Affordable Housing Cooperatives:

Their Conditions and Prospects in Chicago

CHICAGO
MUTUAL HOUSING
NETWORK

A Report by **Chicago Mutual Housing Network** and
University of Illinois at Chicago, Natalie P. Voorhees Center for Neighborhood and Community Improvement April 2004

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THE CHICAGO MUTUAL HOUSING NETWORK is grateful for the assistance of the UIC Nathalie P. Voorhees Center for Neighborhood and Community Improvement in assessing the conditions and prospects of the affordable housing cooperative model in Chicago.

The Chicago Mutual Housing Network is a federation of mutual housing organizations and their allies. It works to promote the development and sustainability of affordable mutual housing through the provision of training and technical assistance, member services, advocacy, and co-sponsorship of development projects for low- and moderate-income people.

THE NATHALIE P. VOORHEES CENTER FOR NEIGHBORHOOD AND COMMUNITY IMPROVEMENT is a technical assistance and applied research center at the University of Illinois at Chicago. Its mission is to improve the quality of life for all residents of the metropolitan area through assisting community organizations and local governments in efforts to revitalize the many and varied communities in the city of Chicago and surrounding area.

Based on an analysis of demographic and census information, focus group discussions, and surveys conducted for this purpose, this white paper examines housing cooperatives, particularly the limited-equity cooperative model, and explores their viability as an affordable housing option for Chicago residents.

The project team extends its appreciation and gratitude to the many people who offered information and assistance in the course of this study, particularly the residents of cooperatives who participated in the focus groups. The support and assistance of staff and members of the Chicago Mutual Housing Network is particularly noteworthy.

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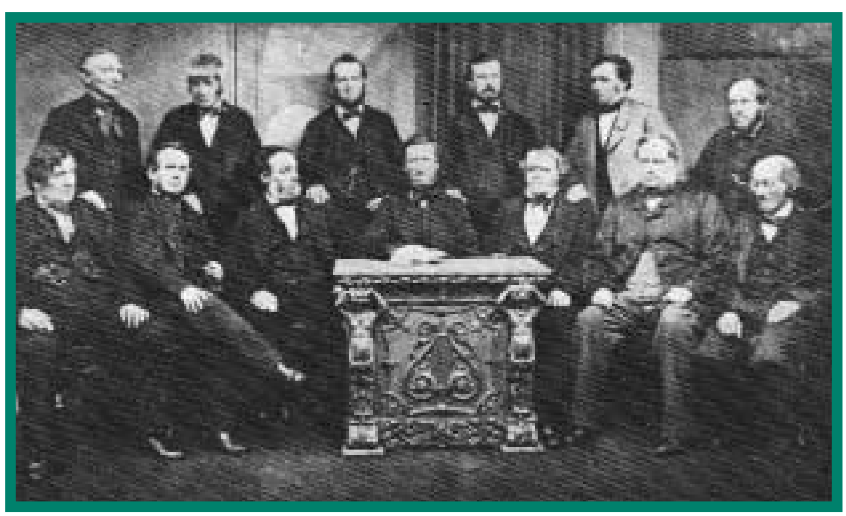
The Chicago Mutual Housing Network

Founded in 1994, the **Chicago Mutual Housing Network (CMHN)** works to promote the development and sustainability of affordable mutual housing through the provision of training and technical assistance, member services, advocacy, and co-sponsorship of development projects, giving priority to housing for low- and moderate-income people. Since its inception, it has assisted in the development of more than 2,200 affordable mutual housing units, primarily in limited-equity cooperatives. Its target population is composed primarily of minorities and female-headed households, with 80% of clients consisting of minority women with school-age children. A citywide organization, CMHN focuses its energies in such communities as Kenwood-Oakland, Uptown, Lawndale, Humboldt Park, Woodlawn, South Chicago, Logan Square, and the Near North Side.

About a year ago, CMHN commissioned a study entitled ***Affordable Housing Cooperatives: Conditions and Prospects in Chicago***. The study was completed by the **UIC Voorhees Center for Neighborhood and Community Improvement**, a research center within the College of Urban Planning and Public Affairs at the University of Illinois at Chicago.

The Voorhees Center study relies on a variety of resources. Literature, legislation, and practices pertaining to housing cooperatives in general and limited-equity cooperatives in particular have been reviewed. Data from the United States Census and American Housing Survey have been utilized. Information on Chicago cooperatives maintained by the Chicago Mutual Housing Network as well as that in the Illinois Assisted Housing Research and Action Project (IHARP)[1] compiled and updated by the UIC Voorhees Center has also been used. To supplement these sources of information, surveys[2] were sent to contact persons (usually property managers or board presidents) at all 206 housing cooperatives listed in the CMHN database[3]. In addition, the Voorhees Center conducted 11 focus group discussions over the course of several months with 64 LEC members representing 17 cooperatives throughout the city of Chicago. Questionnaires filled out by focus group participants and another 57 residents were also analyzed. The focus group discussions and responses to questionnaires were very useful in augmenting the available information on cooperatives.



In 1844, the Rochdale Weavers of England founded the cooperative movement based on democratic control, equal distribution of profits and voluntary membership.

Housing Cooperatives Defined

Housing cooperatives come in all shapes and sizes, from high-rises to town homes, from small multi-family buildings to clusters of single-family homes. Housing cooperatives are divided into two classifications: **limited-equity** and **market-rate cooperatives**. The fundamental difference between these two forms is that limited-equity cooperatives promote long-term affordability for their members primarily through agreed-upon limits on resale prices of shares. Limits are also set on the incomes of prospective members so that the housing remains permanently affordable to low- and moderate-income households. In contrast, market-rate cooperatives do not impose resale or income restrictions.

Each member household controls an equal share of the development, entitling it to possession but not outright ownership of a dwelling unit. Some cooperatives are also organized around a percentage of ownership determined by the amount of usage. In both instances, the title remains with the cooperative corporation, which owns the property. The cooperative issues a certificate of membership to each member household, which has the right to occupy a unit indefinitely, paying a monthly charge to cover its share of the co-op's debt service, operating costs, and reserves.

In order to finance the cooperative, the cooperative corporation representing the members obtains a blanket mortgage that covers the entire development. This blanket mortgage is serviced by the members' pooled monthly charges. This lessens the financial risk to both lenders and members. Often, housing cooperatives are considered a middle ground between renting and traditional homeownership. They can be viewed as a logical step for low- to moderate-income rental households who may not be able to afford traditional homeownership.

People who purchase into cooperatives purchase more than a place to live—they build equity as the property's shareholders. Like owners of single-family homes, members of cooperatives can take advantage of the mortgage interest tax deduction and accumulate equity as their share increases in value. More importantly, the cooperative exists to benefit its members, not a third party as in a rental property. Cooperative members vote on matters important to the entire development, such as approving annual budgets and electing a board of directors to run the business affairs of the cooperative. Members set policies for the co-op, screen prospective members, and collectively manage the development.

Those who call cooperatives home often refer to the informal networks that result from mutual (shared) interests. Among these are maintaining the cooperative as a safe and secure environment, taking part in child care, pitching in to plant a community garden or simply volunteering for a board committee. These relationships are fostered by the democratic structure of housing cooperatives, and may benefit the wider community as well as its institutions.

CMHN Executive Director Charles Daas greets Kenmore Plaza resident Virginia Novak at 2001 A Home of Our Own event.

Cooperative Principles

Cooperatives are governed by universal principles that include[4]:

- **Open and voluntary membership:** Cooperatives are voluntary organizations, open to all people able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political, or religious discrimination.
- **Democratic control:** Cooperatives are democratic organizations controlled by their members, who actively participate in setting policies and making decisions. Residents serving as elected representatives are accountable to the membership. In cooperatives, members have equal voting rights (one member, one vote) or are otherwise organized in a democratic manner.
- **Limited rate of return on investment (in affordable housing cooperatives):** In order to preserve affordability in the building for future generations, many co-ops decide to limit the financial return on capital investment. In fact, some cooperatives do not pay any dividends on capital beyond inflation increases. Others pay a modest return, in line with state and federal statutes that bar substantial payments. Limiting returns on equity supports the principle of maximizing benefits to the community. It also discourages others from taking control of a cooperative in order to operate it as a profit-generating concern.
- **Patronage Dividend:** Members allocate funds to develop the cooperative, to set up reserves, part of which at least is indivisible, and to support other activities approved by the membership. Any surplus is jointly owned by the members and may be returned to them in proportion to their share in the corporation.
- **Cooperation among cooperatives:** Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional, and international structures.
- **Constant education:** Cooperatives provide education and training for their members, elected representatives, managers, and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public about the nature and benefits of cooperatives.
- **Concern for community:** Cooperatives work for the sustainable development of their communities through policies approved by their members.

Summary

Affordable Housing Cooperatives: The Prospects and Conditions in Chicago

As a vehicle for homeownership and resident control, housing cooperatives first appeared in Chicago in the 1920's in communities like South Shore, Hyde Park and Edgewater. Ushering in an era of multi-family homeownership that preceded condominium development, housing cooperatives provide long-term affordability and an important option for low and moderate income households to gain stability and homeownership. Among a myriad of benefits are the following:

- **Cost controls –** resident-owners monitor repairs and improvements
- **Owner-occupancy –** eradicating the ability for a third party to profit
- **Long-term residency –** co-op residents' occupancy averages 17.6 years
- **Equity –** cooperatives require a modest investment ($1,000 - $5,000) by members
- **Tax benefits –** co-op developments are assessed at 16%, as opposed to 33% for rentals

Affordable housing cooperatives offer their members significant economic and social benefits, but CMHN/UIC-Voorhees Center staff found that they are an underutilized and misunderstood housing option in Chicago. Reasons for this vary, including unsupportive federal, state and local housing policies, as well as financing and regulatory environments that favor either renting or traditional homeownership. Today, housing cooperatives in Chicago constitute just 1% of the city's total housing stock.

Failure to explore the cooperative option more fully limits the housing choices available to working families in Chicago. As housing costs continue to escalate, a mere 20% of Chicago's residents are able to afford the median home price of $224,000. Rental housing costs are rising at a higher rate than incomes, outpacing the Consumer Price Index at a rate of almost 2 to 1 in the last decade.

Research by CMHN/UIC-Voorhees Center found that state and local legislative and policy making bodies are critical to placing housing cooperative into the mainstream of housing choice for Chicago's low and moderate-income families. Gaps in housing policy and lending practices with the Illinois Housing Development Authority severely limit the use of state housing resources to develop housing cooperatives. This has prompted Chicago Mutual Housing Network and the UIC-Voorhees Center to urge adoption of the following state housing reforms:

- Establishment of a program to facilitate the preservation of at risk properties (Section 8; tax credit) through cooperative conversions;
- Promotion of cooperative homeownership initiatives;, including extension of first-time homebuyer benefits to cooperative members;
- Bonuses for tenant ownership components on IHDA applications, and
- Targeting specific IHDA Trust Fund resources for cooperative housing development.

IHDA's adoption of the aforementioned policies would provide a clear direction to developers seeking to build housing cooperatives. Some states as well as local jurisdictions have implemented policies and programs supportive of housing cooperatives. One example is New York's *Mitchell-Lama Act (1955)*, which encouraged the development of moderate-income housing by developers who agreed to restrict their dividends in turn for property tax exemptions and low interest loans for developers.

CMHN and the UIC-Voorhees Center acknowledge that Chicago's Department of Housing has made more inroads with cooperative development, having funded the 31-unit *Nuestro Hogar* (Our Home) in 1999 and the 87-unit Harold Washington Unity Cooperative in 2003. In its latest five year affordable housing plan (2004-2008), the City Department of Housing has favorably responded by including cooperatives and mutual housing into its goals for affordable housing development. Coupling city financing sources with specific housing policies would result in a substantial increase in housing cooperatives:

- extending New Homes for Chicago to apply to the development of affordable housing cooperatives;
- establishing a program akin to New York City's Tenant Interim Lease Program (TIL) to enable tenants and/or community groups to acquire and control city owned, neglected or abandoned properties and,
- facilitating the preservation of at risk properties (Section 8 and Tax Credit) through resident control and cooperative ownership.

Overall, we urge both IHDA and the Chicago Department of Housing to adopt specific eligibility guidelines, clearly delineated lending policies, low-interest loans and special bonuses for resident ownership components on standard applications as incentives for non-profit and for-profit developers to pursue cooperative development.

One of the essential elements to the success of housing cooperatives are below-market interest rate loans that offer cost controls to cooperative residents. While early 20th century cooperatives were financed privately, post-World War II affordable housing cooperatives were often government-insured. The market for this is changing as local cooperatives pay off their HUD mortgages and seek private loans for refinancing and rehabilitation, offering significant business opportunities for Chicago's financial institutions.

Yet, we found local lenders citing a lack of demand for this type of housing; others do not have specific cooperative lending policies. Often, local lenders lacked a clear understanding about cooperative ownership. In ensuing years, the potential for cooperative rehabilitation and or refinancing transactions may involve **$35-$40 million dollars**. This offers substantial business opportunities for local lenders who we recommend take proactive measures to understand and penetrate the cooperative market.

As local lenders consider this niche market in affordable housing, one barrier to overcome is the absence of a secondary mortgage market for cooperative loans equal to the one available for condominiums and single-family homes. CMHN and the UIC-Voorhees Center urge Fannie Mae-Illinois Partnership Office to develop a program to bundle and sell cooperative loans on the secondary mortgage market. This would allow Chicago lenders to securitize cooperative loans just as they securitize other real estate loans.

