

Limited Equity Housing Cooperatives

A review of the literature



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Introduction

Access to decent housing for all United States households, regardless of income, has proven a difficult goal to achieve. For at least the past decade, The Joint Center for Housing Studies at Harvard's *State of the Nation's Housing* has documented the widespread high quality and ownership of housing in the United States. At the same time, this annual study has found a large number of low-income renters who pay high proportions of their incomes for lower quality housing. Despite the steady and strong growth of homeownership, especially among low-income and minority households, and despite a long economic boom, housing conditions for 20 million of the lowest income United States residents have improved little in the last three decades (State of the Nation's Housing, 2002).

Among these poorest households, 24% pay from 30% to 50% of their income for housing, and 45% pay over half of their income
-State of the Nation's Housing, 2002.

The half-century long trend away from a strong federal role in provision of housing for low-income households has culminated since the 1990s in the devolution of responsibility for providing low cost housing to state and local government and the private sector (Orlebeke, 2000). Devolution's three-pronged strategy, identified by Orlebeke (2000), relies on vouchers, housing block grants, and tax credits. Low-income homeownership becomes less feasible in an economic climate marked by shrinking employment and financial uncertainty. Yet we would assert that the public consensus still supports a locally responsive, mixed sector approach to public support for low-income housing coupled with a commitment to home ownership. In this context, housing cooperatives, especially Limited Equity Cooperatives (LECs), can be an attractive option not only because of the high quality, stable housing they most often provide, but also because of the financial, social, and psychological benefits associated with them.

This paper, based on an extensive review of U.S. and relevant Canadian research on LECs, examines the concept of limited equity housing cooperatives and their potential niche in the housing stock of the United States. Problems related to the success of housing cooperatives are discussed, as well as policy implications and opportunities for development of LECs. The report is organized around the main conclusions to be drawn from the research on LECs and affordable housing in general:

- LECs provide high quality, safe, affordable housing for low-income families.
- LECs contribute to stable, economically and ethnically diverse neighborhoods.
- LECs can fulfill some economic and social needs more successfully than rental housing, especially for groups that present special needs or in regions where housing is particularly expensive or distressed.
- LECs offer stable housing costs in hot real-estate markets and resistance to default in down markets while requiring similar or lower subsidies than other comparable rental housing.
- LECs can be an attractive housing alternative for a substantial portion of renters and some homeowners who spend more than 50 percent of their incomes on housing.
- The affordability and social stability of LECs mirror most of the psychological and social benefits of market-rate home ownership but provide less opportunity for asset accumulation through home equity.

What is a Limited Equity Housing Cooperative?

The ownership and governance structure of Limited Equity Cooperatives depends on local conditions and regulations. Shared ownership and limitations on share prices are the central elements of a LEC. Ideally, LECs operate according to principles that stress:

- 1) voluntary and open membership,
- 2) democratic member control,
- 3) member economic participation,
- 4) authority and independence of each cooperative,
- 5) education, training, and information,
- 6) cooperation among cooperatives,
- 7) concern for community.¹

In reality, LECs take many different forms that vary on almost all of these dimensions. As in most cooperatives, residents of multi-unit housing collectively own the building instead of each member owning a single apartment. Most cooperative ownership agreements include the right to pass on the apartment to heirs. A LEC restricts the resale value of cooperative shares to keep them affordable to multiple generations of purchasers by controlling the maximum price at which membership can be sold or by

implementing restrictions based on the income of the purchasers. Equity limitations aim to establish continued access to shareholding for groups otherwise likely to be priced out of the market (Cooper-Levy, 2000; Miceli, Sazama & Sirmans, 1994). There are LECs that would be more properly called NECs (No Equity Cooperatives) because residents pay only monthly charges but participate in cooperative governance. In both LECs and NECs, some to all development costs are usually covered by government subsidies. In general, cooperative owners reap some of the tax benefits of homeownership but limited equity provisions complicate the estimation of a fair tax assessment. Some localities have standardized incorporation procedures and governing regulations concerning tax status. In other areas, LEC formation and regulation are worked out on a case-by-case basis.

The goal in a housing cooperative is for management to be conducted in a democratic way and for all members to have the opportunity and responsibility to make decisions that affect the quality of life. While most LECs are made up of resident shareholders who buy a share in the housing cooperative and democratically elect their governing board, there are examples of cooperative governance structures controlled by sponsoring organizations. Many LECs hire outside managers, and sometimes co-op sponsors provide management. In these cases, it is sometimes difficult for LEC shareholders to exercise control over management. At a more mundane level, even within democratically controlled LECs, divisions of labor and power differentials are common. Shareholder training and leadership development require constant attention and arrangements for these services depend on the local infrastructure of support by community-based organizations (CBOs) and government.

