOPERATIVE

## —Davis, CA

Developed in 1985, this 60-unit limited equity co-op was initially built at market rate with co-op-specific financing, but without subsidies. Initially, members paid a small premium over market-rate rents for the chance at homeownership. **Over time, as rents and home prices have escalated, Dos Pinos has become one of the most affordable places to live (and own) in Davis.** In 2017, the monthly cost to live in one of the 26 three-bedroom units was $1,165, a savings of nearly $15,000 per year over market-rate rent. Those living in two-bedroom units saved about $9,000 per year, and those living in one-bedroom units saved $7,500 per year. In 1985, a family buying into a three-bedroom unit needed to earn 111% of the area median income (AMI), but by 2017, a family earning 59% of AMI could afford the same three-bedroom unit. No members at Dos Pinos have ever been foreclosed on, and only one member has ever been evicted. Dos Pinos demonstrates how LEHCs can create stable, affordable housing stock over time even when originally built at market rate prices.

*Sources: Neighborhood Partners, LLC, "A Low-Cost Ownership Oasis in a Desert of Apartment Unaffordability" by David Thompson May 7, 2018*

# OVERCOMING CHALLENGES TO MIDDLE HOUSING LEHC DEVELOPMENT

They key challenges and recommendations for the promotion of middle housing LEHCs are summarized as follows, and will be further discussed on the following pages:

### FUNDING

- Subsidize Middle Housing LEHCs
- Engage Lenders to support LEHC lending
- Build LEHC capacity among community land trusts

### EDUCATION

- Promote market uptake through stakeholder education
- Support homeowner education
- Identify legal best practices

### NEIGHBORHOOD INCLUSION

- Preserve existing market-rate affordable housing
- Protect Middle Housing LEHCs from obstruction by Neighborhood Associations

## FUNDING

1

### CHALLENGE: Existing affordable housing subsidies promote large rental housing developments and are not designed with either LEHCs or middle housing in mind.

The web of state and federal subsidies for affordable housing—including low-income housing tax credits (LIHTC), which most affordable housing developers depend on—largely promote the development of 60+ unit rental housing complexes for medium- and high-density residential zones and are designed for households making up to 60% AMI. Middle housing LEHCs offer a more cost-effective use of subsidies and have the added benefit of delivering homeownership. However, despite the stated goals of many communities in Oregon to provide affordable homeownership opportunities, LEHCs cannot compete for most public subsidies due to the small size of the middle housing developments and the unique ownership structure.

Oregon Housing and Community Service (OHCS) funding programs[7] are divided into either rental housing or fee simple homeownership, creating a challenge for LEHCs. SquareOne Villages recently proposed a shared-equity homeownership pilot program (HB 3368) to create a flexible funding source compatible with the CLT-LEHC hybrid ownership structure in order to further demonstrate the benefits of this model and help inform future OHCS programs.

## RECOMMENDATIONS:

### Fund a shared-equity homeownership pilot program (i.e. proposed HB 3368[8]) for middle housing LEHCs like the C Street Co-op.

- Engage with a variety of developers interested in building LEHCs in several regions through the pilot program, which would help to verify the effectiveness and viability of the co-op homeownership pathway for Oregonians.
- Create a "rental-to-co-op" conversion program for low-cost market rate rental housing. This could build on the success of the Manufactured Dwelling Park Preservation Program, which provides tenants with first right of refusal to purchase and collectively own their park as an LEHC. Efforts are underway: HB3263, introduced by Rep. Campos in 2021, would extend a first-right-of-refusal to organized tenants of rental apartment buildings.

### Advocate for broader applicability of public subsidies to include middle housing co-ops, especially LEHCs.

- Public funding from state or city affordable housing initiatives could apply to LEHCs.
- Evaluate opportunities and barriers for tax incentives or other financial incentives for co-op developments, including Community Development Block Grants.
- Consider state legislation to limit LEHC property taxes to their limited equity value rather than market value. This legislation can ensure that a LEHC cannot "sell out" by requiring that the value of a dissolved LEHC in excess of its equity limit would go to a nonprofit CDC rather than the co-op members.

### Identify land that could be suitable for co-op development.

- Earmark foreclosed residential properties owned by cities and counties for LEHC/CLT development to support a low-cost land bank for permanently affordable housing stock.
- Explore how other residential landowners, such as existing CLT's or nonprofits, could receive subsidies for middle housing LEHC development.
- Evaluate the suitability of developing publicly owned land as an affordable co-op housing pilot program that could provide a proof of concept within the community.