There are clear opportunities in terms of population groups and property types that are conducive to co-op development in Chicago for CMHN and its allies to focus on in the short term. Among these housing types are:

- rental housing and low-moderate income tenant populations
- expiring Section 8 or tax credit developments
- low-rise public housing developments

Research by CMHN and the UIC-Voorhees Center enabled us to identify 650,000 households that would be income eligible for housing cooperatives in the Chicago area, expanding housing options for households earning between $20,000 and $50,000 per year. Chicagoans in this income range face particular challenges in accessing traditional homeownership, and often face significant rent burdens. Among the populations eligible for affordable housing cooperatives, we found significant subgroups:

- Older single women (aged 45-65) found limited equity cooperatives a viable living arrangement because of the security, sense of community, and built in affordability.
- Single women with school-aged children (aged 15-65) in the Chicago area were attracted to cooperatives in order to gain the learning experience of managing the cooperative as a business. Moreover, they cited a sense of community for themselves and their children not found readily in areas with transient rental occupancy.
- Cooperatives were also attractive to moderate-income families with children as a stepping-stone to homeownership. The affordable up front costs allow young families to become members of the cooperative and the long-term affordability allows them to amass savings toward traditional homeownership.

These are important findings that should inform the work of the Chicago Mutual Housing Network and place it in an even stronger position to mobilize resources and challenge stakeholders to play a more active role in supporting and promoting housing cooperatives for low and moderate income households in Chicago. The study should also be useful to all stakeholders who are interested in understanding how housing cooperatives can alleviate Chicago's chronic affordable housing shortage. Still, the participation of local lenders, policy makers, elected officials and affordable housing developers are crucial to elevating cooperatives as a more viable housing option. Absent this support, CMHN and the UIC-Voorhees Center expect that housing cooperatives will be passed over as a tool for affordable housing production and preservation.

Cynthia Stewart, a founding member of the 707 West Waveland Tenants Association, completed the co-op conversion of Lakeview East in 1999.

Lakeview East Cooperative

Lakeview East Cooperative is located on Chicago's north lakefront in a neighborhood that has gentrified and lost most of its affordable housing. Because of local market conditions, the building's owner intended to pre-pay his HUD-insured mortgage which would have resulted in the loss of any affordability controls. Other HUD-insured buildings in the area had experienced rent increases as high as 300% in similar circumstances.

When residents learned of the owner's intent to pre-pay, they approached the local alderman and the Chicago Community Development Corporation (CCDC) which had experience with the LIHPRA process. Residents, motivated by their knowledge that they could not hope to stay in the neighborhood at the current rent levels, organized a resident council and presented HUD with a plan to convert the property to an affordable housing cooperative. According to Cynthia Stewart: "The thought of losing our home, along with 219 other families losing their homes, was truly frightening. LIHPRA ultimately helped us maintain our homes and affordability." Lakeview East was the last conversion to resident ownership under LIHPRA in Chicago.

Lakeview East has 220 units in a single high-rise building that is indistinguishable from other market rate properties of similar size and age in the area. In addition to affordability and other attributes such as location (near the lake), good transportation, and shopping convenience; the quality of maintenance and amenities as well as the presence of five full-time security staff at all times, are cited as major advantages of the cooperative. The board chose a property management firm that has experience with cooperatives and enjoys a strong relationship with the manager.

Chicago's Affordable Housing Landscape: Current Conditions

Chicago's affordable housing crisis persists, with only one unit for every two households seeking affordable housing. Rental rates are rising at more than **twice** the rate of inflation, making Chicago one of the tightest housing markets in the U.S. Based on the National Low-Income Housing Coalition's 2003 report Out of Reach, the 'housing wage' to afford a two bedroom rental apartment in Chicago has risen above $18 per hour. Rents now outpace the Consumer Price Index at a rate of almost 2 to 1 and, by 2000, 40% of Chicago renters were paying more than 30% of their income for rent; 21% paid over half of their income.

TABLE 1: Changes in Housing Tenure, Chicago, 1990-2000

	1990		2000		1990-2000	1990-2000
	Number	Percent	Number	Percent	Change	% Change
Owner Occupied	425,411	41.5	464,865	43.8	39,453	9.3
Renter Occupied	599,763	58.5	597,063	56.2	-2,700	-0.5
Total Occupied	1,025,174	–	1,061,928	–	36,754	3.6
Vacant	107,865	9.5	90,940	7.8	-16,925	-15.7
Total Units	1,133,039	–	1,152,868	–	19,829	1.8

SOURCE: *United States Bureau of the Census, 1990, 2000.*

Despite the city's chronic housing shortage, federal legislation has forced HUD to increasingly rely on housing choice vouchers to provide affordable housing. Both the shift away from project-based Section 8 housing and the demolition of 15,000 public housing units in Chicago are disturbing examples of this trend. An estimated 10,000 expiring Section 8 units are also 'at risk' of being lost in the next five years. Taken together, the loss or destruction of an astounding 50,000 affordable housing units during the past two decades has forced Chicago's low and moderate-income families to become re-segregated and economically isolated.

For working households, housing costs continue to skyrocket while incomes are stagnating or are not keeping pace with the rate of housing costs. This has displaced renters and homeowners leading to rampant gentrification in many city neighborhoods, such as West Town, Logan Square, Uptown and Kenwood-Oakland. Rental housing has also been lost during the 1990s as many buildings have been converted to condominiums. Consequently, the rental vacancy rate for Chicago declined from 9.5% in 1990 to 5.7% in 2000 and registered a decrease (or stayed the same) in 61 of the 77 Chicago community areas. A 6% vacancy rate or less is defined by HUD to constitute a "tight market." In high demand areas on the north and northwest sides, rental vacancy rates were very low in 2000—below 3% in 11 community areas.[4] The result has been a sharp decrease in vacancy rates and further price escalations.[5]

TABLE 2: Decline in Home Buying Power in Chicago

	1989	1999	2002
Median Income	$26,301	$38,625	$42,410
Median Home Value	$77,600	$132,400	$224,000
Income Needed to Afford Median Value Home	$31,040	$52,960	$89,600
Percent Chicagoans for whom Median Value Home is Affordable	44%	36%	17%

SOURCE: *United States Census, Claritas.*

The number of Chicago's working families affected by these trends is staggering—a mere 20% of Chicago's residents are able to afford the median home price (a 13% jump from $198,000 in 2001 to $224,000 in 2002). In 2003, median home prices jumped to $229,470, which began to reflect the region's economic slowdown. Rising home costs also led to a jump in the city's foreclosure and delinquency rates which have reached record highs.[6] From 1993-2001, home foreclosures in the City of Chicago jumped a whopping 74% (from 4,927 to 8,556) according to a 2003 study released by the National Training and Information Center. Many of those victimized were first time homeowners; a disproportionate number were minority households.

CMHN Director of Advocacy Dell Johnson leads a roundtable discussion of the Cooperation Works Advocacy Campaign. The initiative is designed to expand public information, build financial resources and secure public policy reforms to place housing cooperatives in the mainstream of housing choice among Chicago's low and moderate-income households.

Who Lives in Chicago's Affordable Housing Cooperatives?

The majority of member households in Chicago's affordable cooperative housing are headed by African American women earning $28,000 to $40,000 per year, often with school-aged children. Most members identify themselves as working class or lower middle class; in some cases they represent the "working poor." Typically, the income of cooperative members is too high for public housing yet too low to enter the private housing market.

During the focus groups, one resident of Harper Square Cooperative noted: "I wanted a place where my kids would feel comfortable enough to go out into the neighborhood without a lot of problems. I wanted to be able to trust them and where they were going. I wanted them to be in a safe environment, but I also worried about the rent going up. I felt that if I was in an environment where we all collectively work together, I could have some control over that."

Most of the members of established housing cooperatives surveyed for this study work in education, civil service, non-profit organizations, or low-level and middle-level management in the private sector. A large number have lived in their cooperative for a long time, some since the cooperative began, and they have raised their children there. Many older members have "aged in place," choosing to continue to live in their cooperatives rather than retiring elsewhere, because of the comfort and security offered by their cooperative communities.

Among the 64 focus group participants, 86% were women. 63% of the participants identified themselves as African-American, 19% as white, 11% as Latino; the remaining 7% identified themselves as either Asian or mixed-race. Half of the participants were working, 63% in professional or management positions. Of those not working, most were retired. Participants' incomes ranged from less than $25,000 (40% of participants), $25,000 to $75,000 (50%), and over $75,000 (10%).

The participants are well-educated, with 82% having at least some college. College graduates made up 42% of the participants and 23% had advanced or professional degrees. Most of the participants, 70%, had become cooperative members after being renters in the private housing market. Others, 16%, had been homeowners or condominium owners before joining their cooperative. Their average tenure as cooperative members was 15.6 years.

A History of Housing Cooperatives

Today, there are approximately one million cooperative housing units in the United States, serving households with a range of income levels and housing needs.[7] Historically, cooperatives have been used to alleviate housing shortages in times of crisis. In the Chicago metropolitan area, roughly 17,000 households live in cooperative housing, the most popular form of ownership in multi-unit buildings until the modern condominium movement began in the 1960s. Approximately 11,700 (69%) of these units are located in the city of Chicago,[8] with roughly 4,500 of these organized through the affordable housing cooperative model.

The modern cooperative movement is rooted in a philosophical response to the challenges of the Industrial Revolution in mid-19th-century England. Robert Owen popularized the philosophy that cooperation, rather than competition, offered people the opportunity for better conditions and greater achievement. In 1844, a group of weavers in Rochdale, England applied Owens' ideas in response to their economic difficulties.

The Rochdale weavers combined their resources, established a cooperative store, and laid out the principles that guide the cooperative movement still today. Among these principles are concepts such as distributing profits equally among the members of the cooperative, exercising open membership and democratic control, and returning any surplus to the members (according to patronage.) The cooperative model resulted in a flourishing business that quickly expanded to all business sectors, including housing. By the early 20th century, housing cooperatives were popular throughout Europe, especially in Germany and the Scandinavian countries.

In the United States, cooperative housing developed as a result of the global cooperative movement. The first housing cooperatives date back to the 1870s in New York. It was not until after World War I that the cooperative model became significant in housing development, emerging as the "only practical way of ownership in multi-family buildings."[9] Early housing cooperatives were organized by immigrant groups or unions to provide affordable housing for their members during the years after World War I. The need for affordable housing, given the increasing cost of urban land, and the influence of the union movement resulted in the New York Housing Act of 1927, the first large-scale government program promoting affordable housing cooperatives.[10] This legislation had a profound impact on the development of moderate- and low-income cooperatives. It granted "tax exemptions on the increase in value resulting from the construction of new projects for a period of up to 50 years," and also provided for "condemnation to permit assemblage of adequate sites at fair prices."[11]

Since the 1920s, cooperatives have been an important housing resource in Chicago. Housing cooperatives such as the Edgewater Beach Apartments (at Bryn Mawr Avenue and Sheridan Road), the majority of the East Lake Shore Drive high-rises facing Oak Street Beach, and a multitude of high-rises and small courtyard buildings that dot Hyde Park and South Shore represent some of Chicago's most recognizable icons. Most affordable cooperatives are clustered along the city's north and south lakefront, stretching from Lakeview to Rogers Park and from North Kenwood to Pullman. Among the city's most successful affordable housing developments are the 803-unit London Town Houses in Pullman, the 591-unit Harper Square Housing Cooperative in Hyde Park, the 108-unit Hermitage Manor on the Near West Side, and the 558-unit Chatham Park Village, all of which have been functioning well for decades.

Before World War II, cooperatives were primarily financed by private banks. After the federal government's 1949 Housing Act was passed, the **Section 213 FHA mortgage insurance program** was established in 1950, offering 98% blanket financing for new construction of housing cooperatives and allowing down payments as low as 2%. The program also permitted the use of borrowed money for down payments[12] and a term of 40 years for the blanket mortgage. Those guarantees were later extended to cover the conversion of existing buildings into cooperatives.[13] The inclusion of Section 213 in the Housing Act accelerated the development of cooperatives nationwide in the 1950s and 1960s, providing homeownership opportunities to families who could not afford to buy a home with a traditional 30-year mortgage. HUD's Section 213 program has been the most successful cooperative housing program, responsible for 200,000 units nationwide. Default rates on Section 213-insured cooperatives are lower than for any other HUD multi-family program, and Section 213 loans outperform all other loan programs in HUD's portfolio.[14]

In order to expand upon the success of Section 213, in 1955, New York enacted the Limited Profit Corporations Law. Known as the **Mitchell-Lama Act**, the law encouraged the building of moderate-income housing by developers who agreed to restrict their dividends, by providing for property tax exemptions and low-interest loans.[15] Under this statute, the state subsidized mortgage interest, and income requirements ensured occupancy by middle-income households.[16] Approximately 60,000 units of affordable housing were developed under this statute in the 1950s and 1960s.[17] Several buildings initially developed as rental properties were successfully converted under the Mitchell-Lama Act into affordable housing cooperatives.

Later, in the 1960s and 1970s, there was a gradual shift to private development of publicly assisted housing through insured loans, below-market interest rates, and other subsidies to groups providing low-income housing. The principal source of financing was **Section 221(d) (3)**, which provided loans at below-market interest rates (BMIR). This program covered up to 100% of construction or rehabilitation costs in tandem with 40-year mortgages for developments of five units or more. While cooperative developers have successfully used this program to create housing cooperatives, it has been used more frequently for rental housing.

The 221(d) (3) program mandated important affordability considerations including income limits on new members, strong restrictions on increases in share value, and substantial penalties for prepayment of mortgages so that the housing would remain within federal affordability regulations for the full term of its HUD-insured mortgage.[18] Section 221(d) (3) was later replaced by Section 236, which offered subsidized BMIR loans at 1%.