Developing and operating low-income housing often requires innovative financing and regulatory mechanisms patched together at the federal, state, and local levels (Quercia, Rohe & Levy, 2000). Even the purchase of a single family home is complex for low-income households (Listokin, Wyly, Schmitt & Voieu, 2001), depending on financing requirements, available mortgage instruments, insurance restrictions, and the prevalence of subprime lenders in the mortgage market. Homeownership and rental opportunities are also often compromised for minorities by racial discrimination and unequal access to information about housing availability (Massey & Denton, 1993). LECs share these challenges. Organizations such as the National Association of Housing Cooperatives, the National Cooperative Bank, the Urban Homesteading Assistance

¹ Resource with more information: (<http://www.accordha.org.uk/rch/infopack/hapack.htm>)

Board, the Parodnek Foundation, and Policylink provide advice and technical assistance for organizing LECs.

Community Land Trusts are another form of collective ownership that limit the prices members pay for housing and can charge for resale, although they have a different legal structure than LECs. Both forms of ownership can make housing more affordable than that available to a significant sector of the rental market and for many homeowners. Both structures can offer first-time buyers the opportunity to enjoy the benefits of homeownership such as stability of tenure and control over one's housing (albeit, group control). Moreover, spreading cost and financial risk across multiple shareholders may make the decision to buy a home easier for first-time buyers and those households with limited assets.

LECs are not a well-known form of housing ownership in the United States. In some other countries such as Sweden and Norway, they constitute a large proportion of the national housing markets. Nonetheless, the supply of U.S. LECs seems to be increasing. In 1991, the National Association of Housing Cooperatives put their number at between 200,000 and 225,000. By 2002, the National Cooperative Bank estimate was 361,000. Funding streams for LECs include common sources of home ownership financing such as FHA mortgage insurance, as well as a range of smaller programs often specific to particular localities.

What Benefits Do LECs Offer?

The literature we reviewed indicates a number of benefits are related to LECs for residents and for the broader community. LEC affordability and tenant control contribute to economic benefits, as well as psychological, social, and community benefits. Similarly, LECs are associated with increased social capital and community participation. The conversion of distressed private sector housing to LECs has helped rebuild neighborhoods. LECs' permanent affordability, security of tenure, and control over upkeep also buffer residents against rising and falling economic tides that could gentrify or undermine the physical condition of neighborhoods.

Economic Benefits

LECs can provide many of the benefits associated with homeownership, while imposing lower cost burdens and spreading many risks and costs across shareholders. Limited equity housing cooperatives are often attractive because of low costs and other

economic advantages. Helm and Horvitz (1993) point out the various opportunities LEC shareholders have to borrow money and reap tax advantages, depending on internal and external regulations. Since the cooperative corporation owns the land and buildings in which its members live, it can borrow money secured by the property as a whole.² Individual members own cooperative interests and they can, in turn, borrow money secured by their cooperative interests.³ LECs can qualify shareholders for income tax deductions for shares of the mortgage interest and property taxes paid by the coop. This also means that instead of living in a house or apartment owned by a landlord, community group, or public agency, shareholders can live in a home where they have control over their home environment. This control gives them the opportunity to negotiate better services at lower prices. Also, cooperative residents can establish regulations concerning vacant units in the buildings, payment collection, per unit maintenance charges, and operating costs.

Economic Benefits of LECs

- ◆ **Sharing cost and financial risk**
- ◆ **Lower cost burden**
- ◆ **Resale restrictions to make them affordable to multiple generations of purchasers**
- ◆ **Reduction of housing externalities without imposing the high cost of management**
- ◆ **Shareholders qualify for tax deductions for shares of the mortgage interest and property taxes**

Miceli, Sazama, and Sirmans (1994) use an economic model based on “housing externalities” to analyze the role of LECs in the housing market. They argue that LECs reduce externalities such as noise, socially disruptive neighbors, and residents’ wear and tear on the housing without imposing high management costs. LECs reduce the cost of housing externalities because residents participate in management activities such as screening applicants. The authors conclude that there is a demand for LECs among low-income households who value a low level of housing externalities and are willing to devote their efforts to reducing them by self-management.

While the research on residents’ evaluations of the financial costs versus benefits of limited-equity cooperative ownership structures is not extensive, the studies that do exist show that, on balance, residents see many more benefits than costs. In a qualitative study of LECs (Rae, 1997), shareholders described the greater security they felt in the LEC because they were able to share financial planning and decision making with others. They also took comfort in negotiating financial decisions with shareholders in

²This is known as blanket debt or blanket mortgage.

