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HOUSE OF REPRESENTATIVES
COMMONWEALTH *of* PENNSYLVANIA

House Democratic Policy Committee Hearing

Subcommittee on Progressive Policies for Working People

Alternative Housing Models to Increase Affordability and Stability

Tuesday, June 1, 2021
10 a.m. to 12 p.m.

Representative Elizabeth Fiedler, Chair
House Subcommittee on Progressive Policies
Representative Sara Innamorato

10 a.m. **Panel 1: The State of Housing Markets in a Post-COVID-19 World**

Bob Damewood, Staff Attorney
Regional Housing Legal Services

Vanessa Raymond-Garcia, Policy Analyst
Regional Housing Legal Services

10:50 a.m. **Panel 2: Alternative Housing Models: A National/Local Perspective**

Paul Bradley, President
Resident Owned Communities USA

Judy Sullivan, Government Relations Representative
National Association of Housing Cooperatives

11:40 a.m. **Panel 3: Alternative Housing Models in Action in Pennsylvania**

Ed Nusser, Executive Director
City of Bridges Community Land Trust

Regional Housing Legal Services

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Testimony Before the House Democratic Policy Committee
Affordable and Stable Housing in a Post-COVID World
Robert Damewood, Regional Housing Legal Services
June 1, 2021

Good morning. My name is Bob Damewood and I am a staff attorney in the Pittsburgh office of Regional Housing Legal Services. Thank you for once again focusing on Pennsylvania's critical housing needs and giving me the opportunity to speak.

RHLS provides free legal services to non-profit organizations that engage in affordable housing or community development activities that benefit low-income Pennsylvanians. Since 1973 we have assisted in the completion of over a billion dollars' worth of housing development projects throughout the State.

As my colleague Vanessa demonstrated in her testimony, the private housing market is not meeting the demand for homes that Pennsylvania's lowest wage families can afford. Trends show that the problem is getting worse. Nationwide, rents have been increasing dramatically, with the private market losing more than three million low-cost rental homes between 2012 and 2017.[1] David Brickman, Executive Vice President of Freddie Mac Multifamily, remarked a few years ago that "affordable housing without a government subsidy is becoming extinct."[2]

Before discussing the state of publicly subsidized housing in Pennsylvania, I'd like to briefly discuss another aspect of the private housing market that harms lower income tenants: real estate investment cycles. Housing markets at both the macro and neighborhood levels undergo cycles of investment and disinvestment.[3] Low wage working families and tenants with disabilities are

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harmed in each phase of these cycles. During periods of disinvestment, many property owners defer property maintenance, the housing deteriorates, and tenants are forced to either tolerate unsafe and unhealthy living conditions or find another place to live; during periods of investment, market conditions make it possible for landlords to substantially increase rents or convert low-rent housing to a more profitable use, displacing long-time residents. [4]

This problem is often cast in binary terms, as if the only two choices are unmitigated disinvestment with poor housing conditions, or unbridled investment with physical and cultural displacement and increasingly unaffordable rents. This false narrative lets government off the hook. There are anti-displacement tools available at the state and local levels that can offset the harmful effects of both investment and disinvestment on our most vulnerable residents. More relevant to today's hearing, there are alternative housing models that act as a moderating influence by giving tenants greater control over their housing conditions and by taking real estate speculation out of the equation.

Turning to the state of publicly subsidized housing in Pennsylvania, it is clear that our existing subsidy programs are inadequate to meet the need. There are 173,129 publicly subsidized rental homes in Pennsylvania[5] and 77,600 housing choice vouchers,[6] with some overlap between the two.[7] To close the 283,000-unit affordable housing gap for Extremely Low Income (ELI)[8] households that Vanessa referred to, we would need to more than double the amount of subsidized housing in Pennsylvania.

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Pennsylvania is currently adding, at most, 2,000 affordable homes per year.[9] Only a small fraction of those are affordable to ELI households,[10] but even if all of them were, it would take us 142 years to close our affordable housing gap. And that assumes we don't lose any of our affordable housing stock in the meantime.

The three largest sources of subsidized rental housing in Pennsylvania are: [11]

- HUD multifamily, which is privately owned with a federal rent or operating subsidy and deeply affordable rents that are set at 30% of the tenant household's adjusted gross income;
- Public housing, which is usually publicly owned, with a federal operating subsidy and deeply affordable rents; and
- Low Income Housing Tax Credit (LIHTC) housing, which is privately owned, with no operating subsidy, and with below market rents that are generally affordable to Very Low-Income (VLI) households.[12]

Trends in the last several decades have been away from publicly owned and deeply affordable housing toward LIHTC - privately owned, less deeply affordable housing with fixed affordability periods. LIHTC is by far the largest source for new production of publicly subsidized housing in Pennsylvania, accounting for 1300-1400 newly created units each year.[13]

LIHTC pays a tax subsidy to investors who buy an ownership interest in housing that will be leased at below-market rents. With respect to helping to close Pennsylvania's 283,000+ affordable housing gap, LIHTC has two shortcomings. First, the vast majority of LIHTC units are not affordable to ELI households (although the owners may not refuse to accept housing choice vouchers). Second, owners of LIHTC properties are required to keep the units affordable for only 40 years, and it is possible in some circumstances for investors to cause the property to

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[10] PHFA's Qualified Allocation Plan requires developers to internally subsidize 5-10% of LIHTC units at rent levels that are affordable to households earning at or below 20% of AMI.
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be released from those affordability restrictions after 15 years. HUD multifamily housing also has affordability restrictions that typically expire after 20 years, although older contracts could be as long as 40 years[14] and newer contracts could be as short as 5 years.[15]

More than 10,000 of Pennsylvania's publicly subsidized housing units will see their affordability restrictions expire over the next 5 years.[16] The most important factor that will determine whether those units will continue to operate as affordable housing after the restrictions expire is who owns them.[17] Non-profit, mission-driven owners are more likely to protect and expand the availability of affordable housing, while for-profit owners tend to be more interested in maximizing the return on their investment.[18] For-profit ownership is a strong risk factor for market-rate conversion.[19]

Roughly 1/3 of all developments receiving LIHTC allocations in Pennsylvania have nonprofit involvement that meets PHFA's nonprofit set-aside criteria.[20][21] Two-thirds are for-profit controlled. A significant percentage of Pennsylvania's HUD multifamily stock is also owned by for-profit entities. This makes many LIHTC and HUD multifamily properties in Pennsylvania susceptible to market conversion, particularly if they are located in strong market areas.

The bottom line is: If we want to have any hope of closing Pennsylvania's 283,000-unit affordable housing gap, we must find ways to:

1. Expand ownership by tenants and mission-driven entities and extend affordability commitments for publicly financed developments.
2. Substantially increase funding to create more deeply affordable housing for ELI families and substantially increase incomes for those families.

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Before wrapping up, I'd like to make a personal observation about the benefits of tenant and mission-driven housing ownership. 29 years ago, I had the privilege of helping the residents of two mobile home parks in Mercer County acquire their communities that were slated for closure by the absentee landlord. After the residents acquired their communities, not only were they able to dramatically improve physical conditions, but they improved social conditions as well. Rent payment increased, and lease violations and criminal activity both substantially decreased. In my experience, giving residents greater control over their living conditions and reinvesting rental income back into the housing is good public policy.

Investing in resident and non-profit ownership is also cost effective. It promotes longer-term affordability, so public funding can be used to expand the supply of affordable housing rather than replace units that are lost to market conversion. And it promotes greater security of tenure, so fewer ELI families are uprooted and displaced due to market changes or substandard housing conditions. Other states have developed the infrastructure to promote housing cooperatives, community land trusts and other types of social housing at scale. Pennsylvania should do the same.

Thank you for the opportunity to speak on this important topic. I am available to answer any questions you have.

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Affordable and Stable Housing in a Post-COVID World
Vanessa Raymond-Garcia, Regional Housing Legal Services
June 1, 2021

Hi everyone, my name is Vanessa Raymond-Garcia, Policy Analyst with Regional Housing Legal Services. Thank you to the Pennsylvania House Democratic Policy Committee, and this subcommittee, for considering alternative approaches to addressing the critical need for affordable housing and for allowing myself, my colleague Bob Damewood, and the following panel of experts the opportunity to speak on behalf of this urgent issue.

Housing affects all of us. I'm sure there are many of us here today that have felt the effects of housing insecurity in its many forms at some point in our lives, if not currently. However, we know, thanks to substantial research on the issue, that the housing crisis coupled with the pandemic continues to have a disproportionate impact on low-income households, many of whom are people of color. From higher rates of unemployment, to increased risk of death from COVID-19, to challenges with eviction and utility terminations, the housing crisis exacerbated by the public health crisis is not affecting all communities equally.

On average, Pennsylvania's families need to make more than $19 per hour in order to afford a 2-bedroom apartment. The 18 lowest-wage occupations in the Commonwealth that employ over 1.8 million residents do not pay enough to cover rent for a 2-bedroom apartment; it is important to note all of these jobs also pay more than the state and federal minimum wage. There is a stark difference in income levels between renters and homeowners, where 68% of renter households are low-income, very low-income, or extremely low-income compared to 33% of owner-occupied households. The greatest need exists for extremely low-income renters, or those who make 30% or less of area median income. In the Commonwealth, more than 420,000 renter households are extremely low income and there exists a shortage of more than 283,000 homes that are affordable and available to these renters. To add insult to injury, over 300,000 renter households in Pennsylvania pay more than half of their income on housing costs, which amounts to a shocking 70% of extremely low-income renters. While incomplete data exists for unhealthy living conditions, low-income households are more likely to live in substandard housing. Research has shown that these households have greater chances of becoming sick due to health hazards in the home and neighborhood as well as having higher rates of infection and death due to COVID-19. Since the onset of the pandemic, these problems have only worsened with sustained high unemployment rates and a patchwork system of emergency assistance.

However, speaking broadly about the housing crisis masks the racial disparities that lie beneath the surface. Oftentimes, these disparities are the result of intentional public policy decisions created with implicit or explicit racial bias. Throughout the mid-20th century, federal, state, and local governments subsidized White homeownership in newly built, appreciating areas through mortgage insurance and infrastructure projects. Redlining, racially restrictive covenants, and other policies excluded Black Americans from the post-war housing boom and drove investment away from Black communities. Urban renewal destroyed Black commercial districts, and governments subsidized Black "rentership" through public housing and HUD multifamily housing. These divergent housing and community development policies magnified racial disparities in ownership, opportunity in access to jobs and quality education, and housing security in protection from rent increases, unhealthy housing conditions, and mass evictions, to name a few. We are still faced with those disparities today.[1]

The latest jobs report published by the U.S. Bureau of Labor Statistics shows that unemployment remains high, especially among non-white workers and women. A further analysis shows some of the highest unemployment figures persist in low-wage industries – many of which predominantly hire people from disadvantaged groups, including people of color – and jobs in these industries have remained furthest from pre-pandemic levels. While this is a complex issue, part of the problem of re-entry into the workforce includes a lack of affordable and accessible child-care, wages remaining especially low for low-income families looking to return to work, and lack of affordable healthcare in the era of a pandemic where not everyone has equitable access to a vaccine. Current data compiled by the U.S. Census Bureau estimates that 13% of renters nationwide are not caught up on their rent, with rates twice as high among non-white

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[1] Rothstein, Richard. The Color of Law: A Forgotten History of How Our Government Segregated America. First edition. New York; London: Liveright Publishing Corporation, a division of W.W. Norton & Company, 2017.

groups when compared to white renters. A further breakdown of this data for Pennsylvania shows an estimated 26% of Latino and 18% of Black households are not currently caught up on rent payments, compared to 5% of white renters. There is a lack of acknowledgement of the invisibilized burdens many are facing, especially in marginalized racial and ethnic communities. These statistics translate to what economists have coined a "K-shaped" recovery for years to come, where unemployment will remain high in low-wage sectors if wages remain stagnant and low-income households, disproportionately affecting those who are non-college educated and non-white, will remain in debt for rent and utility payments unless targeted efforts are made to equitably distribute federal emergency assistance.

On the looming eviction crisis, the latest numbers from the Eviction Lab's national research shows that in 2016, there were over 2 million eviction filings submitted with close to 900,000 households formally evicted; this data does not account for sealed eviction cases, informal lockouts, illegal evictions, and the like. In 2019, Pennsylvania saw over 96,000 eviction filings. With an eye towards equity, another Eviction Lab national study highlights Black and Latino renters, with women in particular, having higher rates of eviction filings and evictions from their homes. Based on research by CREATE Lab at Carnegie Mellon University and The Reinvestment Fund, the Commonwealth's two largest cities see a higher proportion of Black women with children being evicted, following the national trend. These studies also show that holding for other factors, such as income, eviction rates were higher based on race. Despite having the national eviction moratorium instated by the Center for Disease Control (CDC), eviction filings and evictions, formal and informal, have continued throughout the pandemic even here in the Commonwealth. With the national eviction moratorium being lifted at the end of June, the housing crisis is expected to get worse over the coming months and years without an increase of affordable housing.