The success of these programs is demonstrated by the strong demand for membership in the cooperatives developed through them. Developments funded through these HUD programs also provided an effective mechanism to address the crisis in African-Americans accessing decent housing, creating substantial numbers of housing units that were available in compliance with recently passed federal fair housing legislation. This occurred during a period when housing discrimination was still persistent in other segments of the private housing market. In Chicago, the 803-unit London Town Houses is an example of one such development. Demand for the initial phase of the development was so strong; that the co-op was completely sold out in 18 months by 1967. Similarly, all 482 units of the Noble Square cooperative were sold in less than one year after completion in 1971. Chatham Park Village, another long-term success in Chicago's cooperative community, converted from rental to a limited equity cooperative in 1962, with most of the African-American tenants deciding to remain because the cooperative offered them the benefits of homeownership often difficult to access in the private market.

Under the Nixon administration, the housing co-op movement and the development of affordable housing in general saw significant changes. An emphasis on the private market as providers of affordable housing resulted in the eventual elimination of direct federal funding of new low-income cooperatives. BMIR loans and direct subsidy programs shifted to Section 8 project-based supplements and certificates. Project-based Section 8 became the major source of federal financing for cooperative development.

In the 1980's, HUD's budget was drastically reduced. Many federally owned or assisted housing developments have since been sold and converted to market rate housing in neighborhoods rapidly appreciating in value. With housing policies shifting away from direct public investment in affordable housing, the "third sector" (local non-profit organizations) and private corporations have become major players in the production of affordable housing. Cooperatives developed by non-profit sponsors have an outstanding record compared to other types of housing.[19]

Besides taking a larger part in the creation of affordable housing, the private and non-profit sectors have become increasingly involved in the conversion of government-owned properties. Most of these converted properties have been transferred to non-profit community development corporations (CDCs) or to for-profit companies, but some have been converted into resident-controlled cooperatives. Non-profits and some for-profit corporations have developed housing cooperatives mainly through the conversion of existing rental buildings. Some of the best examples include the 281 unit United Winthrop Towers Cooperative in Uptown and the 196 unit Lafayette Plaza Cooperative located at 71st Street and the I-94 expressway. Both developments are project-based Section 8 and the tenant purchase preserved scarce affordable housing resources in Chicago. Since the 1980s, about 18,000 federally subsidized housing units have been converted to affordable cooperatives.[20]

In 1990, the federal Low Income Housing Preservation and Resident Homeownership Act (LIHPRHA) was enacted. It provides loans and grants to cover the costs of major rehabilitation of existing affordable housing developments, shielding low-income households from pass-through costs of rehabilitation. Two key elements of this program were the technical assistance funding provided to tenant associations and non-profit organizations to apply for financing to purchase buildings and incentives (in the form of favorable refinancing and funds for major systems improvement) for owners who chose not to sell. An important effect of the LIHPRA program was to facilitate tenant purchase of these properties. In all, LIHPRA resulted in the creation of 18,000 cooperative units nationally, including the 300-unit Carmen Marine Cooperative and the 202-unit Lakeview East Cooperative. More recently, residents have purchased the 500-unit Lakeview Towers in Chicago's Uptown neighborhood.

The LIHPHRA program came in response to the large number of Section 221(d) (3) and 236 properties that were leaving the affordable housing stock when owners either pre-paid their mortgage on the property or their program contracts expired. The deep subsidies provided through the LIHPHRA program were instrumental in maintaining affordability; without them, resident purchase would not have been possible because of the high cost of rehab that was often necessary in these properties because of deferred maintenance. In fact, LIHPRHA viewed resident or non-profit purchasers with favor.[21] The success of the LIHPRHA program in preserving affordable housing in Chicago is "a lesson in coordinated local and national action."[22] Table 1 shows transactions involving Section 221(d)(3) and Section 236 properties in Chicago in the 1990s.

TABLE 3: Preservation Activity in Chicago Under ELIPHA and LIHPHRA, 1990-1996

BUILDING	TOTAL UNITS
Resident Homeownership	
Carmen Marine*	300
West Park Place**	69
Lakeview East*	220
820 W. Belle Plaine Apts.	270
Northwest Towers**	150
Kenmore Plaza**	324
Cambridge Manor**	312
Lakeview Towers**	500
Total Units	**2,145**
Sales to Tenant-Endorsed Non-Profit Corporations	
4640 N. Sheridan	240
Lawless Gardens	750
Total Units	**990**
Non-Profit Sales to Priority Purchasers	
Greenwood	120
Lake Village East	248
Total Units	**368**
Sales to Limited Dividend Owners	
850 W. Eastwood	231
840 Sunnyside	124
Total Units	**355**
Refinancings by Stay-in Owners	
3936 N. Pine Grove	110
Island Terrace	240
Long Grove	440
510 Belmont	220
Sheridan-Gunnison	187
Ridge Gardens	121
Indian Trails	100
Total Units	**1,418**
TOTAL UNITS ALL PROGRAMS	**5,276**

SOURCE: *Chicago Community Development Corporation*

**Indicates Limited Equity Cooperative*
***Indicates Ownership by Tenants through Tenant Association*

More Recent Developments

The New York-based Tax Relief Bill for Housing Development Fund Corporations (HDFC) of 2002 was passed at the state level to help co-ops with financial troubles to get back on their feet; the bill includes a regulatory agreement that helps buildings stay financially healthy. In a comparison of efforts to stabilize and reclaim landlord-abandoned buildings in New York, residents preferred cooperatives to properties owned by non-profits or private landlords. "Tenants in the cooperatives rated their housing as physically better, better managed, and more satisfactory overall. They reported more attachment to their homes and more cooperative relationships among tenants."[23]

From a community development perspective, the unique attributes of affordable housing cooperatives lead to the achievement of many community goals. Cooperatives in the United States have been "effective in obtaining for low- and moderate-income families decent housing at an affordable price, with effective resident control."[24] Their ability to maintain affordability for future owners creates a valuable community resource, and their ability to ensure that current residents receive a fair return on their initial investment based on an equity formula is likewise valuable to the community.[25]

Given the substantial financial and political barriers to developing cooperatives in Chicago, CMHN and its allies have continued their effort to establish new affordable cooperative developments. Through a partnership with Bickerdike Redevelopment Corporation, CMHN used federal low income housing tax credits to develop the 31-unit *Nuestro Hogar* (Our Home) leasehold cooperative in Humboldt Park, which received $2.3 million in tax credits and HOME funds from Chicago's Department of Housing. Bickerdike Redevelopment Corporation is completing the $17 million, 87-unit Harold Washington Unity Cooperative near Humboldt Boulevard and Chicago Avenue—the largest project in Bickerdike's 35-year history. A 90-unit master lease cooperative has been proposed by Holsten Development for the Wilson Yards TIF development in Uptown. The aforementioned offers substantial evidence of the desire of non-profit and for-profit developers to continue the long history of cooperative development in Chicago—and throughout the U.S.

The 22 unit Pratt-Ashland Cooperative in Rogers Park. In August 1999, Pratt-Ashland completed their cooperative conversion, emerging as an important affordable housing resource in a community buffeted by widespread gentrification.

Cooperative Housing Stock Inventory and Characteristics

A major focus of this study is an analysis of the current state of co-ops in order to document how they work in Chicago. A general survey of current building and demographic profiles in affordable housing cooperative (AHC) and market-rate (non-AHC) properties will help us better understand this form of housing. It will also allow for a fuller appreciation of the diversity within co-ops and will help clarify target markets and property types for future cooperative developments.

The following synopsis of co-ops in Chicago is the result of a survey of cooperative managers and board members about their cooperative developments. We combined the survey responses with additional data drawn from IHARP's subsidized housing database, as well as from CMHN's information on their member organizations.

Cooperatives come in all sizes and shapes. One attractive feature of cooperatives is the variety of building types. Cooperatives can be high-rises, mid-rises, small complexes, townhomes, and even single-family home developments. In fact, Chicago's cooperatives range from three-unit walk-ups to 800-unit multi-building developments, showing that the cooperative model is very flexible. As can be seen below, there are fewer affordable cooperative developments than market-rate, and they are typically larger than market-rate properties.

TABLE 4: General Co-op Building Profiles in Chicago

	Number of Developments	Total Units (approx.)	Average Units per Development	Units Range	Sample	Total	%
AHC	38	5,500	148.6	3-803	29	38	(76.3%)
Non-AHC	168	6,200	37.3	3-270	104	168	(61.9%)
Total	206	11,700	59.2	3-803	133	206	(63.3%)

Most co-ops are located near the lakefront, although affordable cooperative developments are more likely to be located in lower- and moderate-income neighborhoods away from the lakefront. Market-rate cooperatives are clustered in the central area, north lakefront, and in the Hyde Park/South Shore area.

TABLE 5: Geographic Distribution of Cooperatives in Chicago

LOCATION:		Central	North	NW	West	SW	SE	Total
AHC	%	5.3%	34.2%	7.9%	5.3%	2.6%	44.7%	100.0%
	#	2	13	3	2	1	17	38
Non-AHC	%	23.8%	35.7%	2.4%	1.2%	1.2%	35.7%	100.0%
	#	40	60	4	2	2	60	168
TOTAL	%	20.4%	35.4%	3.4%	1.9%	1.5%	37.4%	100.0%
	#	42	73	7	4	3	77	206

Most cooperative units are family-sized. The majority of units in both AHC and non-AHC developments have 3 bedrooms or more. This compares to just 20% of the city's entire housing stock and only 14% of the units produced under the Low Income Housing Tax Credit Program. This illustrates that cooperatives meet the needs of larger families, who often face difficulty in finding adequate-sized units.

TABLE 6: Bedrooms Per Unit Distribution in Cooperatives

Bedrooms per Unit:	Studio	1 BR	2 BR	3 BR	4 BR	5 BR+	Sample/Total Developments
AHC	6.0%	8.8%	32.4%	47.2%	5.6%	0.0%	15/38
Non-AHC	8.8%	4.7%	8.1%	46.8%	28.1%	3.6%	19/168

Initial share prices vary depending on the type of co-op, its financing arrangements, and current assets. There are three general ranges. About 35% to 40% of limited-equity cooperatives require only the equivalent of a security deposit and/or first month's rent (typically $500-$3,000). These are generally larger HUD-financed buildings and those that have received other subsidies. The balance of limited-equity cooperatives require an initial share price above $3,000. Shares of market rate co-ops sell for their market value, $75,000 and up.

TABLE 7: Share Prices of Affordable Housing Cooperatives

Share prices		1 BR	2 BR	3 BR
AHC	Average:	$4,635	$12,222	$11,852
	Median:	$1,390	$2,875	$3,315
	Sample:	9	12	11

Monthly charges, which are generally regarded as rent, are used to pay expenses as well as service debt. These are comparable to rents paid in average Chicago subsidized rental housing developments.

The vast majority of cooperatives serve families, although there are a few student-centered cooperatives near the University of Chicago and a couple of others that cater to younger residents. There is also one seniors-only cooperative. Many cooperatives have elderly member residents, many of whom chose to "age in place" rather than retire elsewhere. The American Housing Survey reports that 20.5% of all co-op residents in the Chicago metropolitan area are over 65 years of age, offering substantial proof that older populations are attracted to cooperative living. Most cooperatives have waiting lists and few vacancies. Only one of the co-ops surveyed did not have a waiting list.

Affordable housing cooperatives, many of which were constructed through government-insured mortgages beginning in the 1950s, provide homeownership advantages to members without homeownership risks. These cooperatives are affordable to subsequent member-owners because the increase in resale price is usually capped at a fixed rate (typically 3-7% annually) while the population served is low to moderate-income (that is, earning less than 80% of area median income). This model guarantees long-term affordability and stability for both residents and neighborhoods. The following section will detail how cooperatives are financed.

Financing Affordable Housing Cooperatives

In Chicago, cooperatives remain a rarity, particularly in comparison to New York. Housing cooperatives represent only 1% of the city's total housing stock, with just 6,500 units of the limited-equity type. In contrast, New York has 160,000 affordable cooperative units. Unfortunately, federal programs that were instrumental in promoting cooperative development in previous years are no longer available. Few state and local initiatives offer financial incentives to promote cooperative housing development, leaving non-profit and for-profit developers with a fairly limited experience with the cooperative model.

A lack of understanding about cooperative ownership of property[26] has led financial institutions in general to view affordable housing cooperatives as a "higher financial risk." Yet in the 1994 report HUD Subsidized Housing Loans: Does Cooperative Ownership Matter by the Urban Institute and the National Cooperative Bank, housing cooperatives were found to provide homeownership at an affordable cost and at a reduced risk to the government. Moreover, the report noted that "co-ops are the most cost-effective model available when the default records of multi-family housing were compared on a variety of FHA-insured programs."

As an option between the instability of renting and the escalating cost of owning, affordable housing cooperatives offer hope that low- and moderate-income households need not be left at the mercy of market pressures. According to Tom Martin, Vice-President of Business Banking at Northern Trust: "a cooperative loan is a sound loan. You have residents with an ownership stake, which makes the building more stable and improves the likelihood of long-term success." In spite of the substantial evidence demonstrating the strength of the cooperative model, the current involvement of the private market in funding cooperatives is minimal. That this is the case when affordable housing cooperatives are known to provide homeownership opportunities to residents otherwise unable to afford it, at a lower cost to government compared to units produced by the Low Income Housing Tax Credit Program (1:4 ratio),[27] is unfortunate.