### Provide share purchase assistance to would-be low-income resident-owners through channels which have traditionally been dedicated to homeowner down-payment assistance. These options include:

- **CDBG funding**, which the City of Springfield used to subsidize share purchases for the C Street Co-op.
- **Individual Development Accounts**, which are administered by the state of Oregon along with community partners such as Northwest Housing Alternatives and Neighborworks Umpqua. These accounts provide a publicly matched savings program at a rate of 3:1 for housing costs that can be a source for funding the share price for members who lack immediate access to the capital needed to buy into a co-op. This could mean that a household would only need to save $1,500 for a $6,000 share price (share price is similar to a down payment). The program also provides financial counseling for participants as they work toward their savings goals, which helps first-time homebuyers understand the home-buying process.

### Consider opportunities for subsidized revolving loan funds.

- Provide revolving share loans or construction loans which could operate on a relatively short cycle and compensate for the lack of co-op lenders in Oregon.
- Form a revolving loan fund providing seed capital for new LEHCs from the revenues of LEHCs which have paid off their debt. Because LEHCs grow more affordable over time, once the co-op has paid off its debt, owner payments can be held fixed without undue burden. The excess revenue can be "paid forward" to a revolving loan fund managed by a community land trust to provide seed capital for new LEHCs. While slow to start, over time the loan funds could grow dramatically.

## 2 CHALLENGE: Oregon lenders are not familiar with co-op housing, limiting financing options.

Due to a lack of housing cooperatives in Oregon, the financing of cooperatives requires a steep learning curve for Oregon lenders, and presents unknown risks. Instead of a collection of individual households with diversified income streams, commercial lenders typically view a co-op as a corporation without borrowing history. To build familiarity, lenders report wanting to see three-to-four years of debt service payments from a few co-op projects before being open to expanding into this market. A residential lender will look at the individual households involved in forming a co-op to make lending decisions, but there are currently no residential banks in Oregon lending to co-ops. Because lenders are not familiar and are reluctant to lend, developers and city planners have a hard time seeing a viable path to co-op development.

## RECOMMENDATIONS:

### Build familiarity of co-op ownership among Oregon's residential lenders.

- Jumpstart lender education and engagement by forging partnerships with organizations that are already working with LEHCs and middle housing types, like the National Cooperative Bank, Urban Homesteading Assistance Board (UHAB) and the Missing Middle Housing Fund.
- Host meet-ups with existing co-ops, as well as existing and potential co-op developers and lenders.

### Pilot targeted LEHC subsidies in collaboration with co-op lenders.

- Endorse LEHCs as part of housing implementation across the state, and pilot LEHC subsidies to coincide with a shared-equity homeownership pilot program. Engage with national and local lenders to examine the potential demand for co-op loans which could be generated through LEHC-targeted subsidies. The National Cooperative Bank specializes in underwriting co-op loans and currently lends in Washington, California, and Alaska, but not Oregon, due to the lack of existing co-ops.

### Subsidize and expand CLT capacity to pursue LEHC development:

- CLT developers of LEHCs can acquire land, serve as the guarantor of blanket loans, provide a source for member share loans, help with self-management, in addition to securing permanent affordability.
- Include CLT's as partners in subsidized pilot programs for middle housing LEHCs to support them in developing new capacity and administrative support for the LEHC resident-owners.
- Consider pilot funding for adding middle housing (e.g., ADU's) on existing single-family CLT holdings.
- Consider pilot funding with impact investors, who might accept more modest investment returns. This relies on developers devoting the time to find investors and manage those relationships, but may be less dependent on legislative or institutional action. At the C Street Co-op, impact investors provided all construction funding for a 2% to 6% rate of return over ten years.

### COMMUNITY LAND TRUSTS & LIMITED-EQUITY CO-OPS: GOOD PARTNERS

Oregon's Community Land Trusts (CLT's) currently secure affordable homeownership by owning the land under either single-family (fee simple) or larger multifamily condo units, allowing residents to own their housing and pay a monthly ground lease fee for the land. Middle housing LEHCs present a natural bridge between these two scales of owner-occupied housing. CLT's can (1) ensure that a one-time use of public subsidies produces permanent affordability of LEHCs for a community, and (2) provide critical administrative support for the self-management of lower-income LEHCs. Additional funding to enter this market would likely be necessary. The few CLT's in operation across Oregon depend on external funding (often with lengthy stipulations) because the ground lease revenues alone cannot pay for all of the organization's tasks related to overseeing home sales, screening buyers, linking buyers with lenders, and collecting lease fees.