Residents were already struggling to stay safely and affordably housed prior to the pandemic. Marginalized communities, including people of color, have disproportionately borne the brunt of this struggle created in part by racist housing policies and exacerbated by a global pandemic that has not affected all communities equally. Now more than ever, elected officials charged with the responsibility of allocating and distributing federal dollars at a scale the Commonwealth has never seen before need to meet this urgent moment. The Pennsylvania state legislature has a once in a lifetime opportunity to re-evaluate and consider alternative approaches to affordable housing. I’ll hand it off to my colleague Bob Damewood to further discuss the housing landscape in the Commonwealth.

Limited Equity Cooperative
Manufactured ("Mobile") Home Communities

An Introductory Presentation to the
Pennsylvania House Democratic Policy Committee

Paul Bradley, President, ROC USA, LLC
June 1, 2021
www.ROCUSA.org   pbradley@rocusa.org

Market Context

- Factory-built to the HUD-code
- 35 – 47% less expensive PSF
  (2018, Urban Institute)
- 2.7M U.S. homeowners
- 44,000 Manufactured Home Communities – 1,400 in Pennsylvania (2021, Mobile Home University)
- Ownership: REITs/PE, Consolidators, Local Owners (and 2% co-ops!)
- Well-documented issues: economic vulnerability, displacement, and dis-investment

ROC usa® Resident Owned Communities BETTER TOGETHER

Market & Policy Responses

Market Responses:

1. Preservation Strategies:
   a. Homeowners have been forming co-ops and buying the MHC (1980s)
   b. Nonprofits have been buying MHCs (1990s)
2. Key resources needed:
   a. Opportunity
   b. Technical assistance
   c. Community financing – acquisition and improvement

Policy Responses:

1. Economic Vulnerability:
   a. Site rent measures (NY & OR statewide; CA & MA muni.)
   b. Opportunity to Purchase laws (NH, VT, MA, RI, CO, & OR)
   c. Funding and financing for acquisition and improvements
2. Displacement:
   a. Expand Notice for closure
   b. Relocation Funds
   c. MHC zoning
3. Disinvestment:
   a. Receivership laws
   b. Improvement resources

ROC usa® Resident Owned Communities BETTER TOGETHER

History of ROC USA

1984 – 2008

- 1 state – New Hampshire
- Limited equity cooperative model
- 88 Resident Owned Communities, 5,000 Member-owners
- 20% of all MHCs (now more than 30%)

2008 – current

- 18 states
- Standardized limited equity cooperative model
- 270 Resident Owned Communities – 18,100 Member-owners
- 12 certified Technical Assistance Affiliates
- More than $300 million in financing provided

<u>Three Pillars and the Secret Sauce</u>

1. Find viable for-sale opportunities
2. Provide expert assistance on-site and remotely
3. Provide access to customized capital
4. Empower neighborhoods

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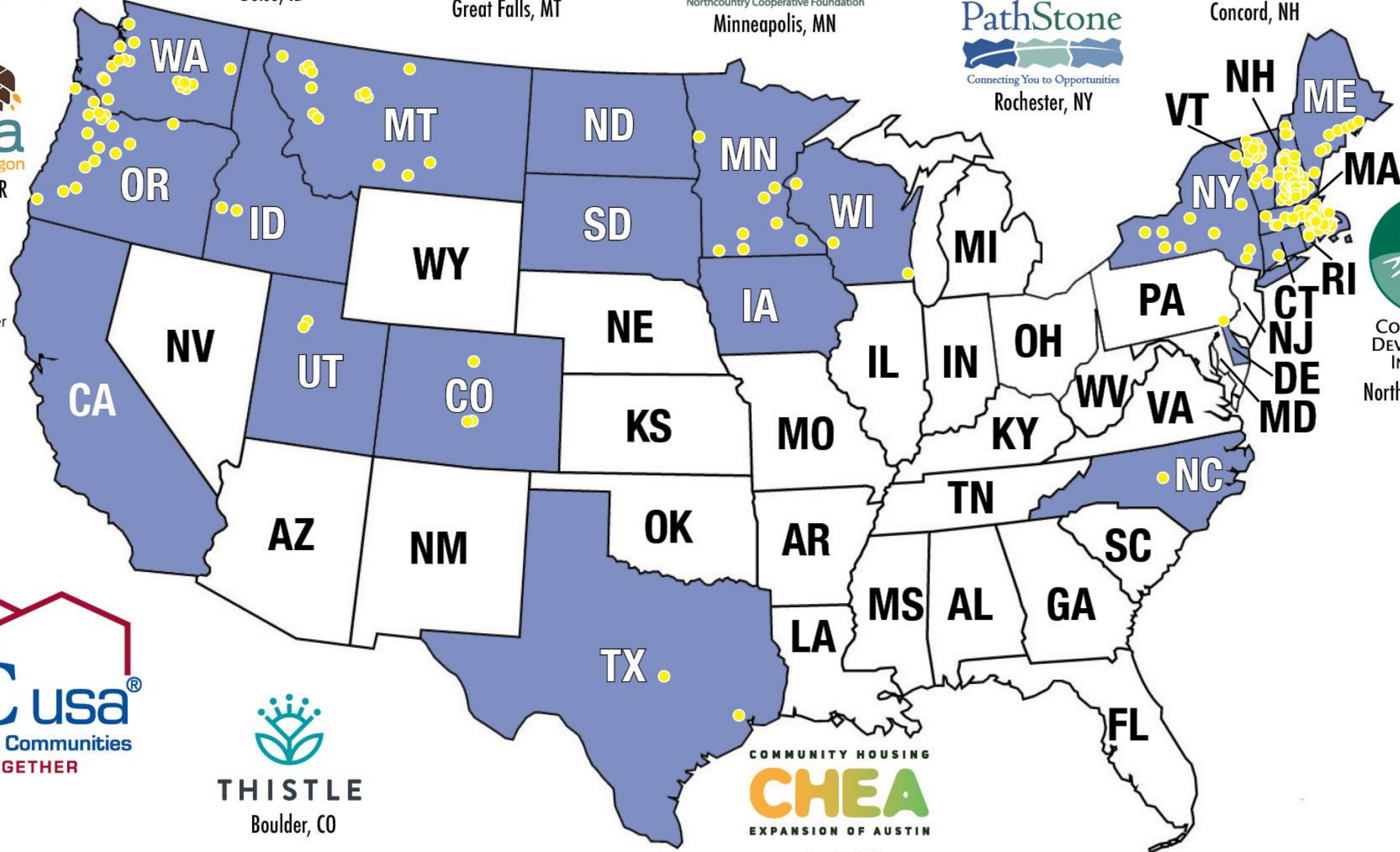

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Impact

"MH ROCs are one of the few sources of unsubsidized naturally occurring affordable housing in the country not subject to market-based rent increases."

Freddie Mac, Spotlight on Underserved Markets, Nov. 2019

- ROCs increase site fees less than 1% per year compared to 3.9% by industry (ROC USA and MH Insider/DataComp)
- ROCs on average have site fees of $32 per month below market after just 5 years of ownership (Annual assessment, Colliers)
- Homeowners in ROCs feel more secure (2006, UNH)
- Homes in ROCs sell for 16% PSF than comparable homes in investor-owned communities (2006, UNH)
- 13,000 homes and 180 communities preserved in 12 years

"We are now the owners of this park and the only thing it can do now is get better."

Elias Montemayor
Horizon Homeowners Co-op
McMinnville, Oregon

Cooperative Development Financing

FHA 213 Program - A model that works for Individuals,
developers and the community

Contents

- Basic Cooperative Concepts
  - Basic Cooperative Qualities
  - Cooperative Legal Documents
  - Transfer of Memberships
  - Share Price Appreciation
- Cooperative Development Structures
- Cooperative Financial Structures
- Financing Programs for Cooperatives

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Contents - Continued

- Pre-sale Management Approach with FHA 213 Financing
  - General Characteristics
  - Financial Characteristics
- Pros and Cons under Pre-sale Management Approach with FHA 213 Financing
  - Pros and Cons for Cooperative Members
  - Pros and Cons for Sponsors and Developers
  - Pros and Cons for Lender and HUD

Contents - Continued

- Senior Coops – Why this model makes sense
- Difficulties in Developing/Managing a Cooperative

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Basic Cooperative Concept

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Basic Cooperative Qualities

- A Cooperative is a unique form of home ownership in that a non-profit cooperative corporation holds title to the dwelling units and directly assumes the mortgage, tax and other obligations necessary to finance and operate the development.
- Members support the corporation through occupancy agreements, eliminating need each member to be an individual mortgagor

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Basic Cooperative Qualities (cont.)

- Each member pays his proportionate share of the annual cost to operate the corporation and debt service on the blanket mortgage for the property.
- Each member is entitled to their proportionate share of real estate taxes and interest of the corporation for their personal income taxes.
- Members have the right to vote on how the corporation conducts its business and participate on the board of the cooperative

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Cooperative Legal Documents

Articles of corporation and By-laws of the cooperative corporation are approved by the corporation commission in the state of incorporation. This will lay out how members relate to the corporation and how board members will be elected or removed by majority vote of the membership. Typical Cooperative documents are included on the following slide.

Cooperative Legal Documents

- Articles of Incorporation
- By-Laws
- Membership Certificate – a certificate, or share, showing evidence of ownership in the cooperative corporation.
- Subscription Agreement – document used to sell memberships in the cooperative.
- Occupancy Agreement – contract between member and corporation that spells out rights and obligations of the members. This basically gives the member the right to occupy a unit.
- Cooperative Agency Agreement
- Management Agreement
- Information Bulletin – disclosures are required similar to other investment opportunities.

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Transfer of Membership

- Membership transfer is regulated by the by-laws.
- Cooperative typically has the right to sell the member's share.
- If co-op waives right, member responsible
- Typically shares of Insured projects usually sold by Cooperative.
  - Cooperative compiles waiting list
  - New member must be approved by cooperative.
  - Member entitled to appreciation of share price.

Share Price Appreciation

- Model Form of Bylaws sets appreciation as the amount of principal pay-down. In addition, improvement to the unit may increase basis in share price.
- There are two different types of cooperatives as it relates to appreciation, which is dependent on the particular "mission" of the cooperative:
  Limited Equity Cooperatives-Many cooperatives that would like to maintain affordability limit the amount of appreciation in share prices between 1% and 3% annually.

  Market Rate Cooperatives- These types of cooperatives allow share prices to be determined by the market. A share price is valued by what one is willing to pay for it in an arms length transaction.

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Cooperative Development Structures

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Cooperative Development Structures

There are a variety of ways to structure a new cooperative:

<u>Pre-sale, Management approach</u> – This approach is typically initiated by a developer forming a cooperative corporation and pre-selling shares to members. Once memberships are sold and development is complete, control is turned over to the membership. Can be used for new construction or rehabilitation.

<u>Investor-Sponsor approach</u> – An investor or sponsor develops a property, rents units, and then sells memberships to potential owners. Once enough memberships are sold, a separate cooperative corporation is formed and the property is sold to the cooperative.

Cooperative Development Structures (cont)

There are a variety of ways to structure a new cooperative:

Non-profit Sponsor Approach– A non-profit sponsor develops a property, rents units and then sells memberships to potential owners. Once enough memberships are sold, a separate cooperative corporation is formed and the property is sold to the cooperative. If property does not convert, it remains a rental.

Conversion Approach– Involves the formation of cooperative corporation for the purpose of acquiring an existing rental property and selling memberships to residents. Can be similar structure as a pre-sale approach.

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Cooperative Development Structures (cont.)

A pre-sale management type of cooperative differs substantially from the investor and non-profit sponsored cooperatives. For a pre-sale, management approach, title is held by a cooperative corporation and it becomes a management style cooperative from the inception. The cooperative operates with a provisional board of directors, typically members of the developer but may include future residents and other development professionals.

Due to the advantages of a pre-sold cooperative from a risk stand point, there is greater flexibility on loan terms, especially the amount of leverage available. Given this benefit, **the pre-sale management approach is the most popular and advantageous way to structure a new cooperative development.**

Cooperative Financial Structures

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Cooperative Financial Structures

- Cooperatives can be structured in unlimited ways from a property type and financial perspective:
  - Market rate Cooperatives
  - Limited Equity Cooperatives
  - Senior Cooperatives
  - Mobile Home Cooperatives
  - Low down payment Cooperatives
  - High down payment Cooperatives
  - Variable down payment Cooperatives

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Financing for Cooperatives

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Financing for Cooperatives – All sources

Financing for cooperatives can come from a variety of sources, although construction financing typically is only available from FHA. All sources will have the following factors and requirements:

- Loan limits based on specific criteria of each lender including loan to cost, Debt Service Coverage Ratio, loan to value, and Statutory Limits in some cases.
- Loan Term Limits – All lenders have different thresholds concerning loan terms and amortization.
- Market Acceptance – Lenders will need to understand that the cooperative model is acceptable in the marketplace either through the historical record or a pre-sale requirement.