Much of the confusion surrounding affordable housing cooperatives results from the view that wealth is built through traditional homeownership. This has led to a general lack of support for cooperatives by Chicago's financial institutions and government agencies, since the equity derived from the initial investment is limited (usually 5% to 7% annual appreciation) to preserve affordability. Also, banks have not often had the opportunity to lend money to cooperatives in the past, simply because many were originally financed through government-backed mortgages. This is changing, as local cooperatives pay off their HUD mortgages and seek private loans for refinancing and rehabilitation.

Calvin Holmes, Executive Director of CCLF, has lead the charge for cooperative lending in Chicago. Chicago Community Loan Fund has capitalized on an emerging market over the last three years, having lent nearly 2 million in small co-op loans.

Cooperatives are financed in different ways.

Most are not publicly subsidized in the sense that they do not require Section 8 vouchers or direct rental subsidies. The majority of affordable cooperatives (26 of 38 surveyed) have not received any ongoing public subsidy throughout their history. Approximately a third are subsidized, and only a handful of properties (excluding LIHPRHA properties) have received funds for rehabilitation. Few (3 of 168 surveyed) market-rate cooperatives have received ongoing subsidies. The most common examples of funding for cooperative properties include federal below market interest rate mortgage programs such as 221d (3), 213, and LIPHRA, the National Cooperative Bank and loan funds such as the Chicago Community Loan Fund.

TABLE 8: Financing Sources of Affordable Housing Cooperatives in Chicago

Source	#	Examples
LIPRHRA	2	Lakeview East, Carmen Marine
Project-Based Section 8	4	Gill Park, United Winthrop Towers, Lafayette Plaza, Park Shore East
HUD Section 221 (d) 3	3	London Town Houses, Noble Square, Neighborhood Commons
HUD Section 236	1	Harper Square
HUD Section 202	2	Silent Co-op, Chatham Park South
Chicago Department of Housing (LIHTC, HOME, Affordable Rents for Chicago, other)	2	Nuestro Hogar, Harold Washington Unity Co-op
Illinois Housing Development Authority	3	Harper Square, Nuestro Hogar, United Winthrop Towers
National Cooperative Bank	5+	Chatham Park Village, Noble Square
Community development financial institutions (CCLF, NCDF, CIC)	5+	Stone Soup, Freedom Road, Logan Square, Phoenix Co-op, Bos Co-op, Ellis Cooperative, Clarence Darrow Co-op
Other banks	5+	Many more

"The principal factor hindering cooperative development in Chicago hinges upon supply and not demand."

Underwriting loans for housing cooperatives is a straightforward process, similar to commercial lending on rental properties.

The cooperative corporation is the borrower.

Financing by a blanket loan actually lowers the financial risk to the lender and to the individual members. The cooperative structure provides additional security and efficiency to lenders. While cooperative members do not face the kind of credit scrutiny that they would in obtaining a home mortgage, the Federal Housing Administration (FHA) processes mortgage credit reviews of the initial members' credit. In most cases, lenders review the economic composition of the membership, particularly on the basis of their collective purchasing power in qualifying for the mortgage. Cooperative corporations also screen applicants and review the credit history of prospective members. If a member household is in default, the cooperative corporation takes action, not the lender. Just as in a rental property, the cooperative can pursue swift eviction of that household, with the delinquent member relinquishing occupancy. In contrast, a single-family home or condominium mortgage that goes into default requires the lender to initiate a lengthy foreclosure proceeding.

Major repairs are the responsibility of the Cooperative Corporation.

The co-op's budget and reserves can usually absorb the expense. A co-op corporation is in a vastly superior position to a condominium or the owner of a single-family home, where the costs must be absorbed by the individual owner. Since the co-op sets standards for residents, such problems as damage to the facilities, excessive utility usage, noise, and crime are forestalled.[28] Ensuring that the members maintain the facility when it is their responsibility is an important consideration. Among the cooperative residents that participated in the focus groups, a Harper Square Cooperative resident replied "There is less responsibility in our co-op than owning a home, especially if you don't know how to repair anything. I like it because I don't have to shovel, rake, or plant the common areas, it's all done and it looks beautiful and is safe."

Co-ops have a single mortgage for all of its members, and the mortgage remains in place for 30-40 years.

Transfer of shares (resale of units) is a personal property transaction in the vast majority of states, and purchasers therefore avoid costs for title insurance, abstract, survey, recording, and related local taxes. In a building by building comparison, co-ops have strikingly lower closing costs than a condo building or a tract of fee simple townhouses.

For members, the cooperative structure is financially beneficial.

The cooperative structure makes it easier for prospective members to finance down payments (share loans) because of lower average closing costs and no transaction fees. Credit standards are usually easier to meet. The corporation's longer mortgage and lower taxes lead to lower monthly payments for members. Taxes are half those of comparable rental buildings. Moreover, cooperatives are assessed less frequently than typical condominiums or houses, which are assessed after every transaction.

The initial share payment is the member's investment in the development.

These payments vary depending on the type of cooperative, financing arrangements and current assets. Many cooperatives require only the equivalent of a security deposit and/or first month's rent (typically $500 to $3,000). These are larger HUD-financed buildings and those that received other subsidies, about 35% to 40% of total affordable housing cooperatives. Other affordable housing cooperatives require a share price of $3,000 or more. Market-rate cooperatives sell for their current market value.

TABLE 9: Members' Monthly Charges in Affordable Housing Cooperatives

Monthly charges		1 BR	2 BR	3 BR
AHC	**Average:**	$471	$567	$667
	Median:	$440	$508	$570
	Sample:	11	14	13

Maintaining Affordability: The Equity Formula and Limited Income Maximums

The establishment of an equity formula that specifies the maximum price at which members' shares can be resold distinguishes affordable housing cooperatives from other types of cooperatives. In affordable housing cooperatives, the equity formula primarily takes into account the long-term affordability of the cooperative and protection of the financial interest of the shareholders.[29] In general, the transfer value formula (the maximum price a shareholder can charge for a share) provides for adjustment by one or more of the following factors: current inflation index, value of improvements, mortgage amortization, maximum interest rate, and provision for adjustment at the end of the mortgage term.

It is important to note that setting maximum income standards for eligibility is essential, since merely "controlling resale prices for shares will not ensure the affordability of housing."[30] The experiences of FHA/HUD subsidized cooperative programs are of crucial importance in understanding how housing cooperatives work. Section 221(d)(3), BMIR, Section 236, and Section 8 established limited equity formulas controlling transfer value, the maximum resale price. In addition, these programs established income limits for initial occupancy. However, through the years, many designated low- and moderate-income families could not afford the transfer values permitted by the co-op bylaws. For instance, some FHA/HUD formulas reached "an average annual increase over original sales prices in excess of 15% a year."[31] This suggests that establishing an income maximum formula is at least as important as the equity or resale formula.

A Growing Market for Lenders

Today, many 1960s-era affordable housing cooperatives are paying off their mortgages or refinancing in order to upgrade their properties or, for an increasing number of cooperatives, to free themselves of HUD's onerous restrictions. Among these are Chatham Park Village and Noble Square, which have received over $10 million in private loans through the Washington, D.C.-based National Cooperative Bank.

A growing number of community development financial institutions, including Community Investment Corporation, the Chicago Community Loan Fund, and the Minneapolis-based North Country Cooperative Development Fund have successfully developed loan products for smaller cooperatives in recognition of a growing market that has been all but forgotten by Chicago's major banks. During the past two years, the Chicago Community Loan Fund and the North Country Cooperative Development Fund provided over $2 million in financing to Chicago's Logan Square Cooperative (8 units), Stone Soup Cooperative (35 units) and Freedom Road Co-op (6 units).

As local lenders consider this niche market in affordable housing, one obstacle is the lack of a secondary mortgage market for cooperative loans equal to the one available for condominiums and single-family homes. The secondary market in Chicago might not be fully developed, but Fannie Mae's Washington and New York offices work in conjunction with the National Cooperative Bank by bundling its cooperative mortgages and selling them on the secondary mortgage market. Fannie Mae-Illinois Partnership Office should be approached to facilitate similar arrangements for local lenders.

Most of the research into the demand for affordable cooperatives reaches a similar basic conclusion: "The critical limiting factor for limited equity co-ops seems to be not demand, but supply."[32] When funding is available for affordable cooperatives, they are absorbed as soon as they are built. Unfortunately, federal funding has largely dried up and few states or localities have stepped in to fill the role played by older HUD mortgage programs.

In Chicago, in spite of the lack of resources, individual and community efforts have resulted in the development of numerous housing cooperatives. In particular, member-sponsored cooperatives, where a group of motivated individuals form around a common ideal, allow tenants to acquire property and live cooperatively. Both the Logan Square and Stone Soup Cooperatives are examples of this growing phenomenon. Non-profit organizations in Chicago have undertaken their own cooperative initiatives, including Good News Partners (GNP) in the north of Howard area in Rogers Park. During the past 15 years, GNP has developed five cooperatives totaling 55 units in the community. The Woodlawn Organization also has a history of cooperative development, having created the 148 unit Park Shore East Cooperative. Still, it should be emphasized that cooperative living cannot be achieved without the participation of private lenders in tandem with state and local government involvement. In turn, this will energize the cooperative movement and motivate the private sector to engage in cooperative development.

Implementing Public Policies that Promote and Sustain Housing Cooperatives

While encouraging homeownership for moderate income families has been a focus of housing policy at the national and state levels for decades, housing cooperatives have not been used consistently and effectively to meet that goal. Yet advocates and experts view cooperatives "as the nation's most cost effective, low-risk and stable means providing homeownership. In turn, residents of housing cooperatives report fewer problems with crime, live in their homes longer and have lower operating costs."[33]

At the federal level, adoption and implementation of initiatives such as the following are highly recommended in order to promote affordable housing, including affordable housing cooperatives:

- Passage of the National Affordable Housing Trust Fund Act to build and preserve 1.5 million units of affordable housing for low-income families over the next 10 years;
- Expansion of the Housing Choice (Section 8) Voucher program to provide vouchers for an additional 150,000 families nationally who require housing assistance;
- For the Section 213 program, securing the program's eligibility for HUD's multi-family accelerated processing (MAP) program;
- New federal allocations through the Low Income Housing Preservation and Resident Home Ownership Act (LIHPRA) to prevent displacement of low-income households and facilitate cooperative conversions.

Section 213 is growing ever more important as it is one of the few HUD programs that can be used for cooperative development. (Among the others frequently used are Section 202 to develop senior housing cooperatives; Section 207 is used to develop mobile home park cooperatives.) Recent congressional changes to HUD mortgage limits have rendered the Section 213 program far more useful to developers since mortgage limits were raised to $175,000 in urban areas. HUD financing provides significant advantages for developers with 40 year amortization and 98% government insured financing. Moreover, the Section 213 program has been used effectively to create mixed-income communities, such as the 558 unit Chatham Park Village Cooperative in Chicago.

At the state level, the Illinois Housing Development Authority (IHDA) has been active in funding numerous cooperative housing initiatives through the Illinois Affordable Housing Trust Fund (IAHTF) program. Among the cooperatives it has funded are Harper Square in Chicago's Hyde Park neighborhood, the Winfield Cooperative in Savoy, Illinois, and the Cumberland Green Cooperative in St. Charles. It also funded the master lease cooperative *Nuestro Hogar* (Our Home) in Chicago's Humboldt Park neighborhood. In recent years, however, IHDA has indicated reluctance to funding affordable housing cooperatives; it is important that IHDA, as one of two major public resources for affordable housing in Chicago, should continue to be involved in funding cooperative housing.

The Illinois Housing Development Authority can promote cooperative development by implementing the following recommendations:

- Establishment of a program to facilitate the preservation of at-risk properties through cooperative conversions;
- Extension of first-time homebuyer benefits to cooperative members;
- Promotion of cooperative homeownership initiatives; and
- Targeting of Trust Fund resources for cooperative housing development.

On the local level, the Chicago Housing Choice Voucher Homeownership Program, coordinated by CHAC, is also suitable for cooperative homeownership. Most voucher holders are very low-income families who lack the resources for traditional homeownership in Chicago. Buying a share in an established cooperative requires only the price of a share (largely affordable even to very low-income households); the Section 8 voucher would cover the resident's monthly charge or rent. This would be a very effective way to promote ownership for voucher holders, with the following steps deserving the attention and focus of CHAC:

- Train Mobility Counselors about cooperative ownership;
- Maintain a list of vacancies in cooperatives; and
- Train Section 8 voucher holders and maintain a list of eligible voucher holders to match with cooperatives.

One of CHAC's most important initiatives, the Family Self-Sufficiency Program, targets working families with incomes of $10,300 and up. Designed to prepare and assist them to become homeowners, the program works in tandem with participating lenders, such as Citibank, who also provide down payment assistance. Over sixty home purchases have been closed to date and many others are pending. While Rose Ann Zona of CHAC noted that some 2,000 Housing Choice Voucher participants have been informed of the cooperative option, none of the deals closed or in the pipeline are housing co-ops. Marketing the program more aggressively to voucher holders and to public housing residents affected by displacement could serve as a significant homeownership vehicle even if only a small minority of the 30,000 voucher users in Chicago could benefit from it.

Cooperative homeownership through this program would be easier to achieve in already established cooperatives because a buyer would only need to cover the price of a share; the monthly charge covered by the tenant and the voucher will pay the tenant's share of the mortgage and other operating expenses. Going forward, CHAC should work closely with the Chicago Mutual Housing Network and with individual housing co-ops in order to actively promote co-op purchases through its *Choose to Own* program.