³This is called share debt or share loan.

similarly modest financial circumstances. A survey of LEC residents in a high rent area of New York City (Saegert, Eizenberg, Extein, Hsieh, Benitez, Chang, 2003) found that 72% of shareholders said that living in the LEC had positively affected their lives. Reasons given focused on increased control of their housing, low costs, and the fact that they could not afford to live in their neighborhood otherwise. In a study of Community Land Trust (CLT) homeowners, 95% said that they were able to become homeowners more quickly in that structure and 84% said that they felt more financially secure since buying (Levinger, 2001). Of the 216 people who responded to the CLT survey, 8 did not name a best aspect of living in a CLT, whereas 91 named no worst aspect. The most frequently mentioned worst aspects related to the limited equity restriction (40 people) and the most mentioned best aspect (102) was that it made homeownership and financial stability possible. Participants in all of these studies had been renters and were not likely to become traditional single family home owners in the near future without cooperative ownership, especially those living in New York City.

Psychological and Social Benefits

The research that exists also shows that LECs provide many of the psychological and social benefits of homeownership. Rohe, McCarthy, and Van Zandt (2000) provide a comprehensive review of the social benefits and costs of homeownership. However, their review did not specifically mention different forms of homeownership nor include studies of LECs. A systematic comparison of the evidence concerning the benefits of homeownership and the benefits of residence in LECs shows them to be similar (especially the social benefits), although the bulk of homeowners are wealthier, more often white, and more likely to live in single-family homes. However, the evidence for the psychosocial effects of home ownership and of cooperative ownership is scant and often based on inadequate research designs.

While there are few comparable studies concerning the individual benefits of homeownership and LEC shareholding, those that do exist suggest that LEC residents do reap some psychological benefits. Both homeowners and LEC residents score higher on residential satisfaction than comparable renters (Levinger, 2001; Saegert & Winkel, 1998; Sazama & Willcox, 1995; Task Force on City-Owned Property, 1993, 1996; van Ryzin, 1991, 1994).

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|---|
| <p>Psychological and Social Benefits of LECs</p> <ul style="list-style-type: none">◆ Residential satisfaction◆ Sense of belonging to a community◆ High levels of social capital◆ High levels of empowerment◆ Low crime rates◆ Promote improvement of distressed neighborhoods |
|---|

Qualitative research also provides a portrait of high resident satisfaction in LECs. For example, Leavitt and Saegert's (1990) residents who formed limited equity cooperatives in Harlem found that most believed that they were better off living in a LEC than in a rental building, especially because of the control that they obtained over living conditions. More LEC residents expressed satisfaction than residents of comparable rental buildings with their building conditions, management, and tenant participation. They were also more optimistic about the future. Clark's (1994) study also showed how living in LECs improved the quality of life of residents and enforced their sense of community by legitimating their collective appropriation of space. Clark convincingly argues that residents were able to shape their residential environments and their ways of life according to their own goals to a much greater extent than can occur in the absence of collective ownership.

Satisfaction in LECs often depends on the quality of social relationships within the shareholders' association, between leaders and non-leaders, and among co-op sponsors, technical assistants, and residents. Rohe (1995) documented a very mixed record of residential satisfaction among new cooperative owners of formerly public housing. Problems with the conversion process, poor repair of conveyed properties, possible negative equity for owners, and the fact that these owners had previously been living in subsidized housing all appear to work against satisfaction. On the positive side, the bulk of the studies (Leavitt & Saegert, 1990; Levinger, 2001; Saegert & Winkel, 1998; Sazama & Willcox, 1995; Task Force on City-Owned Property, 1993, 1996; van Ryzin, 1994) indicate that, in general, social relationships among stakeholders are good enough to promote residential satisfaction, and in the case of the two studies that measured it, life satisfaction as well (Levinger, 2001; Van Ryzin, 1994).

Since control over life, social support, housing security, and better housing conditions should all contribute to better health, successful LEC ownership, and homeownership, might be expected to contribute to mental and physical health. We could not locate quantitative studies of psychological and physical health as a function of LEC residence. However, Levinger's (2001) study of CLTs found that 61% of respondents felt that they had been healthier since they purchased their land trust home. Qualitative studies of the New York City LECs suggest that, for residents who lived through landlord abandonment, the achievement of cooperative ownership expanded residents' subjective sense of well being more than the transition to other forms of tenure (Leavitt & Saegert, 1990; Rae, 1997). Rohe et al (2000) present a mixed picture for the effects of home ownership on physical and mental health. While some studies report a

positive association between health and ownership, a study in Britain found that inability to meet mortgage payments was associated with lower scores on a measure of general well being.

The evidence for the social benefits of LECs is strong. Studies have found that LEC residents participate more in neighborhood organizations, live in their neighborhoods longer, and have a greater desire to stay compared to other low-income renters (Clark, 1994; Heskin, 1991; Leavitt & Saegert, 1990; Saegert & Winkel 1996; Saegert & Winkel 2000). In addition, these studies found that living in a LEC promotes feelings of belonging to a larger community. Traditional homeowners also tend to participate more in at least some kinds of organizations and to be more residentially stable (Rohe & Stewart, 1996).