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Financing for Cooperatives – All sources (cont)

- Cooperative Legal Documents – All legal documents of the cooperative including By-Laws, Articles of Incorporation, Membership Certificates, and occupancy agreements will need to be in a form acceptable to the Lender.
- For existing properties or conversion, the lender will review existing property conditions. In addition, they will examine the
occupancy history and operating of history or the property.
- For new developments, the lender will review the experience level of the developer, architect, contractor, management agent and other related parties to insure there is sufficient experience on the team to complete the project. Lenders will ensure developer has sufficient financial capacity to complete the project.

Available Financing for Cooperatives

- FHA Section 213 Cooperatives – this program allows for financing of new cooperatives and conversions. Often this is the only source for construction financing for coops. Provides the longest terms, maximum leverage, lowest fixed rates of all programs, but can be more costly than other types of financing. In addition, there is institutional over-site from HUD.

Available Financing for Cooperatives (cont)

- National Cooperative Bank Financing programs

  NCB has programs that provide permanent financing and refinancing with repair funds for cooperatives. Loans can range in terms of 5 to 30 years.

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Available Financing for Cooperatives (cont)

- Fannie Mae – Fannie Mae provides financing for existing cooperatives. Loan terms are typically 10 to 30 years. Loans may be used for rehabilitation of the property.
- Bank Financing – Most banks will not provide financing for cooperatives as they are unfamiliar with the ownership structures. In communities where coops are common, banks may provide financing, but typically at shorter terms and higher rates.

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Pre-sale Management Approach with FHA 213 Financing

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Pre-sale Management Approach with FHA 213 – General Characteristics

- Processed under Section 213 of the National Housing Act. This provides financing for elderly or family housing, new construction or conversion with rehabilitation.
- Co-operative formed before construction or rehabilitation.
- Sponsor/development service agent (DSA) acts to develop property, pre-sell memberships, and is in control of the provisional board.
- Loan term of construction period plus 40 years.

Pre-sale Management Approach with FHA 213 – General Characteristics

- Interest rates are fixed at closing for the full term of the mortgage.
- Valuation, down-payment and carrying charge amounts are usually allocated by sq. ft.
- Typical unit mix of newer co-ops:
  - 20-30% 1 BR's
  - 50-60% 2 BR's
  - 10-20% 2+Den/3 BR's

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Pre-sale Management Approach with FHA 213 – General Characteristics

- Provisional Board of Directors until first annual meeting of members
  - Within 1 year and 3 months of Certificate of occupancy/Final Endorsement
  - Usually individuals from the sponsor/development service agent but also may include future residents
- Board of Directors (after provisional)
  - Members/occupants of units
  - Staggered, eventually 3-year terms
- Training is available for board members through various organizations including the National Association of Housing Cooperatives

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Pre-sale Management Approach with FHA 213 – General Characteristics

- The total development costs for a new cooperative include all acquisition costs, construction costs, financing costs, other soft costs, marketing costs and developer profit. Development costs covered by:
  - Downpayments: Can be as low as 3%, but typically range from 5% to 40% depending in the needs and development plan of the DSA and residents.
  - FHA Insured mortgage can be as high as 98% of development cost, but typically ranges from 60% to 95%.

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Pre-sale Management Approach with FHA 213 – General Characteristics

- Carrying charges: covers on-going expenses/debt service
- 100% of income after expenses & reserves used for debt service.
- Maximum loan subject to Statutory Limits by unit type published in the Federal Register for Section 213.
- Not eligible for accelerated processing.
- General Operating Reserve: begins at 3% of total carrying charges. Controlled by mortgagor.

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Pre-sale Management Approach with FHA 213 – General Characteristics

- Lender will require a certain level of shares be pre-sold prior to closing. Typically is 90% of units, but can be as low as 50% depending on specific market conditions and the financial capacity and willingness of the DSA to guarantee cash flow from unsold shares.
- Sponsor/DSA must guarantee cash flow
  - Sponsor/DSA must agree to pay the monthly carrying charges on any remaining unsold memberships for a maximum of 3 years or until sold.

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Pre-sale Management Approach with FHA 213 – General Characteristics

- HUD will review all initial membership purchasers, review includes an examination of members:
  - Credit Reports
  - Personal Financial Statements (FHA 3232A)
  - Verification of employment/Income
  - Verification of deposit

  Following initial sales, the cooperative will review new members.

Pros and Cons under Pre-sale Approach with FHA 213 Financing

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Pros and Cons for Cooperative Members

Pros

- Long-term, fixed-rate, non-recourse.
- Built-in mechanisms to protect the consumer.
- FHA allows for maximum leverage possible appealing to a broad level of income groups.
- Institutional oversight and discipline: audits, reserves, property inspections.
- Distributive Shares - MIP has been refunded.

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Pros and Cons for Cooperative Members

Pros

- Provides the benefits of home ownership relating to personal income taxes.
- Creates quality housing that can be affordable to all income levels.
- Establishes a community atmosphere that provides support and a sense of “home” to the members.
- Contributes to community economic health
- Provides same tax benefits as other types of home ownership.

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Pros and cons for Cooperative Members

Cons

- Some co-op members uncomfortable under co-op oversight
- Some members or their beneficiaries may prefer unrestricted equity returns
- Lock-outs on mortgage prepayment
- Difficulties my arise from differences of opinion between board members and residents over management of the cooperative.

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Pros and Cons for Sponsors & Developers

Pros:

- Nonrecourse
- Not rate-sensitive
- Equity funded by buyers, and non-mortgageable costs can be paid from equity
- Profit margin built in to total development cost – Developer's Fee
- Appeals to a diverse market
- Simple operating program
- On going Management Fees from property management.

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Pros and Cons for Sponsors & Developers

Cons:

Pre-sale Requirement :

- Typically must collect full down payment prior to construction
- Must guarantee cash flow for unsold shares for a maximum of 3 years.
- Can be difficult to market depending on acceptance in the area and educating potential residents.
- Sometimes difficult to build sufficient profit into the transaction to make it competitive with other types of housing development.

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Pros and Cons for Lender and HUD

Pros:

- Significant pre-sale requirement before closing
- Very favorable default experience - good track-record
- resident creditworthiness reviewed as part of approval
- Is not subject to credit-subsidy limits

Cons:

- Co-op members call HUD when they have a problem with the developer

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Senior Coops – Why this model makes sense

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Co-op Advantages for Older Adults

- Seniors remain in control at a time of life when most other alternatives require sacrificing control.
- Seniors can relieve themselves of maintenance tasks they can no longer effectively complete
- Co-op governance provides a forum for active participation and taking of responsibility
- Preserve equity - no “spend-down” of assets.

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Co-op Advantages for Older Adults

- Preserve tax benefits of homeownership
- Save money paying only the actual costs - no outside owner
- Affordable to senior homeowners with modest income
- Attracts all ages among seniors.

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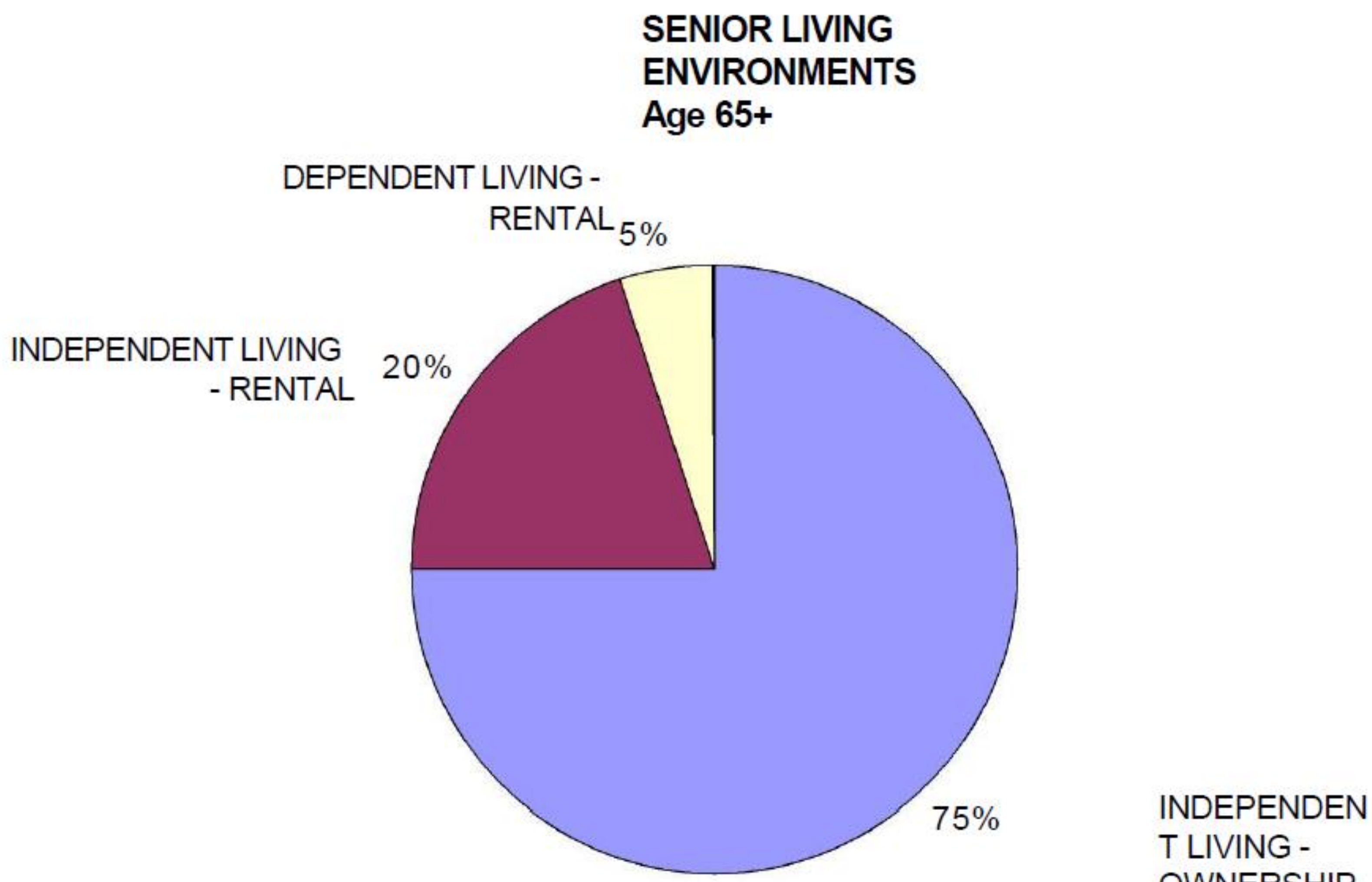