The Chicago Department of Housing has funded cooperative developments in the context of master lease cooperatives financed by tax credits; most notable are the 31-unit Nuestro Hogar Cooperative and the 87-unit Harold Washington Unity Cooperative in Humboldt Park. The city also has funding programs such as New Homes for Chicago, Troubled Buildings Initiative, the Joint Lenders Program, and the Chicago Partnership for Affordable Neighborhoods (CPAN) program. These could be very useful tools in promoting affordable housing cooperatives in Chicago if extended to cover this housing model.

In its latest five year plan (2004-2008), the Chicago Department of Housing features housing cooperatives and mutual housing, a laudable step indeed. As the primary city agency responsible for the development and preservation of affordable housing, the Chicago Department of Housing can further enhance the development of affordable housing cooperatives in Chicago through the following additional measures:

- Extending the New Homes for Chicago program to apply to the development of affordable housing cooperatives;
- Establishment of a program like New York's Tenant Interim Lease Program to enable tenants and community groups to acquire and control city-owned, neglected, or abandoned properties; and
- Development of a program to facilitate the preservation of at-risk properties (Section 8 and tax credit) through resident control and cooperative ownership.

New Homes for Chicago, due to rising city land costs and constructions costs, has become obsolete as a tool for single family homeownership in portions of Chicago with rapidly appreciating real estate values. We cite Logan Square, Humboldt Park and West Town as examples. Housing cooperatives' multi-family structure would enable a non-profit or for-profit developer to 'get to scale' on a project and spread the costs over more dwelling units. The Chicago Department of Housing has had success with this program with affordable condominiums and we would request that DOH use this program for affordable housing cooperatives, as well. The cooperative model would also facilitate mixed-income, racially diverse developments in Chicago's appreciating neighborhoods. In the scenario with affordable housing cooperatives, CMHN/UIC-Voorhees Center propose that the buyer subsidy (usually $10,000-$30,000) in the form of a ten-year second mortgage would flow to the cooperative corporation—rather than the individual purchaser—to pay down the cost of acquisition or construction.

Some states, local governments, and organizations have been quite successful in promoting affordable housing cooperatives through various initiatives. The major housing agencies in our region, the Illinois Housing Development Authority (IHDA) and the City of Chicago Department of Housing (DOH), can do the same. Resident eligibility standards, clearly delineated lending policies, low-interest loans, and special bonuses for resident ownership components on standard applications would provide needed incentives for non-profit and for-profit developers to pursue cooperative development. This type of approach will guide the development of effective strategies that would support cooperative development in Illinois in general, and Chicago in particular.

Best Practices for Cooperative Development: Tenant Interim Lease Program in New York

During much of the 20th Century, New York City has been at the forefront in the promotion of housing cooperatives at both the city and state levels. Housing cooperatives were an extension of the mutual self-help patterns of unions and immigrant groups who arrived en masse to New York City, dominating the period from 1880-1920. Here, where multi-family housing became the norm, New York's densely packed communities sprang forth to meet the needs its exploding population. Thus, housing cooperatives were seen as not just a housing option but also a lifestyle. As a result, New York City has the largest concentration of housing cooperatives in the United States.

By the 1970s, housing conditions were deteriorating rapidly as landlords were abandoning whole apartment buildings particularly on the Lower East Side, Harlem, Brooklyn and the Bronx. Many low-income residents and "urban pioneers" sought to stabilize the community and provide affordable housing through a Homesteaders Movement to re-claim abandoned buildings and provide sweat equity to bring them back to habitable condition. Meanwhile, the City was seeking to substantially reduce the stock of subsidized housing it owned. In an effort to address these concerns, the City's Department of Housing Preservation and Development (HPD) established several programs so that "tenants associations, community groups and landlords with proven records of providing good low-income housing could buy city-owned buildings."[34]

The Urban Homesteading Assistance Board (UHAB) of New York City was created in 1973 to help tenants living in city owned buildings to take control of their property and become homeowners with a long-term vested interest in their neighborhood. One of the programs UHAB administers is the Tenant Interim Lease (TIL) Program which offer homeownership opportunities for tenants in occupied city-owned buildings. This program requires tenants to form an association and apply to become owners. There is a self-management trial period when members attend UHAB classes in financial management, maintenance and repair and democratic decision-making for an eleven-month interim period where a tenant association would manage a building while receiving technical assistance and training. If the association's management performance passed the city's review process, the building would be sold to a legally constituted tenant cooperative corporation.[35]

During this time, members also learn to operate the cooperative by collecting fees, paying for minor repairs and filing financial paperwork. If this trial period is successful, they qualify for city-financed repairs of up to $50,000 per unit. Through this process, they are eventually able to purchase the property.[36] Approximately 20,000 units have been converted to affordable housing cooperatives during the past twenty years through the Tenant Interim Lease program.

In 2003, 176 units of affordable housing in 11 buildings were stabilized as cooperative housing on the city's Lower East Side. At very low cost to the city, UHAB enabled these residents to own their own homes, recognizing the hard work and commitment they have shown over the years to their community. This is a strategy that required political will, technical training and low-cost capital to complete needed building repairs. While CMHN/Voorhees Center staff acknowledge that Chicago has never had a parallel homesteaders movement of the same scale as New York City's, the Tenant Interim Lease program represents a replicable model for tenants or community groups in Chicago to revitalize neglected and abandoned properties.

Federal Low Income Housing Tax Credit Developments and Cooperative Conversions

The Low Income Housing Tax Credit (LIHTC) program has become a major source of federal government funds for affordable housing since its enactment in 1986. It largely replaced many of the previous HUD subsidized mortgage programs and is today used in nearly 95% of all subsidized multi-family rental developments. However, only a small percentage of tax credit dollars have been used to fund housing cooperatives nationwide.

The LIHTC program is intended to stimulate private sector investment in low-income rental housing development by providing tax incentives for corporate and high-income individual investors. The federal government allocates tax credits to states on a per capita basis and the funds are distributed to non-profit and for-profit developers for the creation of low-income rental housing. The developer sells its credit allocation to private investors via an intermediary, the syndicator, for a certain amount on the dollar.[37] The investors apply the full amount of the tax credit to their annual tax bill; the developer then uses the equity generated by the sale of the credits to build affordable housing.

The program is designed in such a way that private investors benefit not only from the tax credits, but can also deduct the property's depreciation and losses from their tax bill. In order to do so, the private investor must have majority ownership of the project. In the limited partnership thus created, the private investor, who typically has 99% ownership interest, is the limited partner. The remaining 1% is owned by the general partner, that is, the developer. The private investor retains ownership and enjoys the tax benefits for at least 15 years.

However, the program allows the limited partnership to enter into a lease agreement with a cooperative. In these "leasehold cooperatives," the partnership leases the property to the cooperative under a long-term "master lease." The master lease is the key document that sets out the responsibilities between the limited partnership and the cooperative. The major responsibility of the cooperative is to pay rent, which covers the debt service, operating expenses, and reserves. In return, the cooperative is given substantial operating control over the property, except some key decisions that are reserved to the partnership.

Andy Reicher, Executive Director of New York's Urban Homesteading Assistance Board (UHAB) has lead UHAB in the creation of 20,000 cooperative units through the Tenant Interim Lease (TIL) program. The TIL program contributes city-owned or abandoned properties along with low-interest loans to help low-income households establish housing cooperatives in New York City.

CMHN's Charles Daas and Bickerdike's Joy Aruguete join 26th Ward Alderman Billy Ocasio and Chicago Department of Housing Commissioner Jack Markowski at the grand opening of Nuestro Hogar.

Nuestro Hogar (Our Home) Cooperative

In 2002, the Chicago Mutual Housing Network and Bickerdike Redevelopment Corporation successfully used low income housing tax credits in the production of a leasehold cooperative, the 31-unit Nuestro Hogar (Our Home) Cooperative in Chicago's Humboldt Park neighborhood. Conceived as the city's first cooperative in a majority Latino community, Nuestro Hogar received $2.3 million in tax credits and HOME funds from the city Department of Housing. Additional financing was derived from a $750,000 IHDA Trust Fund loan, additional subsidies through the Affordable Rents for Chicago (ARC) program, support from the Federal Home Loan Bank, and a $560,000 private loan from U.S. Bank.

As a master lease cooperative, Nuestro Hogar is operated by the residents under a lease agreement with the property's co-general partners, Bickerdike and CMHN. While the residents do not have the benefits of ownership or tax benefits, they do enjoy affordable living during the term of the master lease, and retain significant control over property management through their board of directors. Nuestro Hogar consists of two multi-family properties once comprising only studio and one-bedroom units, now converted into two- and three-bedroom family-size units. Monthly costs, which range from $425 to $627 per month.

At the 15-year mark, the Nuestro Hogar Cooperative will have the right to purchase the property from the partnership, thus giving the residents true ownership. A portion of gross rents is set aside each month so that the members can purchase the buildings and continue to service the debt to IHDA after year 15. This acquisition fund will provide residents over $270,000 at the end of the 15-year period to purchase the property from the limited partners. This example, along with countless others, illustrates that tenant control is not foreign to LIHTC properties, and also shows that tenant control can be a vital component in decent affordable housing.

CMHN/UIC-Voorhees Center suggest that if tax credit developers were given incentives for tenant ownership at the conclusion of the fifteen year tax credit period, affordable housing stock would be protected and strengthened. There would be less displacement of residents at the expiration of the tax credit, and the residents would gain experience in self-governance and building management long before the conversion. Although it generates funds for limited partnerships, an affordable housing cooperative cannot take advantage of tax benefits until year 16 at the earliest.

Between 2002 and 2006, affordability agreements for approximately 6,000 tax credit-funded units in 100 developments in the city of Chicago will reach their 15-year lifespan and expire.[38] There are many more expiring Section 8 properties facing the same situation. Observers predict that many of these affordable units are at risk of being converted to market-rate housing. This is more likely in growing or gentrifying areas of the city.[39] This potential problem can be turned into an opportunity by converting these buildings into limited-equity cooperatives.

Clearly, cooperative conversions of such at-risk developments should be entered into only on a case-by-case basis. Factors to be considered include the amount of debt on the property as it nears the expiration date, the amount of rehabilitation needed to ensure the safety and quality of the development, and the sources of refinancing. These factors are critical to the future success of the member-owners. For expiring tax credit properties, a cooperative conversion is a particularly good option in the following five situations:

- When a sale is the best option to maintain the affordability of the units.
- When transferring ownership of the property to residents meets the limited partner's mission.
- When the limited partner is no longer interested in, or capable of, an ownership interest in the property.
- When capital gains taxes and other factors such as increasing real estate values have made the tax burden too high for a taxable limited partnership.
- When direct sale to the tenants or a cooperative conversion may actually maximize the effective return on investment by minimizing capital gains liabilities as the limited partner exits the property.

Other important considerations include economies of scale and whether rehabilitation can extend the useful life of the affordable housing development without drawing on reserves. Any cooperative conversion should include a capital needs assessment and reserves analysis. The addition of housing choice vouchers could be turned into an operating subsidy to cover the cost of operating the cooperative, delivering homeownership to existing tenants without additional operating subsidies.[40]

Section 8 and Cooperative Conversions

Chicago has a substantial history of converting Section 8 housing to housing cooperatives as a preservation tool. United Winthrop Towers (a 281 unit, Section 8 co-op at 4848 North Winthrop), Lafayette Plaza, 196 units at 71st and the I-94 expressway and Gill Park Cooperative, 260 units at 810 West Grace, make up the bulk of Section 8 cooperatives in Chicago. CMHN assisted United Winthrop Towers in its conversion to a cooperative (completed in 2001) through a membership sales campaign with the existing tenants in the development. Through a partnership with the Corporation for National and Community Services, CMHN hired local VISTA volunteers to organize tenants and sell membership shares during the cooperative conversion.

These Section 8 properties were preserved through tenant purchase and the formation of limited-equity housing cooperatives. The tenant purchase not only preserved the housing, it provided the residents with real control over where they live. Among other benefits are the following:

- greater financial and emotional investment in their housing as residents assume leadership
- lower operating costs and an opportunity for them to accrue equity in their units
- high level of democracy and community spirit engendered by control over housing

While converting to cooperatives remains a viable Section 8 preservation strategy, few owners have chosen the tenant ownership model. Cooperative conversions of buildings in the Project-based Section 8 program work particularly well since the affordability is tied to the housing unit as opposed to the tenant. In recent years, a growing number of owners are choosing to opt out of the Section 8 program to convert to market rate rental housing or condominiums. According to figures from the Chicago Rehab Network, between 2004 and 2009, some 18,000 Section 8 housing units are at-risk of being lost in Chicago.

Current Illinois laws do not sufficiently protect Section 8 properties (nor low-income housing tax credit properties) and this has prompted CMHN to join Chicago Rehab Network in an effort to expand opportunities for tenants to purchase these properties when the affordability of the property is threatened. Known as the Federally Assisted Housing Preservation Act, the bill enforces the responsibility of owners of federally-assisted housing to give notice to the tenants in order to preserve the affordability of the development. This would include sale or disposition of the property, any prepayment of existing, federally-held or federally insured mortgage financing, or any termination of existing affordability restrictions when such an event would result in the development no longer offering affordable housing.

Dan Burke, Executive Director of the Chicago Community Development Corporation, has been instrumental in coordinating the conversion of the 300 unit Carmen/Marine Cooperative, the 220 unit Lakeview East Cooperative and, more recently, the sale of a Project based Section 8 property, Lakeview Towers, to its tenants association.

First Right of Refusal Legislation Spurs Co-op Conversions in Washington D.C.