**Oregon is home to several community land trusts. Proud Ground, with about 300 homes in the Portland region, is the largest. Other land trusts include Kor (Bend), Neighborworks Umpqua CDC (Ashland), Sabin CDC (Portland), SquareOne Villages (Lane County), and Big River CLT (Hood River).**

# EDUCATION

## 1 CHALLENGE: Few developers understand housing cooperatives

Most developers of both subsidized and market-rate housing are only vaguely aware of housing cooperatives or LEHCs. It seems the benefits of LEHCs for middle housing have not been considered, and/or do not outweigh the risk of uncertainty when it comes to financing or market demand. Condo developments are more well understood, and co-ops may also carry the risk of construction defect liability claims, which may reduce the economic advantage of LEHCs.

However, since high condo developments costs can add significantly to the sales price for small developments, co-op's offer an affordability advantage. If small developers better understood this advantage, and had better clarity around financing and market-acceptance, more middle housing developments might deliver owner-occupied co-op housing rather than rental units. As more co-ops are developed, demand for co-op financing would prompt lenders to offer better financing options.

### RECOMMENDATIONS:

**Consider funding predevelopment services to support co-op development,** such as a market study of middle housing co-ops to help developers hone a project concept and negotiate financing.

**Engage with LEHC advocacy organizations** like the Urban Homesteading Assistance Board (UHAB) to help promote LEHC education among Oregon stakeholders.

## 2 CHALLENGE: Oregon residents are unfamiliar with co-op housing and cooperative management.

Most low and middle-income Oregonians are unaware of LEHC ownership as a potential alternative to rental housing. Generally, there is little understanding of housing co-ops at all. Similar to a condo association, a co-op resident board administers property management according to the co-op's bylaws. Cooperative management can be a challenge, especially for those unfamiliar with homeownership. In particular, budgeting reserves for long-term maintenance costs is necessary to avoid abrupt escalations in monthly fees. Such issues may be particularly challenging for small developments, where the resident "brain trust" may lack sufficient property management experience.

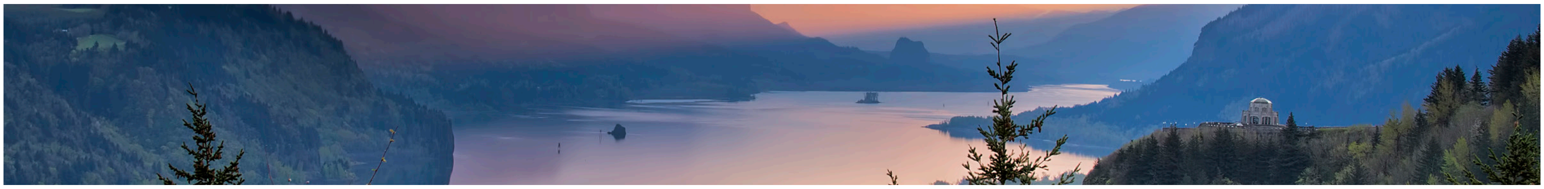
### RECOMMENDATIONS:

**Provide training and technical support** through a CLT or nonprofit to help track maintenance budgets, vet financial decisions, and mediate potential disputes.

**Promote awareness of LEHCs among tenant advocacy organizations.**

**Evaluate how co-ops could fit into a city or county's overall housing mix** and consider public outreach to bolster demand for LEHC ownership.

**Discuss funding opportunities and partnerships for co-ops** as part of Housing Production Strategies and Housing Implementation Plans.



# NEIGHBORHOOD INCLUSION

1

## CHALLENGE: Neighborhoods are losing market-rate affordable housing, such as older homes, due to re-development pressures.

### RECOMMENDATIONS:

**Provide funding to community land trusts** to convert market-rate affordable properties as well as subsidized rental properties reaching the end of their required affordability period to LEHC/CLT's in gentrifying neighborhoods.

**Build awareness of LEHC conversions among tenant advocacy groups in areas threatened with redevelopment and displacement.**

- Connect advocacy groups with groups such as UHAB who focus on such efforts.