The social benefits of LECs can also be viewed as collective assets, as documented by the significant number of studies reviewed below. **The success of LECs depends on the ability of residents to cooperate. The relationships and skills built through cooperation not only contribute to shareholders' quality of life, but also provide potential resources for the neighborhood.** Much of the research on the community benefits of LECs comes from our own studies in New York City. These studies document the greater ability to work collectively to successfully achieve goals among LEC residents compared to similar low-income renters.

Social Capital

Social networks that facilitate cooperation to achieve group, as well as individual, goals provide network members with social capital (Coleman, 1988). Social capital identifies the contributions that relationships based on mutual responsibility make to the achievement of goals, above and beyond the results achieved through the investment of financial and human capital. Saegert & Winkel (1998) demonstrated that social capital, which was higher in LECs, added value to government investment in housing. Their study compared five housing programs to resell buildings taken by New York City when landlords defaulted on their taxes. The surveys from 487 buildings (including many LECs) in Brooklyn, New York, were analyzed to compare the success of different ownership forms in revitalizing buildings. The higher levels of social capital found in LECs were responsible for the better building conditions reported. LECs were consistently rated as having the safest and highest quality housing as compared to buildings still in city ownership or sold to new private landlords or community groups. Residents' participation in the shareholder association was key to assuring a high quality of life in the building. Saegert, Winkel, and Swartz (2002) found that LECs had lower crime

rates, as recorded by the NYC Police Department, compared to other similar rental buildings, after taking into account resident income, education, ethnicity, and other characteristics. Again social capital seems to be critical: lower levels of building crime in LECs could be statistically attributed to more participation in the residents' association.

LECs provide a way for poor residents who are least able to move out of deteriorated housing and neighborhoods to improve their living conditions through collective action. Residential stability contributes to social capital. But in distressed communities, those left behind may have too little human and financial capital to realize their goals through social capital alone. Often the poorest, minority, female-headed, and elderly households were unable to leave their homes during the process of landlord abandonment. By obtaining control of real homes, these residents are able to utilize their social capital to achieve valued goals. Their successful struggles to gain cooperative ownership improved their housing conditions and the lives of residents, and supported them in contributing to neighborhood revitalization (Saegert & Winkel, 1998; Saegert, Winkel, & Swartz, 2002). Leavitt and Saegert's Harlem study (1990) documents that reversing neighborhood decline was an important goal for many residents who fought to become cooperative owners of their landlord abandoned buildings, a goal shared with the CBOs and public officials who assisted them. These findings contrast with research indicating that, without the collective organization required of LEC owners, homeowners in undesirable neighborhoods, especially the poorest, minority, and female-headed households, are often trapped in a downward spiral of housing and neighborhood conditions (Rohe et al., 2000).

Thus, at least when LECs are developed in previously landlord-abandoned housing, it appears that conversion to LECs can play a role in promoting the improvement of distressed neighborhoods. While shareholders cannot reap the financial rewards of a better real estate market that they may have helped to revive, they are less likely to have to move because of rising housing costs than poor renters in the same neighborhoods.

Community Participation

Living in a LEC often helps residents learn to be effective in groups and promotes interest in civic participation. Saegert & Winkel (1996) examined how LEC residents organized collectively to improve building conditions and how these actions led to a sense of empowerment and increased engagement with civic life. Empowerment was measured by questions about how comfortable and effective the respondent felt

participating in and leading groups and taking part in civic activities. In this study, personal participation in building activities increased self-reported empowerment. Greater empowerment contributed to participation in civic activities, along with personal characteristics and perceived neighborhood quality.

Green and White (1997) theorize that homeowners will exhibit more socially desirable behaviors because of the skills they learn in fixing up their homes, the financial stake they have in assuring a climate of safety around their homes to protect property values, and a supposition that owners' longer tenure promotes better monitoring of children. For example, several studies indicate that homeownership has a positive effect on children's development (Rohe et al, 2000). LEC ownership may promote similar levels of skill and investment in the residential environment, but no studies have tested this hypothesis. In the closest approximation, Levinger's (2001) study of Community Land Trusts found slight indications of positive effects among land trust members on child development, but the findings were not strong, relied on parental report alone, and lacked a comparison group.