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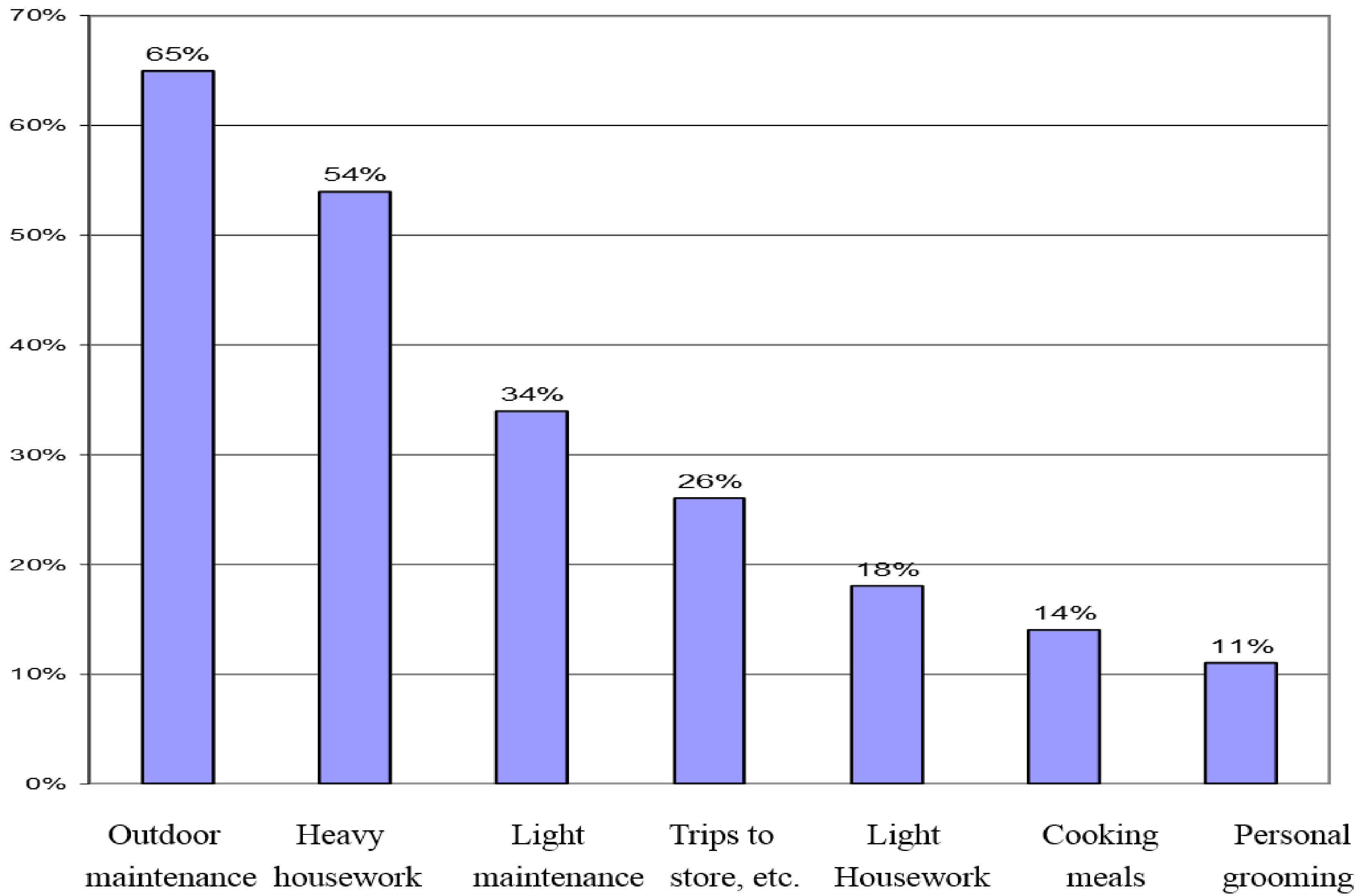
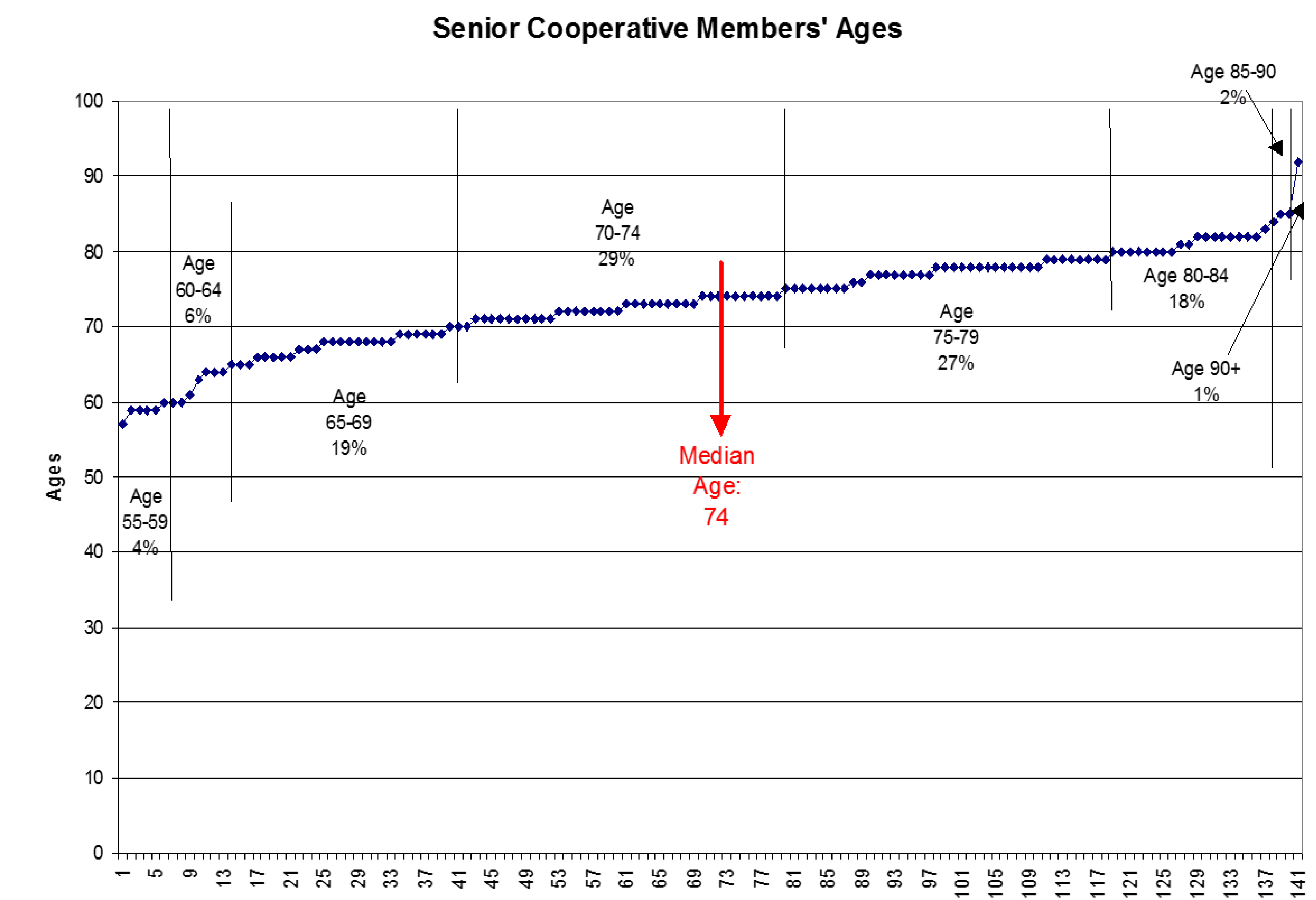
Source: AARP

SENIORS ANTICIPATING NEED FOR HELP
Page 65+

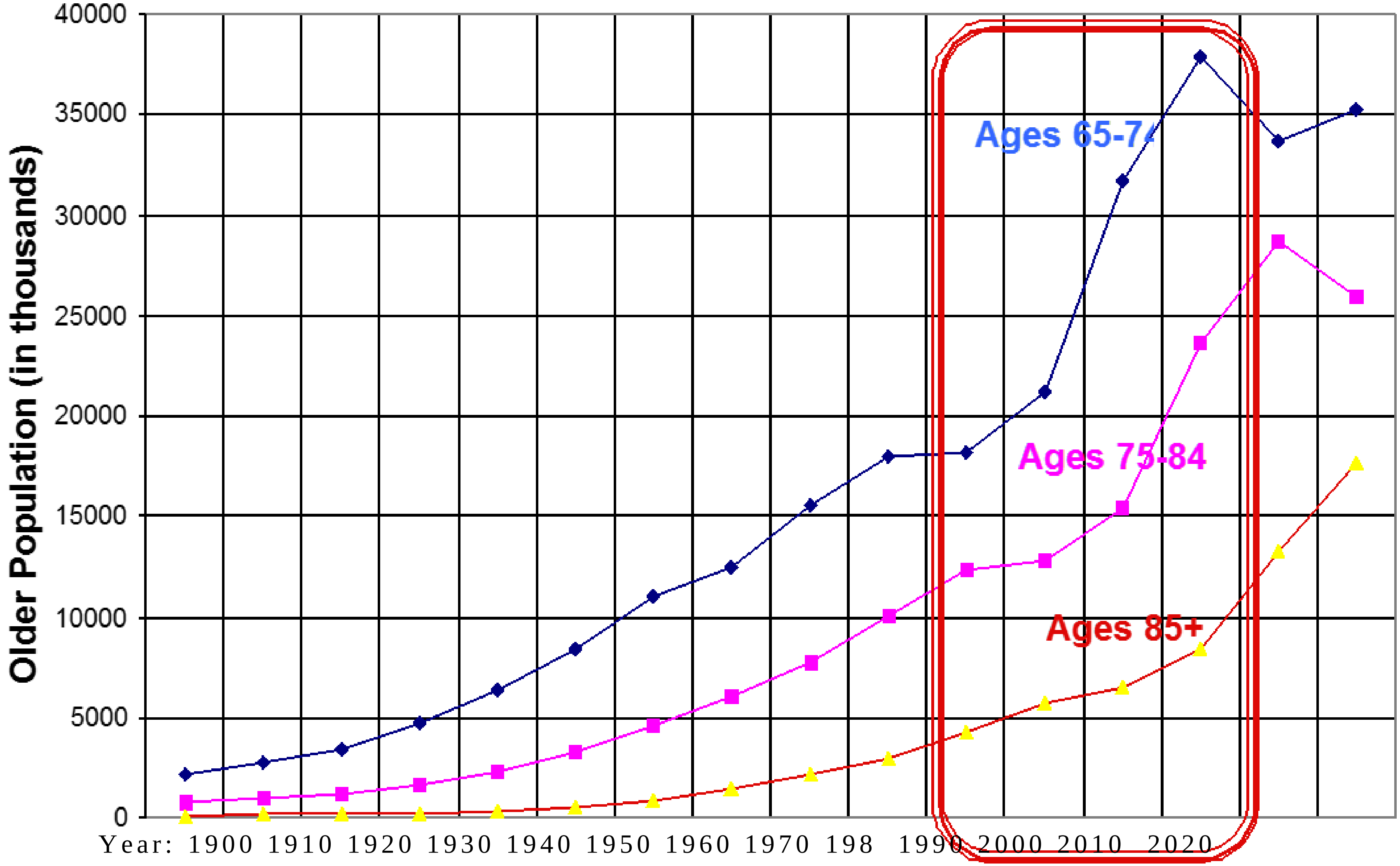
Source: AARP





Senior Cooperative Members' Ages
Ages
Age 55-59 4%
Age 60-64 6%
Age 65-69 19%
Age 70-74 29%
Median Age: 74
Age 75-79 27%
Age 80-84 18%
Age 85-90 2%
Age 90+ 1%

Growth of Older Populatic
1990-2050



Sponsorship Incentives - Business

- Developer fee allowed and mortgageable
- Appeals to a diverse market -- especially young old
- Simple operating program
- Creating a market for elder services
- Continuing Management fees

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Sponsorship Incentives - Mission

- Providing a better alternative that --
  - Supports aging in place
  - Enhances true independence through interdependence
  - Improves members’ health and well-being
  - Preserves seniors’ financial resources
  - Frees up affordable homes for younger families
- Contributing to community economic health

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Community Incentives

- Retains seniors and their contributions in the community
- Creates Economic development
- Adds a significant amenity/housing option in order for a community to retain otherwise out-migrating elderly who would prefer to stay in the neighborhoods they know best

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Difficulties with Developing and Managing Cooperatives

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Difficulties with Developing and Managing Cooperatives

- <u>Selling memberships requires education</u> – membership in cooperative is a unique form of home ownership and typically requires that the developer provide education on the benefits and drawbacks to potential members.
- <u>Market Acceptance</u> – Certain markets readily accept housing cooperatives making them easier to sell. However, if it is not a typical form of home ownership, gaining market acceptance can be difficult.
- <u>Pre-sale requirement</u> – Under the most typical development model, financing only becomes available after a certain level of pre-sales are completed. This will require a fairly significant investment from the developer of time and money to market the property.

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Difficulties with Developing and Managing Cooperatives

- <u>Equity comes from Pre-sales</u> – The difference from the total development cost and the blanket mortgage, equity, comes from the members and/or the developer. This requires that funds be collected prior to construction start, unless the developer is funding equity, which can present difficulties in marketing memberships.
- <u>Ongoing management decisions</u> – Since members of a cooperative have a significant say in the ongoing management of the property, differing opinions and experience levels among members can cause significant tension and decision making delays. Ongoing education is key. It can not be stressed enough the importance of identifying significant issues and addressing them appropriate.

Centennial Mortgage

Hugh Jeffers

Senior Director

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As senior director, Hugh Jeffers is responsible for originating new business around the country. He is located in Pittsburgh, PA. Prior to joining Centennial Mortgage, Mr. Jeffers was senior director with Love Funding. Prior to Love funding, Mr. Jeffers was with Bellwether Enterprise responsible for originating FHA, Fannie Mae and Freddie Mac multifamily and healthcare loans. Before his time at Bellwether Enterprise, Mr. Jeffers was director of FHA financing at Oppenheimer Multifamily Housing and Healthcare Finance, where he was responsible for FHA originations. Mr. Jeffers also spent time at Arbor Commercial Mortgage in New York as the screening director for FHA originations for the entire company. Prior to that, he was manager of the affordable housing group and the FHA multifamily lending operation of NCB Development Corporation in Washington, DC. He has over 15 years of multifamily and healthcare origination and underwriting experience. He has developed a particular expertise in affordable and senior housing. He is a board member of the National Association of Housing Cooperatives and chairs the Development and Preservation Committee. Mr. Jeffers holds a bachelor’s degree from Lafayette College in Easton, PA, where he was a double major in Economics and Art. He holds a master’s degree from New York University, Stern School of Business.