**Consider funding sources for housing preservation** that can help to pay for the rehabilitation of plex buildings and small apartment buildings for LEHC conversion.

2

## CHALLENGE: Neighborhood Associations dominated by existing homeowners often obstruct affordable housing developments within their neighborhoods.

Single-family zoned neighborhoods are rooted in a history of socioeconomic exclusion. As real estate values in Oregon have appreciated, the proportion of Oregonians excluded from single-family neighborhoods has sparked a sea change that has resulted in policies that end exclusionary zoning and re-legalize middle housing (HB2001). However, efforts to introduce subsidized ownership housing into existing single-family neighborhoods may face resistance.

In some areas, neighborhood associations have appealed land use processes and caused delays for affordable housing developments. Such delays can make development infeasible, even if the jurisdiction eventually approves the development. In some associations, the membership comprises mostly existing homeowners, who do not represent the tenure or demographics of all residents in their neighborhoods. In Eugene, where a majority of the population are renters, a single homeowner has been responsible for 30% of neighbor-led land-use approval appeals occurring between 2000 and 2018, resulting in 124 unbuilt housing units and 230 units being delayed in construction.[9] In the context of middle housing, the opportunity for neighborhood obstruction through public appeals is often enabled by the need for code adjustments or a Planned Unit Development (PUD) process when zoning regulations designed with large commercial sites in mind are applied to infill development on relatively small lots.

### RECOMMENDATIONS:

**Provide additional protections for middle housing LEHCs (similar to those of the recently passed Oregon SB8) to prevent unwarranted obstruction. Such protections might include:**

- Remove the opportunity for public appeal of middle housing LEHCs by making all adjustments and PUD approvals an administrative decision.
- Require public appeals to be endorsed by a majority of residents (owners and renters) within a quarter-mile radius.
- Require expedited processing of appeals for middle housing LEHCs to reduce the cost impact of project delays to developers.

**Increase the cost for neighborhood associations to appeal land use decisions.** In Eugene, neighborhood associations can appeal land use decisions for a discounted fee relative to individuals or other organizations.

**Require that neighborhood boards be representative of the neighborhood residents,** both in income level and owner/renter status, in order to receive public endorsement and public funds.

CASE STUDY

## East Blair Housing Cooperative
—Eugene, OR

Founded in 1982 after significant grassroots efforts, the East Blair Housing Co-op is an unsubsidized, low-cost intentional community currently composed of 23 residences across multiple properties in the historic Whitaker neighborhood. The limited-equity co-op demonstrates resilience against displacement in this gentrifying neighborhood: total monthly costs to the owners are well below market-rate rents: one-bedroom units currently cost $534/month and two-bedroom units cost $709/month. The property includes a community room and communal gardens. The co-op has acquired properties over time, performs a sizable amount of sweat equity themselves, and has used a variety of financing sources including impact investments by neighboring residents. They currently report property taxes as being their largest annual expense.

*Photo descrip: Several older single-family homes have been renovated over time to host multiple dwelling units, making use of sweat equity and preserving affordable housing costs for the resident-owners.*

*Credit: Mike Dean Photography*

# CONCLUSION

Oregon's newly adopted middle housing policies will bolster housing supply, and limited equity co-ops offer as-yet untapped potential to help ensure this housing not only preserves middle-income homeownership access, but expands access to historically marginalized Oregonians. Oregon's local jurisdictions, financial institutions, developers, and planners can all play a role in bolstering limited equity co-ops as a widely available affordable homeownership option in Oregon. We hope that this policy brief provides actionable ideas that communities can pursue to help realize the dreams of so many Oregonians who seek housing security through homeownership. We welcome any and all feedback on this brief. Our contact info is below.

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1 “Washington County House Bill 2001 Implementation Economic Analysis and Market Research - Findings and Recommendations.” ECONorthwest, June 2021.

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3 Ruoniu Wang, et al. “Tracking Growth and Evaluating Performance of Shared Equity Homeowner Programs During Housing Market Fluctuations.” Lincoln Institute of Land Policy Working Paper, WP19RW1.

4 ECONorthwest analysis of potential CPI increases using Bureau of Labor Statistics Consumer Price Index (see endnote 2).