Housing Stock Stability

When properly developed and regulated, LECs have proved resilient in the face of economic cycles. For example, while all but two of the market rate coops in New York City were wiped out by the Great Depression, LECs established for low- and moderate-income households weathered this difficult period intact (Siegler & Levi, 1986). A study by Calhoun and Walker (1994) compared the default rates for two types of federally insured housing between 1958 and 1989. LECs in one insurance program had lower default rates than those owned by non-profit and limited-dividend projects. In the second insurance program, the survival rate for LECs of 78% was comparable to that in other ownership forms. The Urban Homesteading Assistance Board (UHAB) provides a third set of data on foreclosures among LECs. UHAB tracks the status of the LECs in New York City, known as Housing Development Finance Corporations (HDFC) and dedicated to housing low and moderate income New Yorkers. Since 1975, 1036 HDFCs have been developed, most in occupied housing taken by New York City in lieu of taxes. Over this period that has included both the worst and best of economic times in NYC, only 3% (27) of buildings have lost their status as HDFCs, either by foreclosure from NYC for tax arrears (19 or 2%) or by private lenders (5 or less than 1%). Only one building has been sold for a profit after sales restrictions expired. Of the 19 buildings taken for taxes, 9 of them have

entered new programs to straighten out their finances and management practices and regain LEC status (personal communication, Ann Henderson, UHAB).

It is instructive to compare these foreclosure rates to rates for comparable homeowners. Research by the U.S. Congressional Budget Office (Capone, 2001) described several pertinent studies. One, a study of USDA Farmer's Home Administration loans to households with 80% of median income from 1981 to 1987 found that 9% of the loans were terminated by defaults. These rates are higher than those found in the NYC data, but lower than reported by Calhoun and Walker (1994). A Freddie Mac study of loan performance between 1993 and 1995 showed that minority status, low household incomes, and location of housing in low-income census tracts were all strongly associated with higher levels of defaults. For comparison purposes, it is important to note that New York City HDFC shareholders are almost exclusively black and Latino, have some of the lowest incomes in the city, and their buildings are concentrated in the poorest census tracts.

A note of caution should be sounded, however. If LECs are sold to shareholders in poor condition, with inadequate or burdensome financial agreements, heavy tax burdens, or without regulatory oversight, foreclosures could occur. In 1998, the New York City Comptroller's Office issued a report warning of the potential failure of the majority of LECs developed through the program that produces most New York City LECs (Hevesi, 1998). While some of the negative projections may reflect a questionable sampling method, real dangers to the stock were identified. Most were due to the inability of LECs to keep up with public charges (taxes and water and sewer charges) and the inadequate repairs that had been completed in LECs by the time of sale. The agency overseeing the sales of these coops, as well as the technical assistance groups that deal with LECs, have developed tax forgiveness policies, loans, and technical assistance tied to regulatory agreement designed to prevent problems in the future. Without these steps, many more LECs might have gone into foreclosure.

In addition to being resilient during difficult economic periods, LECs appear to provide a bulwark for low and moderate income residents against displacement in gentrifying neighborhoods. A recent study of LECs in a midtown neighborhood of Manhattan (Clinton, AKA Hell's Kitchen) found that, while the area produces more ground rent per square foot than 77% of New York City, with 2 of the 6 census tracts having higher ground rents than 96% of the city, LEC charges remained very low. LECs appear to account for much of the affordable housing left. Artists, actors, musicians, teachers, and public agency employees make up a sizable proportion of residents.

Many say they would have to change occupations and get higher paying jobs to remain in Manhattan (Housing Environments Research Group, 2002; Saegert, Eizenberg, Extein, Hsieh, Benitez, Chang, 2003).

Who Will Benefit Most from LECs?

Financial as well as social benefits make LECs a very attractive option for specific populations, all characterized in the aggregate as containing more low-income households. The shared risk and responsibility of LECs plus the social engagement that they offer are important attractions for LECs as an alternative to single family homeownership or renting. Moreover, research indicates that cooperative housing helps create a sense of community and inclusiveness that is particularly beneficial for some populations such as people with physical disabilities, the elderly, Native Americans, young adults, some immigrants, women and inner-city residents.

People with Physical Disabilities

People with disabilities often need lower cost housing, as well as special accommodations (Joint Center, 2001). LECs emerge as a financial solution for some people with disabilities because they do not have to invest large amounts of money to be able to obtain the benefits of ownership. The greater control over the housing environment provided by LECs particularly facilitates creating a supportive physical and social home environment for people with disabilities (Cooper & Rodman, 1992).

In a Canadian study, Rodman & Cooper (1995) found that not only did cooperative housing provide accessible housing at low costs, but it also helped integrate people with physical disabilities into the larger community. They studied a fully accessible housing cooperative in Canada in which people with physical disabilities and able-bodied people lived together, sharing the same housing conditions. The researchers concluded that full accessibility was responsible for complete integration of physically disabled people into the activities of the cooperatives. Also, the researchers argue that