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District of Columbia Limited Equity Cooperative Task Force for 2018-2019
Final Report, October 2019

Contents

Task Force Members

Paul Hazen, *Chair*, U.S. Overseas Cooperative Development Council
Jade Hall, Housing Counseling Services
Louise Howells, University of the District of Columbia, David A.Clarke School of Law
Amanda Huron, University of the District of Columbia
Vernon Oakes, Oakes Management Inc.
Lolita Ratchford, Ella Jo Baker Intentional Community Cooperative
Risha Williams, DC Housing Finance Agency (DCHFA)
Ana Van Balen, Department of Housing and Community Development (DHCD)
Elin Zurbrigg, Mi Casa, Inc.

District of Columbia Act 22-338

To establish a Limited-Equity Cooperative Task Force to provide comprehensive policy recommendations, assist District residents and the District government with improving existing limited-equity cooperatives, establish new limited-equity cooperatives, and help all limited-equity cooperatives succeed and prosper.

BE IT ENACTED BY THE COUNCIL OF THE DISTRICT OF COLUMBIA, That this act may be cited as the "Limited-Equity Cooperative Task Force Act of 2018."

Sec. 2. Definitions.
For the purposes of this act, the term

(1) "Cooperative" means an association, whether incorporated or unincorporated, organized for the purpose of owning and operating residential real property in the District of Columbia, the shareholders or members of which, by reason of their ownership of a stock or membership certificate, a proprietary lease, or other evidence of membership, are entitled to occupy a dwelling unit pursuant to the terms of a proprietary lease or occupancy agreement.

(2) "Limited-equity cooperative" or "LEC" means a cooperative required by a government agency or nonprofit organization to limit the resale price of membership shares for the purpose of keeping the housing affordable to incoming members that are low- and moderate-income.

Sec. 3. Establishment of Limited-Equity Cooperative Task Force.
There is established a Limited-Equity Cooperative Task Force ("Task Force") to provide the District of Columbia Council ("Council") with comprehensive policy recommendations on how the District can assist in the formation of new LECs and help existing LECs succeed.

Sec. 4. Membership.
(a) The composition of the Task Force shall be as follows:

(1) Three residents, each of whom is currently a board member of an LEC in the District; provided, that no 2 residents shall be from the board of the same LEC.

(2) One representative from a community-based organization that provides training, counseling, and client advocacy services to low- to moderate-income residents.

(3) One representative from a property management company that manages cooperatives in the District.

(4) One representative from a development company that develops cooperatives in the District.

(5) One representative from a financial entity that specializes in the financing of LECs.

(6) One attorney with experience working with LECs.

(7) One individual who has conducted significant research on LECs in the District and elsewhere in the United States.

(8) Other representatives appointed by the Chairperson of the Committee on Housing and Neighborhood Revitalization.

(9) One representative from the Department of Housing and Community Development ("DHCD").

(10) One representative from the District of Columbia Housing Finance Agency.

(b) The Chairperson of the Council Committee on Housing and Neighborhood Revitalization shall appoint the:

(1) Chair of the Task Force; and

(2) Task Force representatives designated in subsection (a) (1) through (8) of this section.

(c) The members of the Task Force shall serve without compensation and shall either reside or work in the District.

(d) Meetings of the Task Force shall be open to the public.

(e) DHCD shall provide administrative support to the Task Force.

Sec. 5. Duties of the Task Force.

Within 180 days after the appointment of all members, the Task Force shall submit to the Council a comprehensive report on:

(1) Policy and legislative recommendations related to how the District can help stabilize, strengthen, and preserve existing LECs, as well as how the District can best support the formation of new LECs;

(2) Funding options and sources to assist in the formation of new LECs and to provide technical support and assistance to LEC members and LEC boards in the District;

(3) How to establish appropriate government oversight to ensure that LEC boards have the necessary financial and structural management resources to help them succeed and prosper; and

(4) Any other identified needs or requirements for the successful formation and preservation of LECs in the District.

Sec. 6. Sunset.

This act shall expire upon the Task Force submitting the report required pursuant to section 5 to the Council.

Sec. 7. Fiscal impact statement.

The Council adopts the fiscal impact statement in the committee report as the fiscal impact statement required by section 4a of the General Legislative Procedures Act of 1975, approved October 16, 2006 (120 Stat. 2038; D.C. Official Code §1-301.47a).

Sec. 8. Effective date.

This act shall take effect following approval by the Mayor (or in the event of veto by the Mayor, action by the Council to override the veto), a 30-day period of congressional review as provided in section 602(c)(1) of the District of Columbia Home Rule Act, approved December 24, 1973 (87 Stat. 813; D.C. Official Code §1-206.02(c)(1)), and publication in the District of Columbia Register.

Introduction

The Task Force members submit this report in the midst of a housing crisis. Washington, D.C. has the highest income inequality of any U.S. city, with the top 20 percent highest-earning families earning 29 times more than the 20 percent lowest-earning families; and with black families in the District earning less than a third of white families overall.[1] A 2019 report from the National Community Reinvestment Coalition found that Washington, D.C. had the highest percentage of gentrifying neighborhoods of any U.S. city, with over 20,000 people displaced in recent years.[2]

District leaders, like city leaders around the world, are grappling with the question of how to provide truly affordable housing in the midst of an economic boom. Yet Washington, D.C. has been at the forefront of enacting innovative affordable housing policy since the first Home Rule government was sworn into office in 1975. Our city government created Rent Control as one of its very first acts, and followed up with many other policies designed to help poor and working people have a stable and safe home. Of the many creative policies enacted over the years, one that has been around the longest is the Tenant Opportunity to Purchase Act (TOPA), which has enabled many tenant associations to collectively purchase their apartment buildings and convert them into limited-equity cooperatives (LECs). LECs allow members to buy a share in the cooperative for very low rates, and pay low monthly co-op fees; because they are collectively owned by their membership, members have a stake in their housing and in their neighborhoods.

Today, D.C. has approximately 4400 units of LEC housing in 99 co-op buildings. These units are spread across the city, though Ward 1 has historically been a center of LECs, and increasing numbers of LECs are now located in Ward 4. More than half of the city's LECs are located in "low-poverty neighborhoods" (neighborhoods in which fewer than 20% of households live in poverty). Many co-ops are located in gentrifying and gentrified neighborhoods, representing a form of stable homeownership that has allowed low- and moderate-income Washingtonians to stay in their homes as retail, services, and job opportunities come to their neighborhoods, and as their local public schools improve. Limited-equity cooperatives are a key part of the affordable housing landscape in the District of Columbia.

The District has supported the creation of LECs since 1979. According to recent data collected, most of DC's existing LECs were created between 1980 and 2009, with less than 20% created in the last 10 years. Now, with 40 years' experience with this housing form, we know a lot about how LECs work, what leads to their success, and what challenges they face. We know that LECs can preserve affordable housing and create lower cost housing and home-ownership

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[1] https://www.dcfpi.org/all/income-inequality-dc-highest-country/

[2] https://ncrc.org/study-gentrification-and-cultural-displacement-most-intense-in-americas-largest-cities-and-absent-from-many-others/

opportunities for low-income residents. Despite all this, there continue to be roadblocks that prevent the creation of new LECs, and existing LECs may face challenges in accessing assistance to sustain themselves long-term. As housing prices continue to soar, and lower income residents find themselves squeezed into unaffordable housing or out of the District entirely, there is a renewed sense urgency. It's time to take the lessons we've learned — as LEC members, tenant organizers, technical assistance providers, financing agents, lawyers, and city leaders — to dramatically scale up this housing form in the District. **To this end, we propose that the city establish a goal of increasing the number of LEC units in Washington, D.C. by 45% by 2025—from 4400 units to 6400 units.** If the city wants to support our existing LECs, and encourage tenant associations to create their own long-term, affordable, stable housing, then we need to significantly increase the support we provide to tenant associations seeking to convert to cooperative, as well as to existing cooperatives.

In this report, we outline a set of sixteen recommendations that will allow the city to build on its success in nurturing the development of LECs. If city leaders are truly concerned about addressing our affordable housing crisis and the ongoing displacement of low- and moderate-income residents, we urge them to support the LEC model, and adopt these recommendations.

We have organized this report into two sections: the first section focuses on preserving existing LECs, while the second section focuses on creating new LECs. Perspectives from co-op members, who were interviewed as part of the Task Force's work with co-op stakeholders, are interspersed throughout.

We note that a forthcoming study on DC's LECs, sponsored by the Coalition for Nonprofit Housing and Economic Development (CNHED) and carried out by Dr. Kathryn Howell of Virginia Commonwealth University later this year should be reviewed and its recommendations followed as a counterpart to the recommendations of this Task Force. The CNHED LEC Study will provide a wealth of compiled data on co-ops in the District, an analysis of challenges and opportunities LECs face, and recommendations that should be utilized to inform any policies to support co-op development and sustainability in the future. The overall recommendation of this Task Force is that policy and decision makers utilize the data, findings and recommendations from the CNHED LEC Study to better support LECs in the District.

Co-op voices:
"We came together, we paid our rent every month, we did everything we were supposed to do. We paid off our building by 2016. So in twenty years, our co-op was completely paid for… After we paid for the building and everything, of course we weren't paying as much rent as we had been paying, but we decided that we were each going to pay a certain amount of money each month, and from that, we were able to start doing some renovations on the building, and we paid cash… We're going to continue to keep collecting money every month, and improving our building."

Preserving Existing LECs

Recommendation #1:
Provide full property tax abatement for all LECs.

Issue:
The District Government provides ongoing property tax exemption for a variety of charitable, religious, and educational organizations that serve the community. However, D.C. law limits property tax exemptions for LECs to a five-year period. The property tax exemption should be reviewed and modified to provide ongoing tax exemption for well performing LECs that house low-income families, similar to the exemptions provided to other low-income housing and social services providers. Co-ops not performing well, would need to put together a strategic performance plan with actionable steps towards implementation to qualify for the tax-exemption.

LECs may claim exemption from property taxes for their low-income ownership households if at least 50 percent of the dwelling units in the property are occupied by income eligible households.[3] The value of the tax exemption received for a unit is passed along to the low-income household as a credit. The exemption remains in effect only until the end of the fifth tax year following the year in which a unit was transferred to the household and only so long as the same household remains an owner and occupant in the property. In contrast, D.C. law has historically provided tax abatement without accompanying time limits for federally subsidized low-income multifamily rental, cooperative, and condominium housing.[4]

Many LECs provide housing to families below 50 percent and 30 percent of MFI without the benefit of operating subsidies or voucher programs. Because LEC households tend to be stable and remain in their homes for periods that extend beyond five years, the households and the LEC will experience a financial setback at the end of the tax exemption period. A permanent tax exemption program would provide much needed ongoing support for LECs that provide affordable housing to low, very low, and extremely low income households.

Recommendation #2:
Provide an additional $5 million annually for CBOs that provide ongoing education and stewardship to LECs, in order to support no- and low-cost education and training for LEC boards and members. Areas of training to include the following: LEC structure and principles; legal documents for LECs; governance of LECs, including running elections and effective meetings; asset management, including finances and maintenance, as well as the use of an Asset Management Scorecard; and other aspects of property management.

Issue:

[3] D.C. Code 47-1002(21); 47-3503(c)
[4] D.C. Code 47-1002(20)

Many training programs and educational resources are available for housing cooperatives across the United States. Accessing these educational resources and deploying them in the District is costly. Experience has demonstrated that consistent and ongoing education and training are necessary for successful LECs. Several existing local organizations provide education and training to LECs; however, they are under resourced. Therefore, many members and boards of LECs receive sporadic education or training needed to govern and manage their LEC. With a variety of technical service providers using different sources of educational resources, LEC boards do not receive consistent and ongoing technical assistance. There is currently no strategy for delivering standardized curriculum for education and training of LECs members and boards.

Education and training of LECs boards and members are essential for successful LECs. One of the cooperative principles is education, training and information, because experience has shown this is imperative to the longevity of LECs. Consistent education of members and their responsibilities helps generate an active, involved membership. A well-trained board of directors will ensure good governance and effective serves for the membership. It is estimated that District government now provides $1.5 million annually to CBOs to provide education, training, and technical assistance on a variety of housing counseling needs. This assistance is provided on a first-come first-serve basis to District residents. Many LECs do not know they can access this type of technical assistance and instead often contact the DC Council for assistance.

Recommendation #3:
Develop a uniform Asset Management Scorecard, with the consultation and advice of CBOs, to gauge the success of LECs. As noted under Recommendation #2, LEC boards should receive training in how to use the Asset Management Scorecard, and can use it annually to self-assess and report.