5 Attributed to National Association of Housing Cooperatives in “Co-ops Are Better and We Can Prove It,” National Cooperative Law Center, June 9, 2017. https://nationalcooperativelawcenter.com/co-ops-are-better-and-we-can-prove-it/

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Lamar, Dylan, Emily Picha, and Anne Thrall-Nash. “Affordable Middle Housing Co-ops: Opportunities and Barriers to Expanding Oregon Homeownership.” Cultivate, Inc. and ECONorthwest, 2022. https.//www.tinyurl.com/ECONW-co-op.

# APPENDIX

Looking ahead to middle housing zoning changes, Cultivate, Inc. anticipates continuing this LEHC development model of the C Street Co-op on other single-family properties. Below is a pro forma summary of the C Street Co-op, as well as a planned “Next Street Co-op” which aims to lower the homeowner purchase price. This project reveals the increased economic challenge (relative to the C Street Co-op) due to the cost of acquisition of a property with an existing house. However, as shown, the model continues to deliver permanently affordable housing for a fraction of the subsidy required per unit for typical affordable rental housing.

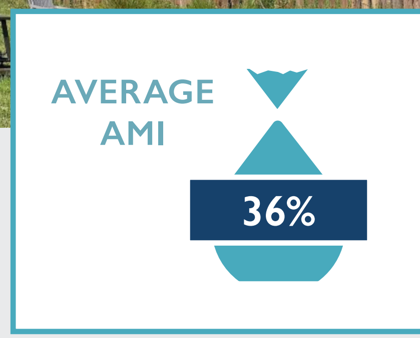
## C STREET CO-OP PRO FORMA

| | C Street Co-op (As-Built) | | Next Street Co-op (Planned) | | Conventional Rental Affordable Housing |
|---|---|---|---|---|---|
| **Zoning Laws** | **Pre-HB2001** | | **HB2001 + SB458** | | |
| Lot Size, sq ft | 5400 | | 6500 | | |
| **Housing Allowed** | **House + ADU** | | **5 Units (per SB458)** | | |
| **Existing Construction** | **Empty Lot** | | **2BR/1Ba House, 800SF** | | |
| **New Construction** | **(6) 1BR/1Ba Suites** | | **(4) 1BR/1Ba Units** | | **60+ Unit Multifamily** |
| | 384 SF each | | 384 SF each | | 600 SF for 1BR/1Ba |
| | Total | **Per Suite** | Total | **Per Unit** | **Per Unit** |
| Total Project Cost | $602,442 | **$100,407** | $830,469 | **$166,094** | **>$200,000** |
| Impact Investment (Construction Loan) | $501,620 | $83,603 | $383,256 | $76,651 | |
| Impact Investor Rate | 2% & 6% | | 6% | | |
| Co-op Mortgage Amount | $385,274 | $64,212 | $390,610 | $78,122 | |
| Co-op Mortgage Rate | 4.5% | | 5.0% | | |
| Co-op Mortgage LTV | 60% | | 60% | | |
| Impact Inv. Loan | $32,168 | $5,361 | $0 | $0 | |
| **Homeowner Purchase** | $60,000 | **$10,000** | $30,000 | **$6,000** | |
| **Subsidy Required** | $125,000 | **$20,833** | $414,000 | **$82,800** | **>$100,000** |
| **Affordability Target** | **60% AMI** | | **60% AMI** | | **60% AMI** |
| **Affordability Timespan** | **In perpetuity** | | **In perpetuity** | | **20 - 30 years** |
| **Resident Equity** | **3% per year** | | **3% per year** | | **None** |

CASE STUDY

## LOPEZ ISLAND COMMUNITY LAND TRUST —Lopez Island, WA

Lopez Island Community Land Trust (CLT) was formed in 1989 in response to increasing housing affordability challenges on the island. The CLT has developed six limited equity co-op projects since 1992, ranging from 4 to 11 homes per project. They use a combination of traditional financing from their local island bank, grants, subsidies, and sweat equity from members to finance each project. The limited equity co-op units are targeted at a maximum of 120% AMI, but the average household living in one of the units has an income of 36% AMI. Lopez Island CLT also has a revolving fund that is used to loan the cost of the share price to residents, and **most residents don't need financing to move in**.




CASE STUDY

## VILLAGE COOPERATIVE—Puyallup and Olympia, WA

Village Cooperative, Inc, based in Minnesota, has used the limited equity co-op model to develop 41 multi-unit senior housing developments in 10 states. They are currently developing two locations in Washington state. They highlight the benefits of co-ops as being **community living, no property maintenance, and low, stable housing costs**. Share purchases by resident-owners are typically made with cash.

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