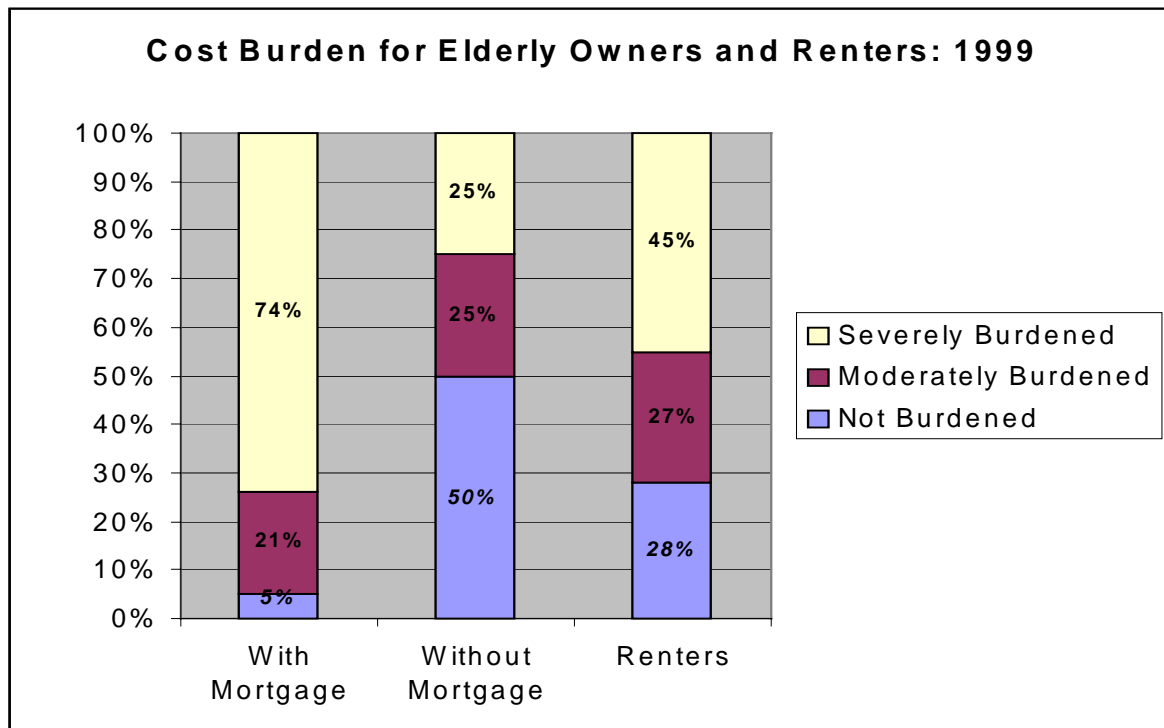
“The people with disabilities who took an active role in the life of the co-op, as critics as well as promoters, felt able to influence what happened there. They felt that any member can make a difference. Similarly, the extent to which people with disabilities were integrated into the co-op was more than a matter of individual uniqueness. It related, as well, to the involvement with the co-op as an association rather than just living in it as an accessible building.”
-Rodman & Cooper (1995)-

integration and sense of community were in part a result of living in a housing cooperative.

Elderly People

One of the main housing concerns in the United States is how to provide affordable accommodations for the elderly population. The elderly account for 42% of the nation's lowest-income families, and most housing assistance programs (for owners and renters) are ill-suited to their needs. Chart 1 illustrates that more than half of elderly owners with mortgages and elderly renters pay more than half their incomes for housing. This means that low-income elderly owners with mortgages are vulnerable to losing their homes, especially if urgent repairs or a costly medical crisis occur. Several studies point out that LECs designed for the elderly provide financial and social benefits. Living in a LEC gives elderly residents the opportunity to get involved in the management and ownership of low-income housing, thus increasing their sense of control, ownership, and social integration (Eversole- Nolan & Blaine, 2001; Eversole-Nolan, 2000; Lewis, 1998; McKinley, 1998; Van Ryzin, 1994; Wray, 1998).

Chart 1*



*Source: State of the Nation's Housing 2002

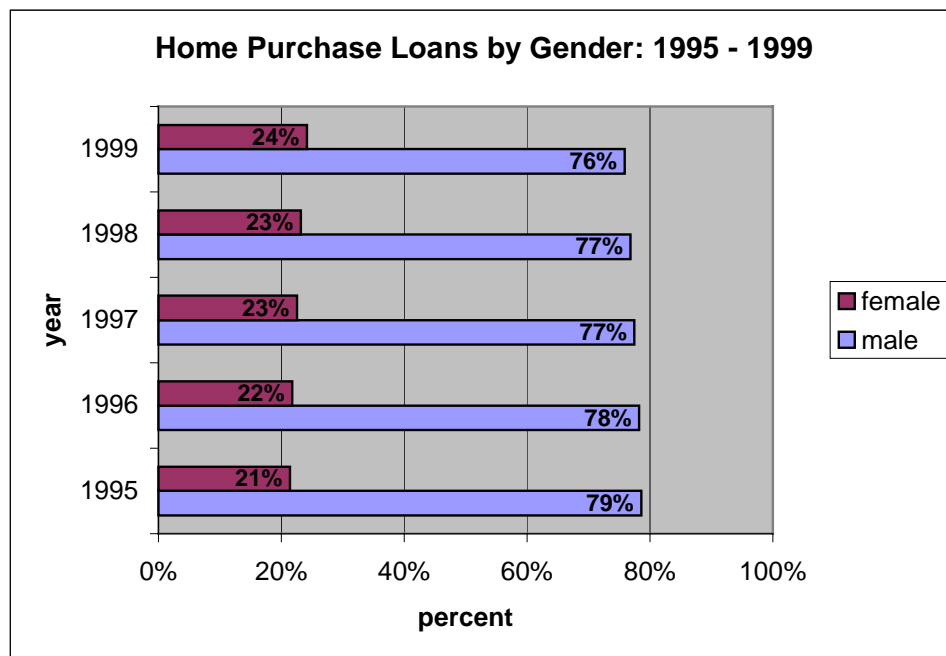
Moderately burdened households pay between 30% to 50% of income for housing costs