Issue:
Asset management can be a daunting task for any residential real estate property, but it is a significant challenge for most LECs. Many LECs are self-managed by residents or cannot afford the services of a good management company. In many cases, the members and board of directors have limited training or experience with managing a LEC or dealing with a management company. Many management companies do not have the resources or experience to address the issues of LECs. They are not familiar with good governance practices, nor do they know how to deal with self-governed LECs. The District government has not invested adequate resources in the enabling environment to encourage the best practices in asset management of LECs.

The best practices of asset management of LECs are well known. The task force has compiled a list of best practices for LECs, attached to this document (document title: “Functions of Asset Management”). But best practices are often difficult to implement. Most LECs do not have access to the wealth of knowledge of best practices and the tools for their implementation, and as board members volunteer their time on top of other commitments, there is often an issue of lack of time. The first step is to know what practices are needed and how to evaluate their effectiveness.

For those LECs that are not performing well, the scorecard will demonstrate areas they need to work on to increase their viability for all the residents. This should be followed-up with a strategic performance plan that will address their areas of need to improve their overall performance.

Recommendation #4:
Require training and expertise in cooperative management for property management companies. Areas of training should include the following: LEC structure and the LEC principles; legal documents for LECs; governance of LECs, including running elections and effective meetings; asset management, including finances and maintenance, reserves planning; and other aspects of property management.

Issue:
All LECs are owned and controlled by the people that live in and participate in the co-op through a volunteer board of directors. In the case of housing cooperatives, the board is comprised of people who live together in a community, and this communal living can present challenges for asset management. Property management companies often don't understand the dynamics of LECs and the need for good governance and member involvement. To properly manage LECs and work with a board of directors, property management companies need the knowledge of LEC principles, member education and LEC governance. Property management companies could benefit from a Continuing Education (CE) program about LEC management. Moreover, LEC and condominium associations on the whole would be better served if licensure requirements for property managers included course work relating to the management of LEC and condominium common interest communities.

Recommendation #5:
Ensure that LECs and individual members have access to affordable or pro bono legal services. Legal assistance is necessary for LECs, in terms of both initial development and ongoing issues. Legal assistance is also necessary for individual LEC members, specifically regarding the transfer of individual member shares, in order to preserve intergenerational resources and ease unit transition upon death of a member.

Issue:
Many LEC members are of low and moderate income and do not have the resources to engage legal services to create a will or do estate planning. In most District LECs, members can will their shares upon their death. This provides the opportunity the transfer of a critical resource

across generations, but can also lead to legal and administrative challenges for the LEC. Often after the member's death, asset distribution can be a challenge, which can negatively affect the LEC with unpaid carrying charges and legal costs. LECs would be stronger if their members had the proper legal documents at the time of a member's death, ensuring the timely transfer of housing units to the next generation.

Recommendation #6:
Connect existing translation and interpretation services offered through the DC Language Access Program with LECs, and ensure funding levels for the program are sufficient for LEC members.

Issue:
As the District welcomes more residents from other countries and becomes more ethnically and culturally diverse, the membership of LECs is also diversifying. The increasing number of languages spoken at LECs makes member training in the responsibilities of LEC membership more difficult. Volunteer board directors often do not have the language skills necessary to communicate to people without English as their first language. Member education is an important aspect of a successful LEC, and without it, members can be placed at a disadvantage in the housing cooperative.

Recommendation #7:
Designate DHCD as the agency responsible for coordinating all matters related to LECs. As part of this, DHCD should designate a point person who can connect the public with the staff with necessary expertise.

Issue:
The District of Columbia is home to LECs that provide housing to thousands of people. Many different District government departments and agencies' programs and regulations impact LECs and their members. No one person or department has the responsibility to assist LECs when they require assistance with financing and/or technical assistance; LEC members are often unaware of the available resources to solve common issues throughout development and rehabilitation. When DC Council Members seek information about LECs or need to address issues on behalf of a constituent, no department has responsibility or authority to act.

In addition, DHCD might be better positioned to intervene when there are governance issues as it pertains to conflicts of interest, prudent use of the assets, or when federal, district or cooperative laws are not being followed.

Recommendation #8:
Develop a tool-kit of financial and technical resources for LECs to sustain the physical conditions of their buildings affordably long-term, and widely promote these tools, providing an

on-line resource site. Utilize tools such as small rental building and co-op repairs grants, affordable financing from DHCD and private lenders to provide good terms to co-ops for new renovations and/or refinancing. Include a resource list that provides contacts for co-op education, technical assistance, stewardship, and asset management services available to LECs, from a "Pool of Practitioners."

Issue:
Many existing LECs are in need of technical assistance and/or additional funding. A variety of resources are available to members of LECs but they are not organized in a central location and are not easily accessible. In particular, LECs formed in the 70s, 80s, and even 90s have buildings that have not had major repairs or renovations for 25-30 or more years are facing the need to finance improvements, and/or may have board and member turnover and be in need of additional training or technical assistance specifically geared toward LECs, National, regional and local organizations and practitioners (including attorneys, housing counselors, development consultants) with expertise in housing cooperatives can provide education, technical assistance, and valuable information on governance, asset management, and member relations. Many long-term LECs don't know where to start in finding this support—creating an on-line resource and promoting it, will help bridge that gap between practitioners and LECs. .

Recommendation #9:
Create a database through DHCD to collect LEC information annually. CBOs have gathered much of this data and could share it with DHCD.

Issue:
There is a significant need for data on LECs in the District. Without current data, it is difficult for policy makers and others to address the needs of LECs and their members. While there is anecdotal information available through several District government departments and agencies, there is not a central repository, and information is not comprehensive in scope. LEC advocates and practitioners are at a disadvantage in designing programs to address systemic issues with LECs without current reliable data on the LEC stock.

Recommendation #10:
Create a group purchasing program for LECs in the District.

Issue:
As noted previously in this report, LECs are very effective at creating communities in occupied buildings and preserving affordability for their residents. At the same time, LECs often are small buildings without the purchasing power to negotiate better prices or to require a higher level of service from providers. There is a substantial need among LECs for better services, yet they have a limited number of providers willing to serve them for critical needs, such as property management, accounting, building maintenance and repair. Cooperative purchasing arrangements are a common tool for individual organizations, such as local governments, to join

together and achieve greater bargaining power. A similar model has been established in the District to increase the purchasing power of nonprofit organizations. Through their organization, nonprofits have achieved better pricing and terms of service for essential items, such as janitorial services, trash hauling, and electricity. A cooperative purchasing program would achieve more affordability and better services for LECs in the District.

Co-op voices:
"I do feel that limited-equity co-ops should get more support from the D.C. government. Tax abatements would be helpful. Looking at the property taxes and also taxes that are charged when members go to settlement. If those could be abated, that would help. Also if there's any way that the D.C. government could work with the federal government to either fund or to provide education, to provide any help for management, that would be helpful as well."

"The whole intent was for affordable housing… But the cooperative angle also appealed to us because we could build community with people… We could build community, as well as provide ourselves with decent living, in terms of not having to pay 50% of our income for housing. And I think it really bears out now, 15 years later, we could not be able to afford to live in that neighborhood of Columbia Heights now, had we not formed that co-op. Because you can't get even a studio for less than $1500."

Creating New LECs

(Note: By "new" we mean new LECs created either through conversion of existing buildings or through new construction.)

Recommendation #11:
Encourage broad support for LECs, with the goal of increasing the number of LEC units in the District by 45%--adding 2,000 new LEC units--by 2025.

Issue:
TOPA's enactment created a mechanism for groups of tenants in the District to form LECs in order to purchase their buildings. However, support for the development of LECs in the District has been variable, depending on political climate and the priorities of the current administration, real estate trends, and available funding. Increasing a stable base of support for LEC formation through policies, programs, and messaging will ensure that LECs will continue to be a viable ownership course available to District residents.

LECs in the District provide a number of distinct benefits, and provide a unique form of ownership that results in preserving affordable housing across a wide range of income levels, and providing resident control. The formation of LECs ties in inherently with the purpose/goals of TOPA and prevents the displacement of low and moderate-income District residents. LECs are effective at creating and preserving a community in occupied buildings by bringing diverse groups of people together around common interests and goals—to purchase, improve building conditions, and preserve future affordability. LECs provide relative stability of rents; one study found that the average LEC carrying charge was less than half the HUD-determined Fair Market Rents for D.C. neighborhoods.[5] Data from recent projects shows that LECs consistently preserve a high percentage of housing for extremely and very low income households, with a similar amount of public investment to Low Income Housing Tax Credit Projects (LIHTCs), and for a longer term. A summary of one developer's pipeline of over 600 LEC units developed under TOPA over the last 15 years shows than on average over 40 percent of unit rents were preserved as affordable to people earning below 30 percent of the median family income (MFI), and approximately 30 percent of rents were preserved as affordable to people earning below 50 percent MFI (Source: Mi Casa, Inc.). In addition, most LECs formed in the last 20 years in DC have longer affordability requirements (40 years) than LIHTC projects (30 years). They create a form of financial mobility, and provide a type of ownership when individual ownership is out of reach. Members are owners, so they are more likely to care for and maintain their units, to stay, and to be invested in the homes. This asset (and related stability) can be passed on from generation to generation--parents can will their co-op membership to their children. In addition to providing a mechanism to create and preserve affordable housing, LECs encourage community participation, civic pride and leadership, and a sense of shared purpose between neighbors.

Upon the completion of the LEC study by CNHED in the fall of 2019, the District should widely share its results in order to promote the benefits of LECs--such as the creation / preservation of diverse communities, prevention of displacement, housing for households across varying income levels, a unique type of homeownership, and increased financial literacy and capacity.

The city should work to increase the number of LEC units by 45% over the next five years, adding 400 new units a year, or a total of 2,000 new LEC units by 2025. This will support the city's current goals of producing 36,000 new units—12,000 of them affordable--through production and preservation.

Recommendation #12:
Establish minimum annual funding amounts needed to meet the goal of increasing the number of LEC units by 45% by 2025. A higher prioritization of very affordable LECs, acquisition take-outs, and construction funding in the Notice of Funding Availability (NOFA) scoring is needed to increase the number of LECs in the District.

Issue:

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[5] Huron, Amanda (2018). *Carving out the Commons: Tenant Organizing and Housing Cooperatives in Washington, D.C.* Minneapolis: University of Minnesota Press.

There is a significant need for additional funding for the preservation and production of LECs. Without comprehensive and reliable data, the exact amount of funding is unknown. And without the certainty of dependable funding, groups or tenant associations considering becoming LECs can easily be discouraged or dissuaded. Therefore, the District should work with LEC practitioners to identify the amount of funds needed annually to support LEC and TOPA acquisitions, based on goals for preservation, average number of recent LECs formed, and a range of potential for preservation. Funding source(s) should be established based on the level of need and priority to be available (or set aside) annually. Technical assistance providers and housing counselors should receive more funding in order to provide more outreach and education to residents receiving TOPA notices. Of the 12,000 affordable units the city plans to develop, at least 2,000 of those should be LECs. Of the 12,000 units, we hope that there are multiple opportunities for low-income households to achieve homeownership, and LECs are one way to do that. The primary conduit for LEC creation is through TOPA acquisitions. The city needs to allocate sufficient dedicated funding or create a specific fund) to create these LEC units. Average acquisition costs currently at or above $120,000 per unit, plus an additional 25 percent of financing above acquisition costs needed to cover pre-development, closing costs, and critical repairs. Therefore, it is estimated the amount needed to fund the acquisition of 400 LEC units a year could be as much as $60 million in total sources. It is estimated that roughly one-third of the projects applying could sustain a loan through the Preservation Fund, leaving $40 million a year need from the DHCD First Right to Purchase Program for the acquisition of buildings to become LECs. Some portion of this amount could be staggered strategically across multiple years for co-ops formed with bridge loans and pre-funded interest. (Note: This does not include the cost to renovate buildings or complete construction.) The attached document, “Scoring Analysis of LECs,” illustrates the challenges of scoring LEC projects under the DHCD NOFA.

As costs continue to increase, increases must be made in overall funding for affordable housing and allocations to preservation projects and to support LEC development. The District should develop a plan to incrementally increase the annual Housing Production Trust Fund (HPTF) budget beyond $116 million to meet projected affordable housing needs. The DC Fiscal Policy Institute estimates that the current level of funding is not enough to address the District’s affordable housing challenges over the next 10 years; rather, over $200 million a year in the HPTF is needed to meet and keep up with the current demand for affordable housing, especially at the lowest income levels. The task force suggests that the District establish funding source(s) based on the level of need and priority to be available (or set aside) annually. The attached document, “Examples of Project Costs and Financing Needs,” illustrates how typical LECs are financed.

Recommendation #13:
Develop other viable sources for financing new LECs outside of and in coordination with DHCD.