Washington D.C. has a strong track record in promoting affordable housing cooperatives. When the City Council enacted rent control because the 1970's double-digit inflation threatened excessive rent increases, many landlords responded by selling their buildings to condominium converters, causing displacement and worsening the shortage of affordable rental housing. The city council responded with legislation that significantly changed the picture: landlords must give their residents the first right to buy when a sale or change of use of a building is proposed. Known as the Rental Housing Conversion and Sale Act of 1980, low-cost loans are offered to low-income tenants who are threatened by displacement.

The city also recognized barriers to co-op development including the difficulty to acquire land, buildings and start-up funds as well as the need for technical expertise, creative financing and cheap real estate. Problems with starting a cooperative "from scratch" were acknowledged, and converting existing occupied or vacant buildings was preferred as an alternative to building from ground zero. The program allocates up-front funds required to arrange for a purchase.

- The First Right Purchase Assistance program provides direct short-term and permanent-financing to low and moderate-income individuals and tenant groups to exercise their rights under the District's First Right to Purchase law. (Cities like Tacoma Park, Maryland and Berkeley, California, have similar laws). Uses include the following:
  - Loans may be used for earnest money deposits, actual purchase of property, interim rehabilitation financing, operating costs, or for "soft costs" such as legal, architectural, engineering, and other technical services related to the purchase of a property.
  - First Right Purchase loans may be converted to or used to provide permanent financing for cooperative purchasers on any properties in Washington, DC
  - The program provides funds for application review, tenant certification, and related program administration activities.
  - Tenant organizations rely on a favorable second mortgage loan program using mostly federal CDBG assistance to help them finance conversions.
- Similarly, the Homestead Housing Preservation program enables first time home buyers to purchase tax delinquent real properties and Department of Housing and Community Development foreclosures for as little as $250 per unit.
  - In exchange, the homebuyer must complete a homeownership training course, rehabilitate the property, reside in the property for a minimum of five years, and return it to the real property tax rolls.
  - Low and moderate-income participants receive a $10,000 deferred mortgages to assist them with gap financing.
- The Home Purchase Assistance program provides interest-free and low-interest loans to qualified residents, which enables them to purchase houses, condominiums, or cooperative apartments.
  - Residents who are accepted into the three-tiered program are eligible for loans to meet down payment and closing cost requirements.
  - The loan amounts are based on a combination of factors, including income, household size, and the amount of assets that each applicant must commit toward a property's purchase price.
  - Loans provided are subordinate to private first trust mortgages.

Many buildings in Washington DC, including the 474 unit Benning Heights Cooperative and the 19 unit 1429 Girard Street Cooperative supported through these programs, were converted to cooperatives. Several non-profit organizations and consultants help low and moderate-income tenants throughout the conversion process.

The bill would expand notice to tenants (from 6 months to 12 months) in order to be in accordance with HUD's one year notice to terminate Section 8 contracts. This longer "right of refusal" period would allow tenants to organize, line up financing and form a tenant association to offer a 'bona fide offer to purchase' the property. Any dispute in the sales price, which would be based on fair market value, would be determined by independent appraisers. All tenant associations would be allowed to transfer their purchase rights to a non-profit or for-profit developer to assist them in the development. Successful passage of the Federally Assisted Housing Preservation Act would codify opportunities for tenants to purchase affordable rental properties.

Recent research by the Washington, D.C. based National Cooperative Bank Development Corporation (NCBDC) suggests that the cooperative structure would actually achieve a *cost savings* over the Section 8 program. In addition to the fact that there is no ownership profit in a cooperative corporation (in comparison to a third party owner), NCBDC found that "the cooperative will require fewer subsidies than Section 8 developments over a fifteen year period." Moreover, rather than succumb to upward pressures on market rate rents endemic to the Section 8 program in communities with rapidly appreciating values, the cooperative structure keeps those costs (where feasible) under control. According to George Gilmore of Chicago's HUD office: "In the short term, Section 8 is an appropriate federal investment. But over the long-term, cooperatives would represent a cost savings to HUD."

The foregoing demonstrates how state and local jurisdictions can help mitigate legal and financial barriers in the financing and promotion of affordable cooperatives. The impact housing cooperatives demonstrate in preserving government investment in housing, whether that is through the Section 8 or federal low-income housing tax credit program, adds up to more than just cost savings; the cooperative structure offers a positive living environment for residents. Corren Evans, a member of the Lakeview East Cooperative, which converted from a HUD 236 rental property in 1999, recalled her experiences in the conversion process: "We were secure in the knowledge that we could remain in a community (Chicago's affluent Lakeview neighborhood) that might not be affordable to us. For those who are not eligible for Section 8, we knew that we would have an affordable place to live and control over our housing." As noted above, tax credit and Section 8 to cooperative conversions will require a public policy framework as well as an infusion of both public and private funds to encourage the development of housing co-ops. Successful adoption of these policies would represent an important preservation strategy at a time when affordable housing resources are threatened. If the State of Illinois and the City of Chicago were to adopt similar policies, they would be in a strong position to ease the affordable housing crisis through cooperative homeownership.

Preserving Section 8 Housing

The ***San Francisco Redevelopment Agency*** **(SFRA)** has developed a Section 8 focused policy to preserve at risk properties. Estimating that half of 88 project-based Section 8 properties (approximately 3,500 units) are at risk of being lost in the coming several years, San Francisco initiated a preservation program with three components: education and outreach to tenants; regulation activity; and direct contact with owners to facilitate property transfer.[41]

Under this program, owners of HUD subsidized housing must give 18 months' notice of intent to sell to SFRA. SFRA reaches out and assists tenants in understanding their options to take control.

Capacity Grants of up to $25,000 are available for democratically controlled resident groups to hire their own consultants and decide whether it is feasible or not to pursue some form of homeownership. In case they decide to do so, there is additional money in the form of Predevelopment Grants of $75,000.

In addition to reaching out and educating tenants on their options, SFRA controls at risk properties by having the Right of First Refusal to purchase the property based on a negotiated fair market price during a six-month period after notification. It also requires from the current landlord a "public notice process that discourages for-profit buyers from acquiring affordable properties".[42] This San Francisco initiative is a significant step that will help to preserve most at risk project based Section 8 properties; thousands of units could be preserved in the affordable housing stock if Chicago could pursue a similar strategy.

The conversion of Racine Courts from public housing to a cooperative

Converted in 1968, **Racine Courts Cooperative** is a 121-unit townhouse cooperative established through a direct sale by the Chicago Housing Authority to the tenants for $1,715,000. This resident-controlled property, established by then CHA Chairman Charlie Swibel and the non-profit operating arm of the Foundation for Cooperative Housing, consists of three- and four-bedroom townhouse units located at 10659 South Racine Avenue. Swibel and FCH arranged for a 40-year mortgage at a 3% annual interest rate in order to make it affordable for low- and moderate-income households.

"This cooperative plan will provide a means of home ownership at reasonable rates for families living in public housing who have moved up the economic ladder. It will also meet the urgent need of families whose earnings are too high to qualify for public housing and too low for the purchase of private housing." (Mayor Richard J. Daley, quoted in the Chicago Tribune, February 8, 1968.)

According to research by the Chicago Housing Authority, an estimated 90% of Racine Courts residents eventually bought into the cooperative. Those who chose not to participate were relocated to other public housing developments. Once the members had taken title, a membership meeting of the cooperative was held, and the residents elected their own board of directors. With continuing Foundation for Cooperative Housing staff guidance, resident participation was quickly established following the John Dewey "learning by doing" approach. The cooperative also provided several job opportunities for residents.

Today, the Racine Courts Cooperative remains a stable affordable housing resource 35 years after its conversion to a limited-equity cooperative. The cooperative continues to serve low- and moderate-income families (including ten households with Section 8 vouchers), and is well suited to first-time homebuyers. The cooperative has both minimum and maximum income limits, and applicants must have dependent children and work at least part time. The one-time share payments are an affordable $450 and monthly charges average $350 for a three-bedroom unit and $369 for a four-bedroom unit. According to building manager Melvina Ashley, "The cooperative has two vacancies and a long waiting list."

Preserving Public Housing through Cooperative Ownership

The Chicago Housing Authority (CHA) is in the fourth year of demolishing, rehabilitating, and building new units of public housing. Its overall plan is to reduce the number of public housing units from 40,000 to 25,000 over ten years. Nearly midway through this process, a number of low-rise and mid-rise public housing developments have no plans for revitalization. As stated in the Chicago Housing Authority Annual Plan for Transformation (2003), these developments are listed as properties "to be rehabilitated or redeveloped, yet future development plans have not been determined."[43]

It should be noted that these buildings are in need of major rehabilitation and repair before current public housing residents or other interested cooperative members should consider a transfer of ownership from the CHA to a cooperative form of ownership. This would require a commitment by the CHA to bring the properties into compliance with the Chicago Building Code. Similar efforts in other cities show that converting public housing to cooperatives is feasible, but requires funds for rehabilitation and a commitment on the part of the public housing residents and the public housing authority to make it work.[44]

The Chicago Mutual Housing Network has received inquiries from residents of a few of these developments (LeClaire Courts, Wentworth Gardens) and has provided training to resident management leaders on conversion to cooperatives. These public housing developments might be candidates for this strategy.

- Altgeld Gardens, 1,498 units
- Dearborn Homes, 800 units
- Lathrop Homes, 925 units
- LeClaire Extension, 300 units
- Washington Park low-rises, 42 units

This strategy is worthy of exploration; the experience of Racine Courts should be instructive in this process. (see sidebar)

In order for a public housing cooperative conversion to succeed, it is crucial that a committed group of residents willing to see the project through to the end is in place. Residents may be drawn to the prospect of lower rent but, "to be successful, a limited-equity housing cooperative must attract residents who are willing to participate and assume responsibility for their own housing."[45] In addition, active policy intervention by the Chicago Housing Authority, working in conjunction with state and local government agencies, is crucial to elevating cooperatives into a more prominent affordable housing option for public housing residents. The majority of studies on cooperatives indicate that successful cooperatives require a large investment of time and money in familiarizing the residents/members with the cooperative structure.

Barriers, Challenges and Strategies to Affordable Housing Cooperatives

Lack of Understanding/Familiarity with the Cooperative Structure

The focus group discussions brought to light the importance of co-op education as a marketing tool as well as a tool used to retain current residents. *"People need to remember that they don't technically own their unit, noted one member of the 220 unit Lakeview East Cooperative. "They control a percentage of the building—it is a shared ownership."* Many members stated that the cooperative model is great for those that want the benefits of homeownership without the full responsibilities of homeownership but not enough people know about the cooperative model or understand it.

Most residents of affordable cooperatives do not have the experience or professional skills to manage a cooperative completely on their own. Legal, architectural, financial and management skills are required to start and maintain a co-op. Given that, cooperative members need outside technical assistance to successfully run a cooperative. Even where resources are available for co-op conversion, they can be used effectively only when people know how to use them. Besides initial training, they also need follow-up assistance. There are some organizations that provide this kind of assistance for the development of affordable cooperatives, but funding and resources are limited.

What a determined community organization working with a technical assistance provider can accomplish is also demonstrated by the Logan Square Cooperative in Chicago. Logan Square Cooperative was formed by a group of interested individuals with the technical assistance of the Chicago Mutual Housing Network. In the spring of 2000, one member began searching for individuals interested in creating a cooperative housing development. By the fall of 2001, there were eight individuals committed to the idea—four individuals and two couples. Forming the Cooperative required the members to learn both about the intricacies of housing co-ops and the real estate development process. Next to the determination of the members, technical assistance and education were key to the success of the group.

> "I view limited equity co-ops as a combination between renting and owning. It's better than renting because no one is going to kick you out without your participation; no one is going to raise the rent without your participation; you get to make decisions about the building, and you are living with people you know and trust. I find it better than owning because you're working with other people to maintain the facilities— it's not just your responsibility."

Judi Kinch
Logan Square Cooperative

Osia Smith (right) joins sister Thelma Weatherly at the Genesis Cooperative in South Shore for yard work. Founded in 1980 as a Sweat Equity Housing Cooperative, Genesis members paid off their mortgage in 2001.

The corporation found an 8-flat building in the Logan Square neighborhood and assembled $100,000 as a down payment on a $580,000 deal. The remaining amount was covered by two mortgages with non-profit community lenders, the Chicago Community Loan Fund and the North Country Cooperative Development Fund of Minneapolis. One useful strategy the Logan Square Cooperative employed is that it increased the loan amount to cover closing costs, urgent repairs and some to put aside in a reserve fund. The establishment of a reserve fund is important because it creates a safety net that protects the new cooperative from defaulting on its loans in case of emergencies or where one or more members are temporarily unable to cover their monthly payments.

Another important strategy the Logan Square Cooperative employed is that they found a building in an "up and coming" neighborhood and they found it early. Gentrification, or the *'condo frontier'* as the group refers to it, is roughly one mile south and east of them. In a few years real estate prices in this area are bound to skyrocket and make the neighborhood unaffordable for long time residents. At Logan Square Cooperative, however, a share in their 8-flat will be as affordable tomorrow as it is today.[46]

Lack of participation by members

There are indications that in some cases the lack of participation among co-op members is high; residents' primary reason for joining the cooperative was the difficulty in accessing affordable housing in the private rental market . Housing cooperatives do not always attract members willing to run and take care of their own housing. One of the major struggles, as gathered from the focus groups, is that of participation. The larger cooperatives struggle with maintaining active participation of the residents. Some members stated that some people do only the bare minimum and to truly make a cooperative work, all members need to put in their fair share. All co-ops do have a board of directors to facilitate the decision-making but it is difficult to practice the cooperative framework when only the board of directors is truly involved. One co-op member suggested that there needs to be an annual *"renewal of vows"* just to keep people continually aware of the commitment they made when they became a co-op member.