Severely burdened households pay more than 50% of income for housing costs

Women

Women, especially if they head their own households, more often than men have difficulty obtaining adequate affordable housing. In 1996, 29 million U.S. households were headed by women (Simmons, 1997). Female-headed households are the primary users of all federal housing programs except for mortgage based programs (Saegert & Clark, in press). As Chart 2 shows, the percentage of home purchase loans made by females during the years 1995 to 1999 is much lower than for men, though it is difficult to know if the cause of the difference is due to lower incomes or discrimination.

Chart 2*



*Source: State of the Nation's Housing 2002

LECs provide a financial alternative for many women who are heads of household, divorced, never-married, or widows. For this population, a single-family home can be difficult to maintain or inconvenient. In a LEC, women have opportunities to creating a supportive and democratic environment in which to develop leadership skills. These skills can contribute to obtaining a job and taking control over personal finances (Heskin, 1991):

**"I remember the joy of one early woman leader when she told me that an Asian woman who had become active in her cooperative had gone beyond being active in the cooperative to find a job outside their home."
– Heskin (1991), p.-**

Studies conducted by Saegert (1989), Leavitt and Saegert (1990), and Heskin (1991) document the pivotal roles women play in LECs. Women who often had little education and worked in low status jobs or were unemployed assumed positions of leadership and a prominent role in organizing LEC residents. They helped improve building conditions and the quality of life for all. Moreover, in these studies, women had the opportunity to develop skills that contributed to more satisfying personal lives. Forslund and Keith (1988) discuss housing cooperatives as an alternative for middle age women, especially women between the ages of 55 to 64 who are single, widowed, or divorced. They contend that housing cooperatives provide women with a safer and more supportive environment than other options. LECs also offer the economic benefits of affordable down-payments and monthly fees, as well as the opportunity to control costs related to maintenance and repair.

Young Adults (25 – 34 yrs)

Young adults constitute another of the groups that are being priced out of the housing market. This group was traditionally part of the renters' market but, with an increase in rents, many find that their incomes are not enough to pay for housing. Consequently, they are choosing to continue living with their parents.

**"Many young adults – especially those employed in low-wage industries – have found rents too high relative to their incomes to live on their own. In 2000, the number of U.S. households composed of young adult children living with their parents topped 2.6 million. These families included 12.5% (2.3 million) of males aged 25 to 34 and 7.9% (1.5 million) of same age females."
– State of the Nation's Housing 2002**

In general, this group has not desired homeownership, but with rental costs so high, they may be in the position to consider LECs as a lower priced, more flexible option to traditional ownership or renting. Not only can LECs contribute to young people's financial stability, but also living in a supportive community environment can help young adults adjust to independence and learn new skills (Altus, 1995). Older LEC residents may also welcome shareholders with energy, recent education, and up-to-date technological skills (Leavitt & Saegert, 1990).

College campuses and towns have sprouted numerous LECs over the last half century. In a student housing cooperative, members have the responsibility of managing their housing and making collective decisions that affect their lifestyles and quality of life. LECs also ensure affordable housing for students. Based on a study of student cooperatives, Althus (1995) concluded that students living in a cooperative appreciate the advantage of cutting living costs, but that social benefits are often more important:

"Student housing cooperatives offer the immediate tangible benefit of cutting living costs. But, in the long run, the less tangible benefits received from group living and member management probably outweigh any direct financial saving." Althus, 1995.