Issue:
LECs that serve low- and moderate-income people often are not eligible for financing from lenders in the private sector; they either are unable to obtain funding or get it at a high cost. DHCD does provide funding, but many LECs do not score well in the NOFA, and thus cannot obtain financing. There is a need to expand upon existing and identify new sources of financing for LECs; for example, expand the pool of Community Development Financing Institutions that work with LECs; encourage philanthropic investments— and use other tools like crowd sourcing, land trust financing, investment pools and/or pooling projects, non-tax-credit bond financing, non-profit-private partnerships, increasing the number of coop units under inclusionary zoning tools, mixed LEC/ condo or rental developments—to fill the gap and increase the preservation and creation of LECs.

Recommendation #14:
Improve availability and usability of pre-development financing for LECs.

***Issue*:**
A key issue for new co-op viability is the need for predevelopment funding. There is a shortage of "seed" money available ("soft" recoverable grants)—especially at the very beginning of a co-op project—that will ensure residents complete due diligence needed to develop a plan that includes building renovation, and can move forward with completion of studies, plans, and professional assistance needed to submit a competitive application for funding. Recoverable grants, or forgivable loans may allow low-income tenants to move ahead with their goal of forming a LEC and reassure them that they will not be liable before they can get a committed take-out loan.

The early stages of LECs under TOPA can be a challenge to the LEC members and many give up on the process because of rising costs. These barriers prevent the successful development of the LEC and result in the loss of affordable housing units. The highly affordable LECs often cannot pay interim interest and need access to flexible funding from DHCD to provide gap funding for the LECs' interest and predevelopment phase or to fill in the gap in the Loan-To-Value (LTV) required. Another barrier is that this funding is considered as hard funding sources or as public subsidy.

<u>Pre-Development Financing key recommendations</u>**:**
- DHCD "seed money" fund should be fully funded as authorized by the DC Council by providing soft loans up to $100,000 and outsource the program to an intermediary lender.
- The Oramenta Newsome Pre-Development loans should be reformed by providing soft (forgivable) no-interest loans and eliminating the one-for-one match and guarantee

requirement. The funds should be administered such that loans can close quickly, within 90 days of applying.

- The District should expand the source and type of funding for recoverable grants through public and private philanthropy.
- The District Government should create a revolving loan fund with soft loans of up to $250,000 for pre-development for new cooperative development. Such a fund could help provide “gap” funding about allowable loan-to-value from private loans for acquisition financing, and be used to ensure the development plan moves forward quickly after acquisition, making the difference between a feasible and infeasible project.

Recommendation #15:
Improve the availability and dependability of acquisition financing tools for LECs—including an open and sufficiently-funded First Right to Purchase Program, and facilitate the better use bridge acquisition loan funds provided by intermediary lenders (such as the Preservation Loan Fund) by providing a clear path forward for take-out of these loans.

Issue:
The District is unique as it has a long history of supporting preservation of affordable housing units through TOPA giving the residents of rental buildings the first option to purchase the property. The time constraints of the TOPA process, and the unpredictability of when buildings come up for sale, often make the formation of a LEC and obtaining the necessary financing a challenge. DHCD has historically addressed this through administering a First Right to Purchase Program (FRPP) which provides ongoing acquisition funding to buildings going the TOPA timeline that cannot wait for a competitive RFP. The program provides essential funding that can make the difference between projects moving forward to purchase and preserve affordability under TOPA—or not. Recently, the FRPP has been closed due to lack of funding, and there has been discussion of its disappearance. It is the conclusion of this Task Force that the FRPP’s continuation and adequate funding is absolutely essential to the development of new LECs under TOPA.

Given this, the acquisition funding process can be improved by giving tenant organizations forming LECs access to early reviews by both bridge lenders and the FRPP, consistent and available funding and more flexible criteria under the FRPP, and by giving priority to projects most in need of utilizing the FRPP in order to preserve affordability. For example: Give priority to providing FRPP acquisition funding to projects that have a significant percentage of incomes below 30 and 50 percent of MFI and Total Development Costs (TDCs) that are moderate to high-- at an estimated $265,000 per unit or more--will improve the process.

LECs that don’t fit into the prioritization criteria and cannot support a 125 percent loan-to-value private acquisition loan could go through bridge and mini permanent loans with additional support to increase the ability of these projects to compete well in the DHCD NOFA.

<u>Acquisition Financing key recommendations</u>**:**

- During the first 90 days all potential LECs formed under TOPA should have access to a Bridge Lender to identify the maximum supportable acquisition loan.
- The District Government should create prioritization criteria for acquisition funding in the FRPP.
- All new LECs should go through the FRPP.
- Based on the Bridge Lender and the FRPP review, provided a project is feasible given one or more possible conditions, a path forward will be laid out for each potential LEC, which can include:
    1. DHCD giving future commitments for acquisition take-out in later years under the FRPP.
    2. DHCD providing prioritization scoring criteria for take-out funding for LECs in the NOFA, especially those who have gone through the above-described process.
    3. The District Government providing additional support to increase the ability of projects to compete well in the DHCD NOFA through prioritization criteria and better funding of LECs.
    4. DHCD providing gap funding for the LECs’ acquisition interest (if going with a bridge lender) and pre-development phase.

Recommendation #16:
Improve the dependability and timing of take-out and rehabilitation financing for LECs.

Issue:
Currently, District LECs often have to wait three or more years between acquiring their buildings and completing their development plan and accessing rehabilitation financing. The current pattern of DHCD awards through the Consolidated RFP is that projects need to apply two or three times before receiving an award. In the current climate where maximizing the production of new and more units is primary, District LECs—more than often involving the preservation of small, affordable rental buildings (averaging 20-30 units) converted under TOPA—must compete directly with larger projects and the production of new units. Scoring changes shall be adjusted to award more points to homeownership TOPA projects, most of which are preservation projects. Furthermore, DHCD should create a separate NOFA for preservation projects and provide a scoring bonus for LECs. The District should ensure that LECs can compete through appropriate scoring for this type of project. As currently structured in the Consolidated RFP scoring system, the possible 5 points allocated to TOPA preservation projects are outmatched by the variety of points that can be awarded to newly constructed projects. LECs developed under TOPA are existing buildings occupied by existing tenants and achieve the prevention of

displacement and preserve affordability. However, they are not able to achieve the many specialty point categories that newly constructed projects can be awarded. These points would provide Permanent Supportive Housing (PSH), reconfigure units to provide large units, provide artists or senior housing, and meet the maximum required subsidy to complete the project. Therefore, LECs can better compete in the NOFA if either: (1) points that LECs are not capable of achieving are removed from the total point calculation, and/or (2) there are more categories where LECs can achieve points, and/or more points allocated to those categories.

The District should provide flexibility in the percentage of the HPTF beyond the currently-stated 66 percent for LECs. The task force's analysis on the needs of "most affordable" LECs shows that on average, 75-80 percent or more of each project's funding must come from public funds in order to complete and stabilize through renovation. The task force also suggests an alternative option to consider the FRPP neither as a "hard" funding source nor in the HPTF's subsidy count. Moreover, the District should prioritize acquisition take-out for affordable buildings with bridge loans and make the Local Rent Supplement Program (LRSP) available for non-PSH units.

<u>Take-out and Rehabilitation Financing recommendations</u>**:**
- The HPTF should be funded at $200 million.
- More scoring points should be awarded for homeownership TOPA projects, and a separate NOFA for housing preservation projects should be created, with a scoring bonus for LECs.
- A minimum of 40 percent of each round of NOFA awards should be allocated to preservation projects, and preservation and new production projects should be segregated into separate evaluation pools with separate scoring criteria, with additional points for LECs.
- Maintain flexibility in the level of HPTF funding allowed in financing LECs, ranging from 66 percent to 100 percent.

<u>Co-op voices:</u>
"When I testified in front of the D.C. Council in the early '90s, I let them know how important co-ops were to us. Because rent was going up. We couldn't really be able to afford a lot of things back then unless we had someone to help us out financially. So I just let them know that it was really important for us to have a co-op."

"And that's one of the good things about cooperatives, is that it teaches you to be better citizens. We learn governance. We learn the importance of doing stuff for ourselves. So one of the benefits of a cooperative is people become more involved with their community as a result, they learn how to get involved with each other, help each other out."

Conclusion

The city of Washington, D.C. is facing hard choices. We have an expanded budget, but our needs are great, across many sectors of life. Housing, however, is fundamental. Without the ability to afford to live in this city, low- and moderate-income residents will have to leave, and will not benefit from the expanded investment pouring into the city since the early 2000s. The District can better support truly affordable housing for District residents in many ways, but the LEC model is one we believe merits particular attention and support. LECs have proven to be affordable, stable housing that, because their members collectively own them, engender a sense of pride and more broadly contribute to neighborhood stability. The District's first LEC was created in 1979. Forty years later, it's time for us to bring together our decades of experience with this form of affordable homeownership, and re-commit to supporting it for District residents. If the city can commit to better supporting LECs, and to adding 2,000 new units to the number of LECs in the District by 2025, we will be off to a good start.

Housing Cooperatives

A form of Home Ownership

Centennial Mortgage, Inc.

What is a Housing Cooperative?

- A cooperative is defined as "an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise".
- A housing cooperative is a unique from of home ownership in that a non-profit cooperative corporation holds title to the dwelling units and directly assumes the mortgage, tax and other obligations necessary to finance and operate the development.
- Members support the corporation through occupancy agreements, eliminating need each member to be an individual mortgagor.

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What is a Housing Cooperative?

- Each member pays his proportionate share of the annual cost to operate the corporation and debt service on the blanket mortgage for the property.
- Each member is entitled to their proportionate share of real estate taxes and interest of the corporation for their personal income taxes.
- Members have the right to vote on how the corporation conducts its business and participate on the board of the cooperative

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Typical Ownership Structure

- A non-profit corporation is formed to own the property and building
- Members own a membership certificate in the corporation
- Membership Certificate give them the right to occupy a unit in the property and the right to participate in the ownership of the property:
  - Be a board member
  - Vote for board members and on issues effecting the corporation

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Cooperative Legal Documents

Articles of incorporation and By-laws of the cooperative corporation are approved by the corporation commission in the state of incorporation. This will lay out how members relate to the corporation and how board members will be elected or removed by majority vote of the membership. Typical cooperative documents are included on the following slides…

Cooperative Legal Documents (cont.)

- Articles of Incorporation
- By-Laws
- Membership Certificate – a certificate, or share, showing evidence of ownership in the cooperative corporation.
- Subscription Agreement – document used to sell memberships in the cooperative.

Cooperative Legal Documents (cont.)

- Occupancy Agreement – contract between member and corporation that spells out rights and obligations of the members. This basically gives the member the right to occupy a unit.
- Cooperative Agency Agreement
- Management Agreement
- Information Bulletin – disclosures are required similar to other investment opportunities.

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Transfer of Membership

- Membership transfer is regulated by the by laws.
- Cooperative typically has the right to sell the member's share.
- If co-op waives right, member responsible
- Typically shares of Insured projects usually sold by Cooperative.
  - Cooperative compiles waiting list
  - New member must be approved by cooperative.
  - Member entitled to appreciation of share price.

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Share Price Appreciation

- Model Form of Bylaws sets appreciation as the amount of principal pay-down. In addition, improvement to the unit may increase basis in share price.
- There are two different types of cooperatives as it relates to appreciation, which is dependent on the particular "mission" of the cooperative:
  - **Limited Equity Cooperatives** – Many cooperatives that would like maintain affordability limit the amount of appreciation in share prices between 1% and 3% annually.
  - **Market Rate Cooperatives** – These types of cooperatives allow share prices to be determined by the market. A share price is valued by what one is willing to pay for it in an arms-length transaction.

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Member Benefit

- A housing co-op's main purpose is to provide affordable housing for its members, who are charged only for the actual cost of running the co-op. A co-op is in business to meet member needs but, like any business, it must make at least as much money as it spends.
- Housing co-ops generally operate at-cost or on a not-for-profit basis. Beyond everyday expenses, most housing co-ops reserve money for emergencies, vacancies, unexpected increases in operating costs, regular maintenance and property improvements.

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Member Benefit(cont.)

- An investor-owned housing development, in contrast, is in business to make money, not to benefit residents. Profits are distributed based on the number of shares owned by investors. The more shares you own, the bigger the share of profits you receive. Decisions related to property maintenance and improvements are not always made with the best interests of residents in mind.

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Member Benefit(cont.)

- Provides the benefits of home ownership relating to personal income taxes.
- Creates quality housing that can be affordable to all income levels.
- Establishes a community atmosphere that provides support and a sense of "home" to the members.
- Contributes to community economic health
- Provides same tax benefits as other types of home ownership.

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Member Benefit(cont.)