Smaller cooperatives face a different type of participation problem. For one small co-op it took six months to decide what color to paint the exterior hallways because there was active participation from all members. In this situation, co-op members expressed the frustration of group decision-making stating *"nobody is trained to make group decisions."* CMHN/UIC-Voorhees Center research found decision-making a skill that has to be learned; there needs to be some sort of structure in place for when a group cannot come to a decision lest problems escalate. As one person commented, *"a cooperative is a living organism, it thrives on participation."*

CMHN/UIC-Voorhees Center determined that one reason for the recent opposition by the Illinois Housing Development Authority to cooperative lending stems from an ill-conceived project by the now defunct West Side Habitat for Humanity (WHH). In 2001, West Side Habitat created **Independence Manor**, a 12 unit, sweat-equity development in Lawndale, originally conceived as an affordable condominium development. When WHH approached IHDA to fund the development, IHDA staff informed WHH that they "preferred the co-op structure" in case of default so that the building could be easily transferred back to the lenders. In a cruel twist of fate, Habitat never made their first (or subsequent) loan payments to IHDA on the "cooperative," while the tenants were caught in between their desire for "traditional" condominium ownership and what they perceived to be the "lesser value" of cooperatives. Multiple attempts by CMHN and its consultants to provide training and assistance to the residents were met with opposition and a lack of participation. The development subsequently failed. However, rather than examine the core issues that doomed Independence Manor, including a lack of resident participation and the residents' frustration with the project's developer, IHDA erroneously faults the cooperative structure as the problem. Lawndale Christian Development now manages the building where the units are being sold off as condos for $150,000 or more in a community where the local median income is less than $22,000 per year.

Both the lack of adequate participation in larger properties and outright zeal in smaller buildings are directly related to a poor understanding of how co-ops function and succeed. It is important that there is ongoing training and technical assistance to ensure that members participate in the affairs of their housing and maintain effective control over their common assets. In this respect, the role the Chicago Mutual Housing Network plays is vitally important.

Property management

Many issues raised at the focus group sessions pertained to management problems. Some buildings that have hired property managers experienced problems with how the building is managed. This doesn't necessarily reflect a flaw in the cooperative model but rather the flaws of a particular property management group. For one cooperative, the poor oversight of management led to the co-op being out of compliance with income restrictions; for another, the management group failed to act responsibly in timely bill payment and compromised the cooperative's budget. In both cases, residents were able to resolve the issues because of their commitment to maintaining a successful cooperative. As one member of London Towne Houses quipped—"good property management successfully markets the co-op."

Affordable housing cooperatives can be mismanaged and risk foreclosure when members are not trained adequately to exercise proper asset management. Choosing a property manager that has experience working with housing cooperatives can be daunting as most Chicago area management companies are unfamiliar with the role of the property manager vis-à-vis the cooperative's residents. Among the local firms that manage housing cooperatives are the following: Preferred Property Services of Illinois; Parker-Holsman Realty; Leasing and Management; the Habitat Company, HSR Property Services (formerly Diversified Realty) and Midwest Management (formerly PM1 Management.)

In order to protect their investment and affordability, more than nine out of ten affordable housing cooperatives retain a professional property manager to scrutinize income and expenses, fill vacancies and conduct the annual auditing and budgeting procedures. Still another line of defense is the board itself, democratically elected each year by the members which, if properly trained and functioning, is another body to protect the private and/or public investment in the cooperative.

Advocates and technical assistance providers such as the Chicago Mutual Housing Network can play a significant role in maintaining a list of service providers, including property managers, where cooperatives may turn if they need assistance. In terms of economies of scale, larger management companies have not found it feasible to manage smaller developments. In the long term, it may be prudent to look into possibilities where a number of smaller housing co-ops may come together to organize a management company that would cooperatively manage a number of smaller buildings. London Town Houses in Chicago, after being dissatisfied with several property management firms, became a self-managed cooperative. They hired a member as on-site manager of their 803-unit development.

The foregoing discussion has examined barriers to the viability of the cooperative housing model. Common problems related to financing, education, property management and member participation can make or break housing cooperatives. Yet all can be alleviated with implementation of solid policy and technical assistance programs. Some state, local governments and organizations have been successful at combating the common difficulties encountered by cooperatives. Their approaches and methods can be instructive in guiding the design and development of effective strategies that would support cooperative development in Illinois in general, and Chicago in particular.

Benefits and Attributes of Cooperatives: Building Blocks for Working Families

Besides affordability, cooperatives have social benefits, such as the often-cited strong inter-resident networks which can provide a social support structure for members. This is confirmed by our research, which involved 10 focus group discussions with 64 members representing 17 limited equity cooperatives throughout Chicago. Cooperative members who participated in the focus group discussions conducted by the Voorhees Center voiced their satisfaction with their living conditions and highlighted the benefits of living in affordable cooperatives, including affordability, stability, community, security, skills development, control, as well as tax and other benefits of ownership.

Longevity

The durability of the cooperative model is demonstrated by focus group responses to the question of how long they plan on living in their cooperative. In terms of stability, the tenure of cooperative members is three times longer than that of tenants, averaging 17 years as opposed to 5.6 years for renters. This is attributable to the many benefits cooperatives provide such as economic security and community. This translates into lower costs of rehabbing units, minimal marketing costs, and reduced use of vacancy reserves. These aspects help to keep the cooperative affordable on an ongoing basis.

Among the cooperative members that were surveyed by CMHN and the UIC-Voorhees Center, waiting lists of six months to a year were typical because turnover was minimal. Occupancy in cooperatives often lasts a lifetime as demonstrated by the many residents who are "aging in place" in the older cooperatives such as London Towne Houses and Chatham Park Village. In Chatham Park Village, 50 residents have lived in the co-op for 40 years (since its inception), while more than half of those who joined the co-op in the 1960s, 1970s and 1980s are still there. This speaks for not only stability in the lives of residents but also for the stability of communities.

Community control and prevention of displacement

Members participate at various levels in the decision-making process in housing cooperatives, such as screening and selecting prospective members. As a group, they exercise democratic control over the property, unlike in rental properties where control is exercised by the landlord. There is no third party involved who can be motivated by profit to displace them. This aspect of co-ops is especially important in gentrifying neighborhoods.

As one member put it, "in a co-op there is security because you own a piece of a home; you are not at the mercy or whim of landlords." This was a particularly important benefit for those who had rented before moving into a co-op. Of the 65 co-op members we surveyed, 45 had been tenants in the private rental market. Rising rents often forced them to move. Such inherent instability effectively dooms any effort to build long-term community or support structures.

Housing cooperatives located in gentrifying or improving neighborhoods allow members to remain in the community and avoid displacement. This is especially important because many co-ops in Chicago generally have good access to public transportation systems. For those living on fixed income, it reduces transportation costs and increases disposable income. One member, a real estate agent by profession, captured the essence by reciting the real estate mantra: "it's all about location, location, location." Chicagoans will pay top dollar for a place to live regardless of size or condition if the location is right. Many cooperatives are located in prime locations in the city, clustered on the northeast and southeast lakefronts. This, coupled with access to good transportation and long term affordability, make housing cooperatives a little known but valuable asset to the city.

A hedge against gentrification

A consistent theme among the members who participated in the focus group discussions was the affordability of their living situation. The affordability issue is especially crucial in areas experiencing gentrification. "In most jurisdictions, property taxes are assessed on the cooperative as a whole, and tax appraisals are usually lower than the sum of appraisals on a similar building of condominium units."[47] Even as the neighborhood around it changes, the cooperative will always serve households of the same economic status as its founders.

The 108-unit **Hermitage Manor Cooperative** at 1717 West Lake Street is an example. This development is a very valuable property because of major reinvestment in the surrounding area. Because members exercise control, the cooperative is securing a $1.7 million rehabilitation loan to modernize the property and better serve its members. In the adjacent CHA Henry Horner Homes (now demolished), residents did not control the property and only one-third of the residents will be given replacement housing on-site. The remaining two-thirds have been forced to relocate.

The experience of Hermitage Manor demonstrates that cooperatives that are strategically located offer cooperative members housing that they own and from which they cannot be displaced. Realizing this, community organizations are beginning to use the development of cooperative housing as a strategy to curb gentrification.

Building equity

Undeniably, the primary motivation for cooperative members is long-term affordable living. However, it is important to note that equity growth is an additional important aspect that sets affordable housing cooperatives apart from rental housing. The decision process toward limiting growth in resale price of shares must take into account these goals:

- Ensure long-term affordability;
- Provide an incentive for members to remain active in the cooperative, and
- Maintaining a corporate structure that will be supported by lenders and public agencies.[48]

Cooperative members realize a significant return on their investment since the value of their shares appreciates over time. However, it should be noted that the value of the share typically includes a range of prices depending on unit size. For example, **Gill Park** is a Section 8 cooperative where members paid $300 each for their shares in the cooperative in 1981; some shares are now worth $1,800. In **Harper Square Cooperative**, shares that were worth $1,400 in 1971 have now grown (in some instances) to $2,800. Shares that were worth $400 in **London Towne Homes** are now valued at over $3,000 for a three-bedroom brick townhouse with a basement. Cooperative shares, therefore, offer a modest return to their initial and subsequent purchasers in addition to their many other benefits.

Long Term Affordability

Studies document that cooperatives "lower operating costs, since residents have a greater financial and emotional investment in their housing development."[49] Unlike tenants in rental housing, cooperative members have control of the property, either through direct management or a voice in management, and can ensure that their monthly charges are not unduly increased. Any change in monthly costs (typically due to a major rehab project or an increase in taxes) can be foreseen in enough time to make smooth transitions. In addition, cooperative members realize wealth creation in other ways. Because their ongoing housing expenses are modest, they retain more of their incomes on an ongoing basis. Thus they can save, invest, and most importantly, provide for their families and educate their children. The study found members' pooling resources, members' concern for their own property and resident participation and oversight of property affairs can reduce monthly cost by as much as one-third in comparison to similar rental properties.

Economies of scale

The pooled buying power of the members through the cooperative enhances the ability of individual households to access homeownership. Once the cooperative is developed, new members are required to come up only with the price of a share in the corporation (typically $1,000 to $3,000) and the regular monthly occupancy charges (their pro-rata share of the mortgage, insurance, taxes, and operating expenses). In contrast to traditional condominium and single-family homeownership, housing cooperatives offer economic advantages because there are no transaction costs involved when a cooperative unit is sold.

Cooperatives benefit from economies of scale in their operations as well. A cooperative can get better prices through its ability to buy for the complex as a whole. This is true with regard to maintenance as well. For one member, this realization came after five years of living in a cooperative; when the roof began to leak, she realized that she didn't have to pay for it herself as she would in a single-family home. Cooperatives also avoid the tax problems faced by low- and moderate-income homeowners in gentrifying neighborhoods because local taxing bodies assess the cooperative as a whole; resale of units does not cause a reassessment of the entire cooperative.[50]

Keli Love, a youthful member of the Genesis Cooperative in South Shore.

The 803 unit London Towne Houses, consisting of brick townhouses situated on common lawns, is Chicago's largest affordable housing cooperative. Located in the city's Pullman neighborhood, London Towne is like a small village in an urban setting.

London Town Houses

London Town Houses was created as a limited-equity cooperative in 1965 under Section 221(d) (3) of the National Housing Act. Located on Chicago's far South Side, it represented an ownership opportunity for African Americans in what was then a very limited and discriminatory private housing market. One of the original members characterized the early days of the cooperative, and the cooperative concept generally, as exciting because it was "democracy in action."

London Town Houses resembles a suburban neighborhood, with townhouses spaced along winding streets. The development has 803 units and 801 members; two units are set aside for on-site maintenance personnel. Maintenance is available 24 hours a day. The property manager lives on-site. The cooperative was dissatisfied with previous property management, which lacked a true vested interest in the cooperative.

Property manager and co-op member Marlene Dillard says, "As member-owners, we are secure in the fact that we can govern ourselves. Most of our members have lived here since the beginning, so this is similar to a small town. Here, our housing is typically intergenerational and the only time that members leave is to buy a house." Concludes Juanita Griffin: "The cooperative is a good training ground for homeownership. It is all of the benefits of homeownership without the headaches."

The neighborhood surrounding London Town Houses is mixed: industrial, commercial, residential. Housing in the cooperative is more attractive than other nearby housing, yet a three-bedroom townhouse has a monthly charge of less than $500 which includes mortgage, taxes and insurance payments as well as operational and repair expenses. In the early years of the cooperative, members organized to have a school built in the area to serve the many children in the cooperative. Many of the members have aged in place, and the cooperative has developed a strategy to attract and involve younger residents. For example, the Participation Committee provides orientation on the history of London Town Houses, as well as the rights and responsibilities of residents, the board, and management. Another strategy such as a recent "Steppers Set" focuses on encouraging interaction through sponsorship of social events geared to younger people.

Social networks

Members typically work together in committees and are involved in all aspects of the management of the property, creating a strong social network. This social network can serve as an organizing arena to secure benefits that would otherwise be difficult for individuals to achieve. The constant interaction among members, in addition to enhancing property management and maintenance, also ensures familiarity and a sense of community. This feature of cooperatives was especially important to focus group participants with children. They greatly valued the added security of knowing that neighbors would keep an eye on their children and would recognize strangers on the premises. As one cooperative member put it, "Our kids have lots of 'parents' and in a sense, we have built-in child care." This collective community watch is what makes co-ops stand out in comparison to rental complexes and condominiums.

