

# Limited Equity Housing Cooperatives

*This form of home ownership offers lower-income families a chance to own their homes*



*(Photo courtesy of Shelterforce)*

## The Impact

Limited Equity Housing Cooperatives (LEHCs) offer an opportunity for lower-income families to own their homes and establish a communal responsibility that isn't present in most multifamily developments. By limiting their equity on their homes, they in turn ensure that when they ultimately sell their homes, they will be available for the benefit of other low- and moderate-income residents.

## Description

There are primarily five homeownership models in the United States: (1) single-family, row home, and townhome fee simple ownership; (2) condominium fee-simple ownership; (3) community land trusts; (4) housing cooperatives; and (5) mutual housing associations.

In a housing cooperative, a cooperative corporation has fee title to the entire property or building. Members of a cooperative do not own their units directly but instead have a membership certificate or stock in the corporation that owns the unit. Membership in the cooperative carries with it the exclusive right to occupy the unit in the development and to participate in the operation of the cooperative corporation, either as a member of the board of directors or as a voter participating in the same manner as a shareholder in any other corporation. Members are "tenants in common," so that when the owners die, their ownership rights can transfer to their heirs. For co-ops, the ownership of the shares is what entitles members to a long-term lease or occupancy agreement that grants them the right to occupy the unit. Limited equity housing cooperatives, a common type of cooperative in most

cities, are a creation under which the housing resale value is limited in order to deliver housing at below market rates for the benefit of the durational term of the covenant placed on the property.

LEHCs are not designed to appreciate in an equity sense; rather, they are intended to give access to homeownership to those who would normally be priced out of their particular markets. They provide a use-value to the owner instead of exchange-value, preserving this affordability for successive buyers and allowing them to benefit as well. LEHC homeowners share the expenses of homeownership – including maintenance, insurance and taxes – while benefiting from the security and stability of homeownership.

### **Where It's Been Implemented**

Many of the nation's housing cooperatives are located in New York City, Chicago, Atlanta, the Detroit metropolitan area, Miami, Kansas City, Washington, D.C. and San Francisco. About half of U.S. housing cooperatives are mid-rise or high-rise multifamily buildings, and the rest are townhouses or garden style (three- to four-story walk-ups). Many new cooperatives are forming as LEHCs to tackle the nationwide demand for affordable housing opportunities.

### **Key Drivers**

Currently most affordable housing models are rentals with strict lease terms, and often the affordability of the units is not preserved after the original development contract expires. In Foster City, Calif., 74 units in a 490-unit apartment complex were kept at below market rate for 35 years through a deed restriction that was scheduled to expire by the end of 2023. The city helped the tenants avoid displacement with relocation assistance, financial incentives for early relocation and rent subsidies for those unable to relocate prior to their affordability expiration date. The city also gave the tenants first priority status on wait lists for other below-market-rate properties. As a result, only five tenants remained in the building as of August 2023. The city now has deed restrictions for 55 years on rental properties with below-market-rate units.

LEHCs, by comparison, recognize that the need for affordable housing is not transitory, and seek to preserve affordable housing for generations to come.

### **Key Factors for Success**

The support of local government is crucial to the success of limited equity housing cooperatives. Without substantial governmental support through public housing subsidies, low-interest loans and right-of-first-refusal laws that allow tenants the opportunity to purchase subsidized rental properties, it can be difficult to bypass the initial affordability issue when purchasing and constructing a development. Zoning laws can also make it difficult to turn certain former single-family homes into multifamily LEHCs like condominiums or duplexes. The Linden Street Homes project built by the Northern California Land Trust in Oakland is a building that is located in a single-family home neighborhood but is actually a limited equity condominium. This building functions similarly to an LEHC, but there are individual mortgages rather than a blanket mortgage as with an LEHC.

Since nonprofit organizations are typically the most common developers of LEHCs, it is also important to have not only a strong nonprofit presence, but also a strong partnership between local government and nonprofit affordable housing developers.

### **Key Obstacles**

In an LEHC, it is the members who influence the decision-making process on important choices about the way in which their building is managed and the services that are available to them. The ability to handle the financial side of running the corporation is also shared by its members. The management



and allocation of the cooperative's financial resources may be limited based on the size of the building, the expertise and availability of human capital (i.e., the members), and the age of the building. Older buildings may require more critical repairs or need more capital improvements or equipment replacements. Vacancies and turnovers may also have an impact on the performance of the cooperative.

### **Timeline to Implementation**

In Washington, D.C., the Tenant Opportunity to Purchase Act that allows for tenants to organize, purchase their buildings and create limited equity housing cooperatives has been in place since 1979 and was amended in 2018 to no longer include single-family homes. Homes by City First Enterprise (CFE) in D.C. is a nonprofit organization focused on tenant ownership and long-term affordability. It helps establish limited equity and shared equity cooperatives.

### **References and Resources**

- Alicia Shames (née Lee), Program Analyst for Affordable Housing Preservation, DC Department of Housing and Community Development, [Alicia.lee@dc.gov](mailto:Alicia.lee@dc.gov)
- [National Association of Housing Cooperatives](#)
- [Limited Equity Housing Cooperatives info by Local Housing Solutions](#)
- [City First Enterprises Affordable Housing Examples](#)

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