- Provides the benefits of home ownership relating to personal income taxes.
- Creates quality housing that can be affordable to all income levels.
- Establishes a community atmosphere that provides support and a sense of "home" to the members.
- Contributes to community economic health
- Gives members the ability to control housing cost and make decisions necessary for the maintenance of their property and their own well being.

Centennial Mortgage, Inc.

Cooperative Housing Comparison Chart

Centennial Mortgage, Inc.

	Cooperative	Rental	Single Family	Condominium
Ownership	The residents are shareholders in a corporation that owns the property. Owning a share entitles you to occupy a unit.	Tenants own nothing. On expiration of lease, tenants may be forced to vacate.	Owners acquire individual title to their dwellings and yard_	Unit "airspace." owned by indlividual, plus an undivided share of common elements_
Monthly Cost	ritiernbers pay the Co-op for their share of the actual operating cost, building mortgage, and real estate taxes, based on the non-profit operation of entire communi Try.	Tenants pay rent specified in lease-	Owner must make his or her purchases of :whatever is needed, often at higher retail costs. Owner makes mortgage and tax payments to lender_	Same as cooperative, except mortgage payments and taxes are paid directly to the lender.
Move-in Cost	New members buy their share in the cooperative and also pay the first monthly charge in advance.	Usually one month's rent is paid as a security deposit, plus the first month's rent	Purchaser must buy the property, usually with a mortgage with a down payment of art least S% and : c•sing costs of 3% or more-	Same as single family, plus first month's condo fee and often a "contribution to capital" of 1-2 months' fee_
Community Control	Co-op resident members elect their board of directors.. which decides all policy matters. The Board usually sets up several committees to help run the community.	Renters usually have no voice at all in establishing and maintaining community standards.	Individual owners harem no jurisdiction over their neighbors.	Condo ovoners, like cooperatives.. elect a board of directors- •- -, nr-1,-..-S [1·11A r c_.e, C -.
Community **Service**	Co-ops provide a natural base for service and activ-rty desired by its members.	Provided at discretion of landlords.		u -. oz.:, I n-itecl..:ate lay.%
Federal Tax Benefits to InCilVidUal 5	Your share of mortgage interest and real estate taxes are deductible on personal income tax return.	No benefit-	R.·lortgage interest and real estate taxes are deductible on personal income tax return.	Mortgage interest and real estate taxes are deductible on personal income tax return.

Testimony from
Ed Nusser, Executive Director of City of Bridges CLT
Pittsburgh, PA

For

PA House Democratic Policy Committee hearing:
"Affordable and Stable Housing in a Post COVID World"

Date:
Tuesday, June 1, 2021 10 am – 12 pm

Thank you Representative Innamorato for the invitation to join you all today, and thank you all for taking time out of your day to attend this hearing and hear from myself and my colleagues who are working at the frontlines to create housing and economic justice, preserve access to affordable housing, and prevent displacement.

I'm Ed Nusser and I'm the Executive Director of City of Bridges Community Land Trust (CBCLT) in Pittsburgh.

City of Bridges Community Land Trust is the outgrowth of first community land trust (CLT) program in western Pennsylvania, the Lawrenceville Community Land Trust which began 2016. In late 2017 representatives from 5 communities came together to collectively explore how the Lawrenceville Community Land Trust program could expand and become an independent nonprofit organization to serve a broader, more diverse geography and population . Working with local and national partners this group examined national best practices in the CLT movement, interviewing CLT practitioners from throughout the US to explore how best to bring the Community Land Trust model to scale in Pittsburgh and Allegheny County. Through this 10 month process, City of Bridge CLT was born and we officially began operating in May 2019.

To date CBCLT has overseen nearly $6,000,000 of single-family housing development, created 14 permanently affordable homeownership units, and acquired and stabilized 8 "naturally" affordable rental units. Our real estate pipeline for the remainder of 2021 includes breaking ground on more than 20 homes with up to 17 more following in the Spring of 2022.

Nationally, CLTs have a 50 year track record of creating and sustaining permanently affordable housing, of stabilizing neighborhoods, preventing displacement, and creating pathways to homeownership for thousands of low and moderate income households. The community land trust movement has a web of origins and influences, but our roots trace back to a group of black tenant farmers in rural Albany, Georgia in the Jim Crow south. In response to racist lending practices that prohibited tenant farmers from borrowing to purchase land and the Jim Crow practice of evicting black farmers for having the audacity to attempt to vote, New Communities, Incorporated, the first CLT in the country, was started to create a way for black farmers to collectively own land. From those roots in 1969, there are now nearly 300 CLTs in the United States, with over 15,000 homes held in trust. From the outset, the community land trust was to be a platform for increasing opportunity and economic prosperity for American families of color. The CLT movement was and is a challenge — and an alternative — to public policies and practices that were aligned and built with intentionally racist goals.

CLTs are nonprofit initiatives—governed by a board of CLT residents, community residents and public representatives—that provide lasting community assets and permanently affordable housing opportunities for families and communities. CLTs are flexible tools and have developed and stewarded everything from agriculture projects to community centered commercial spaces to affordable rental and cooperative housing projects. However, the heart of a CLTs work is the creation homes that remain permanently affordable, providing successful homeownership opportunities for generations of lower income families.

In the CLT model the value of land and the improvements that sit on the land (the home) are bifurcated. The CLT, as a nonprofit, geographically focused organization, holds permanent title to the land on behalf of the communities we serve and sells the improvements on the land, the home, to income qualified homebuyers. CLTs then enter into a ground lease for a minimal sum, giving every homeowner the legal, durable, and enforceable right to be on land that is owned by the community. Upon purchase, a resale formula in the ground lease stipulates a ceiling on the maximum resale price of the home that strikes the balance between creating equity for the current homeowner and preserving affordability of the home for the community and the generations of families that will come after the first owner moves on.

Nationally, 79% of CLT residents are first-time homebuyers, and, at the height of the foreclosure crisis in 2008, 2009, and 2010, CLT homeowners were 10 times less likely to default on their homes compared to private market homeowners.[1] Furthermore, over the last decade, CLTs have made immense strides on redressing systemic racism and racial gap in homeownership. As of 2018, 43% of CLT homes nationally were owned by people of color and when selling their homes, nearly 60% of CLT homeowners move on to purchase unrestricted market rate homes.[2]

In short, the model works

In our current context where the racial wealth gap is widening, home prices are exploding, and public and private dollars are becoming scarce, we must invest in proven alternative housing models that stabilize communities, prevent displacement, and create wealth for families who have been systemically blocked from home ownership.

Housing affordability and equitable access to the places we collectively call "ours" are among the most important 21st century issues we face. Neighborhoods – and their public assets of transportation, green space, education, and other opportunities – should not be privatized by and for a relatively small group of citizens. Throughout the country, CLTs have proven to be an incredibly strong weapon as we pursue a socially just model for creating equity and preventing displacement.

The challenges of affordability and displacement are no longer siloed problems that a relative handful of neighborhoods need to concern themselves with. In the City of Pittsburgh, median home sale prices are exploding. From 2018-2020, the Garfield neighborhood has seen the median single family home nearly double in value, from $103,000 to $202,000. Lawrenceville's median continues to climb, increasing 20% over that same time period, from $261,128 to $312,500. This growth continues elsewhere as well, Beechview and Brookline in south Pittsburgh saw their median home sale price grow by 55% and 23% respectively since 2018. Outside of the City the trend remains the same. Since 2018 the Borough of Millvale's median single family home price increased by 102% and the Borough of Sharpsburg's rose by 69%.[3]

Make no mistake, these rapid prices have a destabilizing and deleterious effect on both low income people and communities. When we talk about the challenges of affordability, what we are really trying to solve for is displacement and lack of access to the places we know. CLTs, as

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[1] Emily Thaden. "Stable Home Ownership in a Turbulent Economy: Delinquencies and Foreclosures Remain Low in Community Land Trusts," *Lincoln Institute of Land Policy*. (2011).

[2] Ruoniu Wang, et. al. "Tracking Growth and Evaluating Performance of Shared Equity Homeownership Programs During Housing Market Fluctuations," *Lincoln Institute of Land Policy. (2019).*

[3] Data drawn from MLS listings and sales recorded 2018-2020. Accessed, April 2, 2021.

part of the broader movement for housing and economic justice, work to ensure that the private real estate market does not privatize public goods like open space, transit, and education.

Now is also a good time to speak to the tension of wealth creation and permanent affordability. Some may see these price increases noted above and applaud the wealth that is "created" for current residents, but in practice we know this idea of equity on paper, is far to rarely realized by long time owners. By tracking longitudinal sales data, for instance, data that shows what percentage of homes transact twice within 24 months, we know that the wealth created by rising property values often winds up in the hands of home flippers and speculators who take advantage of long time owners.

We also know that simply getting a household into ownership is not enough; we must invest in their, and the community's, long term success. From the 1970s to the mid-1990s, 50 percent of first-time lower income and minority homeowners lost their homes in under five years. Community Land Trusts, and our focus on ongoing stewardship, are a buffer against this risk.[4] In community land trusts, by contrast, 94 percent of owners make it past the five-year mark. Furthermore, for low-income homeowners, the power of wealth creation through homeownership is directly tied to the length of time they own a home, not rapid market appreciation.[5]

Through the structure of CLT property ownership, the balancing of communal and individual goals, and our dedication to long-term stewardship CLTs are uniquely positioned to meet this moment by creating and preserving permanently affordable homes for generations of low and moderate income people.

Affordable homeownership is expensive and does not have the federal and state tax credit tools that are available for affordable rental projects. But in the CLT model, the subsidy that is invested in creating one affordable homeownership unit creates a home that will be affordable in perpetuity. The national average for length of tenure for a CLT home is 7 years, which is slightly longer than the average length of ownership for market rate homes.[6] This means that a one-time up-front construction subsidy can leverage affordable homeownership opportunities for 14 families over the first century of a CLT ground lease.

Supporting permanently affordable homeownership takes flexible, dedicated resources and will need to be addressed on both the development and buyer side. On the development side, funding dedicated solely to permanently affordable housing is critical. On the buyer side, creative mortgage financing, mortgage guarantees, and the creation of a statewide secondary market for CLT mortgages all could go a long way to increasing access to homeownership and enabling CLTs across the Commonwealth to serve more families.

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[4] Carolina Katz Reid. "Achieving the American Dream? A Longitudinal Analysis of the Homeownership Experiences of Low-Income Households" *Washington University in St. Louis, Center For Social Development.* CSD Working Paper No. 05-20. (2005).

[5] Christopher E. Herber andt Eric S. Belsky. "The Homeownership Experience of Low-Income and Minority Families A Review and Synthesis of the Literature" *ABT Associates, inc, prepared for US Dept. of Housing and Urban Development, Office of Policy Development and Research.* (2006).

[6] Emily Thaden and Ruoniu Wang. "Inclusionary Housing in the United States: Prevalence, Impact, and Practices," *Lincoln Institute of Land Policy and Grounded Solutions Network. (2017).*

There is also a need to support the acquisition of at-risk real estate to stabilize both low income tenants and homeowners. Conservatorship, when used responsibly by community focused organizations, is an incredible tool to address blight and vacancy. As are Land Banks, and we are thrilled to parter with the TriCOG Land Bank to turn blight into affordable homes in Allegheny County. But neither of these tools address occupied properties which is key to preventing displacement.

Items such as enabling legislation to allow local jurisdictions to craft tenant opportunity to purchase (TOPA) or community opportunity to purchase (COPA) ordinances matched with flexible, patient funds to finance the acquisition of those same units hold huge promise for stabilizing our communities in the wake of COVID-19. Similarly, funding to acquire delinquent mortgages before the speculative market can, would also allow CLTs to be a stabilizing force for individuals and neighborhoods.

Lastly, because you heard from two leaders of the cooperative movement earlier, I wanted to acknowledge the natural partnerships that can be created between CLTs and cooperatives. Oakland, California recently began a program to show the power of CLTs when they are married with TOPA legislation and the requisite funding. The City of Oakland in late 2019 created a $12 million fund to support the Oakland CLT's acquisition of multifamily buildings with tenants at risk of displacement.[7] Oakland CLT is using this fund to acquire buildings and support the a cooperative housing movement; turning the same low-income tenants who were previously at risk of displacement into owners in the places they know and trust. What we've seen in Oakland is the power that can be created from a combination of strong legislation to protect communities and tenants, a dedicated and trusted nonprofit partner, and the requisite public investment to intervene in the market place. When these three items are aligned, we can move mountains, we can change lives, and we can stabilize communities.

Thank you again, for your time today and I would be happy to answer any questions you have.

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[7] Miya Saika Chen. "New $12M Municipal Fund for Resident-led CLT Housing Preservation Projects." *Oakland CLT*. https://oakclt.org/new-12m-muncipal-fund-for-resident-led-clt-housing-preservation-projects/ Accessed May 26, 2021.