Housing cooperatives ensure stability among their members. This in turn allows for more meaningful interaction and effective community building. This level of trust and community is difficult to reach in housing situations where the turnover is high. Events organized by co-ops provide ample opportunity for community building. Some co-ops have annual festivals, and others have special interest groups such as senior groups that plan occasional outings for senior residents. Thirty-eight of the 64 cooperative members we surveyed lived alone. These organized activities create, as one member noted, *"a great sense of community through the activities that are planned here, especially those around the holidays."*

Cooperatives ensure stability for their members. This in turn allows for more meaningful interaction and effective community building. One member commented, "Here, you have big shoulders, a big family that can help out," as she reflected on the importance of knowing and being able to trust her neighbors. This level of trust and community is difficult to attain in housing situations where turnover is high. "Residents of limited-equity cooperatives are more likely to participate in neighborhood organizations, live in their neighborhoods longer, and experience feelings of belonging to a larger community."[51] Through greater participation, members build a wide range of skills that are broadly applicable in individual and community life.

Opportunities for individual development and education

Many co-op members participate in the management of their properties, gaining practical experience in a range of activities necessary to running a cooperative. In doing so, they acquire new skills that not only benefit the community, but also themselves as individuals. Several co-op members who serve as directors said that the business and management skills they learned have helped them in their personal finances.

One Park Shore East resident observed, "What has been great for me living here is learning about this alternative business structure that nurtures the people who are a part of it, and that is really appealing to me. It keeps me organized in my own life because I have to be structured; I have to be organized. So it rubs off on me and my family life."

Flexibility

In a rental development, a tenant wanting to move out before the lease expires typically pays a financial penalty. Owners of houses and condominiums wanting to move typically must sell the dwelling first because of mortgage obligations. Co-ops offer more flexibility. Generally, co-ops require a shareholder wanting to move out to give 60 days' notice. In smaller cooperatives, shareholders individually market their unit during that time. In larger cooperatives, shareholders can turn their unit over to the cooperative corporation and have the corporation assume responsibility for filling the vacancy. Co-ops are flexible in another way: members may customize their units, unlike tenants in rentals. Likewise, when the co-op board authorizes improvements to units, these improvements accrue to the share price.

This analysis has shown, on a case by case basis, the ways in which affordable housing cooperatives compare favorably to traditional housing options. Among some of the benefits of cooperation are the following: long-term affordability, property tax advantages, growth in equity, continuous education, leadership opportunities and social supports. Investing the time to develop expertise in this form of housing and identifying resources to encourage the further development of cooperatives will be a powerful tool for homeownership among Chicago's working families.

Members of the 22 unit Pratt-Ashland Cooperative in Rogers Park.

Chicago's Target Market for Cooperatives: 650,000 and Growing

Chicagoans earning between $20,000 and $50,000 annually are ideal prospects for affordable cooperative housing. According to the Bureau of Labor Statistics, nurses, teachers, food service managers, job placement counselors, credit analysts, social service managers, and firefighters are some of the many occupations whose median income in Chicago was below $50,000 in 2002.[52]

These people, who are largely unable to penetrate the traditional homeownership market and who are both burdened by high rent and regularly displaced by shifts in the rental market, are the target market for housing cooperatives. They represent no less than half a million households in Chicago who are well placed for cooperative membership. Target groups for affordable cooperative housing include:

Older single women (aged 45-65) find limited-equity cooperatives an attractive living arrangement because of security, sense of community, and built-in affordability. We interviewed one single woman in her fifties who moved into a cooperative after gentrification priced her out of her North Side home. The cooperative makes sense for her financially. At present, there are 20,000 people in the Chicago area like her. According to a recent study, "cooperatives provide a financial alternative for many women who are heads of household, divorced, widowed, or never-married. For this population, a single-family home can be inconvenient or difficult to maintain."[53]

"I wanted a place where my kids would feel comfortable enough to go out into the neighborhood without a lot of problems or chaos. I wanted to be able to trust them and where they were going. I wanted them to be in a safe environment but I also worried about the rent going up and didn't want to be in that situation. I felt that if I was in an environment where we all collectively work together I could have some control over that. I learned a lot from being there. I am on the board now and some committees and have enjoyed the process."

TABLE 10 Single Women (Ages 45-65), Earning $20,000-$50,000 Annually

White	9,228
Black	8,772
Hispanic	1,143
Other	1,129
TOTAL	20,272

SOURCE: *Public Use Microdata Sample*

Another target category consists of **single women with children**. Participants in our focus groups who fit this category, often members of Section 8 properties converted into cooperatives, value the affordability of co-ops. They mentioned other attractive features, such as the learning experience of managing the cooperative as a business, security and support for themselves and their children, and the sense of community found among co-op members. Mothers in co-ops often form networks to aid each other in their day-to-day child-care needs, supervision of children playing outside, and other neighborly assistance rarely found in areas with transient rental occupancy. As one participant said, this living arrangement can be well described as "safe, secure, and stable."

TABLE 11 Single Women (Ages 15-65) with Children Under 18, Earning $20,000-$50,000 Annually

White	10,409
Black	76,412
Hispanic	27,752
Other	3,119
TOTAL	117,692

SOURCE: *Public Use Microdata Sample*

Today's tight housing market makes cooperatives an attractive option for **moderate-income families** with children as a stepping stone to homeownership. The affordable up-front costs allow young families to become members of the cooperative, and the long-term affordability allows them to save money for the possible next step of homeownership. In addition, the process teaches young families the responsibilities of homeownership. This group includes two-parent households with dependents under the age of 18 and annual incomes between $20,000 and $50,000. There are over 450,000 Chicago families in this group.

Reflecting on the housing market in the mid 1960's, one cooperative member noted: "the cooperative was a way to get out of the "hood"; it was an opportunity to get started with a family even with limited financial means. I found it to be my "oasis in the desert."

TABLE 12 Families with Children Under 18, Earning $20,000-$50,000 Annually

White	123,524
Black	95,096
Hispanic	203,957
Other	33,326
TOTAL	455,903

SOURCE: *Public Use Microdata Sample*

A final target group includes **recent college graduates** just entering the job market and earning modest incomes. Members of this target group are often familiar with limited-equity cooperatives through their own experiences with one of the many student housing cooperatives in Chicago, Ann Arbor, Michigan or Madison, Wisconsin and across the nation. Student housing cooperatives provide students hands-on management experience and leadership development, preparing them for the future.[54] Based on a study of student cooperatives, this group appreciates the social benefits of cooperatives as much as the affordability. [55]

The census group that best reflects this market niche is young adults between the ages of 22-34 with a college degree. In Chicago 34.4% of young adults have a higher education degree and fit the market group that may find cooperatives attractive for their affordability feature as they begin their careers. Noted one member of the eight unit Logan Square Cooperative: "*…we are proactive on neighborhood stability and stability in our own lives. The main thing is to form community, learn consensus decision-making and support each other.*

Stone Soup Cooperative

Stone Soup Cooperative is a 35-unit cooperative whose members include community organizers, artists, environmentalists, human rights activists, teachers, volunteers, and students. The co-op's mission commits them to "joy and justice." In the spring of 1997, the 18 founding households began meeting; by that fall they rented the former Our Lady of Lourdes convent in Uptown, a rapidly gentrifying neighborhood of Chicago. Members, most of whom are single young adults, share the entire building except individual bedrooms. Founding member Tom Walsh sums it up best: "We're family for each other."

Members worked directly with the Chicago Community Loan Fund to obtain financing to expand to a second site nearby, at 1430 West Leland, where the cooperative houses 11 more adults. Stone Soup provides an affordable, resident-controlled housing option for an age and income group that would not be able to afford traditional homeownership.

Although financing is often seen as an obstacle to developing cooperatives, Stone Soup has demonstrated that it can be done. In August of 2001, the Chicago Community Loan Fund funded a third site, Stone Soup II, with a "mini-mortgage" financing package. This site currently houses seven adults in McKinley Park.

Stone Soup has connected with its surrounding community in many ways. Several members work in local organizations and schools. Meeting and conference space is available for charitable organizations, and members have founded a food cooperative program to offer healthy food to people in the neighborhood.

A Stone Soup co-op member commented on other leadership skills she has learned: "In meetings and in the way we deal with issues we try to use consensus, and that for me has been a major learning experience, just learning how to make decisions with other people, in a really respectful way, in a place where everyone has an equal voice. That was a huge benefit for me because that part rubbed off on me as a teacher. It has helped me interact with people more effectively. That model has worked out really great in my life."

The age group served by Stone Soup is very mobile, with fewer than 10 of the original 30 members still living at the cooperative. Stone Soup hosts weekly potlucks open to anyone. This has introduced a large number of people to the cooperative concept and its unique mission. When asked how to expand opportunities for young people to purchase into cooperatives, Tom Walsh said, "The most important role for Chicago Mutual Housing Network is to help us broker deals with financial institutions … providing expertise in getting mortgages through one-on-one relationships with government and financial institutions."

Conclusion—Why We Cooperate

Housing cooperatives assist low and moderate-income families burdened by high rents, displacement, and overcrowding, offering an attractive, stable living arrangement where member-owners have real control over where they live. As a 150 year old proven model for affordable homeownership, CMHN and the UIC-Voorhees Center found that increasing public awareness of cooperatives in Chicago will help low and moderate income families make informed housing choices. Full access to the cooperative option will require increasing the supply of housing cooperatives, resulting from a collaboration of local and state governments, area lenders and affordable housing developers. Ultimately, this effort will lead to a worthy goal—creating housing that is appropriate to low and moderate income families' economic means.

Supportive state and local policies, in combination with low-cost capital, remain a necessity to make cooperative housing work in Chicago as it does in New York City, Washington, D.C. and for millions of households worldwide. In response to an era where there are fewer government resources, housing cooperatives offer reduced costs and "add value to government investment in housing."[56] Income restrictions and affordability standards also ensure that cooperatives do not have a 'shelf life' but are affordable in perpetuity. As an important tool in the creation or preservation of affordable housing "…the sustained success of housing cooperatives developed in the past few decades points to the viability of this model and their importance in expanding affordable homeownership opportunities." (Lawyers' Committee for Better Housing: Housing Cooperatives in Chicago (2001.)

As households gain sound financial footing, access tax advantages, lower housing costs and reduce risk, cooperative ownership expands residents' sense of well-being. Members learn financial and property management as well as other skills through effective group decision-making; this experience enables residents to take on leadership roles outside the cooperative community. Many make the cooperative their lifelong home, while others use it as a stepping stone to other forms of homeownership. Perhaps the most important impact hinges upon the *social capital* engendered by housing cooperatives, resulting from relationships based on mutual responsibility. As the core of the cooperative experience, these informal networks allow housing cooperatives to build community.

Illinois State Majority Leader Barbara Flynn Currie urges CMHN and its members to take action on affordable housing issues in Illinois.

Recommendations to Chicago Mutual Housing Network

The preceding pages reviewed important aspects of cooperative housing in general and limited-equity cooperatives in particular. In spite of the promise of co-ops as a tool for affordable homeownership, the government initiatives that led to a flurry of cooperative development through the 1960s no longer meet our nation's housing needs. Some jurisdictions, such as New York, have promoted affordable housing cooperatives more actively than others, such as Chicago.

Considering the significant economic and social role cooperatives can play in alleviating the current affordable housing shortage, it is important that greater attention be paid to this option by all stakeholders including federal, state, and local legislative and policy-making bodies, private lenders, residents, advocates, and housing experts. The Chicago Mutual Housing Network can be a leader in elevating the place of affordable housing cooperatives.

The following are some recommendations for consideration:

- Maintain data on existing co-ops
- Maintain a database of properties suitable for conversion into co-ops
- Educate co-op members, potential members, lenders, funders, public officials and the public about co-ops in general and limited-equity co-ops in particular
- Promote initiatives to increase resources for co-ops and for the preservation of existing affordable housing
- Maintain a list of qualified service providers, including property managers, for use by co-ops
- Work with co-op leaders to evaluate the possibilities of a citywide management entity controlled by city co-ops
- Work with co-op leaders to develop a framework to ensure continued member participation
- Create a mechanism for organizing people who may be interested in co-op living and matching them with properties
- Develop options for limiting equity growth in a way that balances long-term affordability with members' desire to realize value
- Monitor practices elsewhere in order to inform initiatives and developments here
- Target state and local government subsidy and assistance programs (such as New Homes for Chicago, Vintage Homes for Chicago, Down Payment Assistance, First Time Home Buyers Assistance, etc.) to extend these programs' benefits to limited-equity cooperative developments
- Focus on market groups with potential for cooperative ownership, including: older single women, single women with children, moderate-income families with children, young adults, intentional communities, and recent immigrants
- Target properties including expiring Low Income Housing Tax Credit developments, expiring Section 8 buildings, and low- to mid-rise public housing properties that are at risk of being lost as affordable housing in the near future.

These are some key areas that deserve attention. We believe that implementation of these and similar strategies in Chicago will go far toward mitigating the affordable housing shortage and stabilizing low- and moderate-income communities.

These findings should inform the work of the Chicago Mutual Housing Network and help it mobilize resources and challenge stakeholders to take a more active part in supporting and promoting affordable housing cooperatives as a tool for long-term affordable housing in Chicago and its environs. This study should also be useful to all stakeholders interested in understanding the meaning and role of cooperatives as an affordable housing option.

Notes

1. IHARP is a joint project of the UIC Voorhees Center, the Statewide Housing Action Coalition (SHAC), and Latinos United. It maintains a database of subsidized housing units in the state of Illinois.

2. Two different surveys, one for market-rate co-ops and a more detailed version for limited-equity co-ops were developed. Copies of the surveys are included as an appendix.

3. These 206 properties represent the majority of cooperatives in the city. Some market rate cooperatives may have been omitted.

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