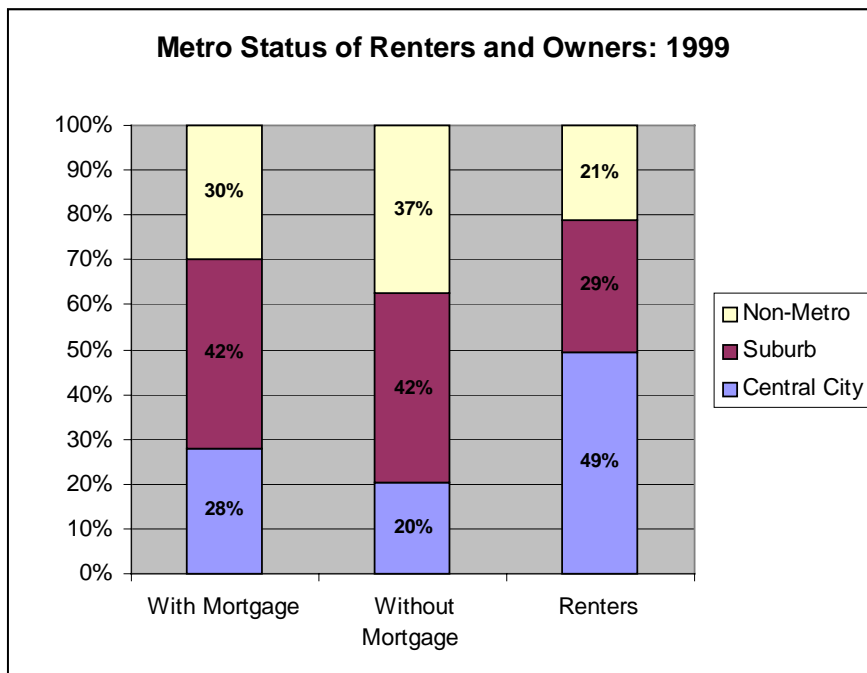
Central City Residents

Central cities represent a challenge to the expansion of homeownership because of the nature of the housing stock and the population compositions. According to the statistics shown in Chart 3, approximately half of the renters live in central cities. The State of the Nation's Housing 2002 comments on the problems faced by urban renters:

"As employment and housing continue to shift to suburban and non-metropolitan areas, those left behind in central cities increasingly lack access to the social and economic opportunities -including good-quality housing, healthcare, schools and social services- essential to family stability and wealth accumulation."

In many cases, low-income households stay in poor quality housing because of cheaper rents. In cities with tight housing markets such as San Francisco, Washington, D.C., and New York, there may be few affordable, vacant rental units.

Chart 3*



Source: State of the Nation's Housing 2002

LECs can contribute to the viable, affordable housing stock and therefore the revitalization of inner-city neighborhoods. Glunt, Clark & Saegert (1995), studied a generation of LECs in New York City that developed as a result of the massive landlord abandonment of rental property from the late sixties to the early eighties and its subsequent seizure by NYC in lieu of taxes. Generally, the buildings were in bad physical conditions, and residents organized themselves, with the aid of technical assistance groups, community-based organizations, and government agencies, to convert many of these building to LECs. Studies discussed earlier (Saegert & Winkel, 1998; Saegert, Winkel, & Swartz, 2002) showed that LEC residents in this housing stock rated their housing conditions as better and lived in buildings that were freer from crime than other comparable inner city residents.

Kleine (2001) also argues that LECs have an important impact in urban life because they help improve the quality of life, they offer homeownership opportunities for low-income families, and they help increase social integration and civic participation, which translates into safer neighborhoods.

Native Americans and/or Aboriginal Peoples

According to *The State of the Nation's Housing 2001 Report*, Native Americans in the United States face serious housing problems. The American Indian Housing Council estimates that 200,000 units of new housing are needed. According to this report, federal funding has not sustained the construction of the amount of housing needed. LECs might offer one promising alternative to fill this gap. Hammond-Ketilson & Mcpherson (2001) indicate that the housing cooperative model in Canada has been very successful with this population, allowing them to apply principles of community building consonant with tribal teachings toward the achievement of collective aspirations. Moreover, they found that the development of housing cooperatives helped improve their physical infrastructure, built social capital, and fostered community action.

Dilemmas of Collective Action in LECs and Possible Solutions

LECs can help lower income Americans obtain home ownership and high quality housing, while improving their economic and social situations. However, because LECs are based on principles that give priority to the well being of the collective, problems related to tenants' financial situations, democratic management of the building, and government policies and regulations sometimes occur.

"If one or more shareholders default, other shareholders may be forced to make up the monetary difference. A continued failure to cover short falls could lead to a foreclosure proceeding in which shareholders lose their apartment or equity investment." -Maldonado & Rose, 1996.

Kane (1999) argues that because of collective fiscal liability, co-op boards of directors tend to be concerned about the financial wherewithal of shareholders. These concerns justify the practice in which prospective purchasers in all types of cooperative units are required to submit detailed financial information, as well as go through an interview process. Having to deal with nonpaying tenants and the legal fees associated with them can cause LECs to incur debts. The interview process is the mechanism that LECs have to select tenants capable of taking on the required financial and social responsibilities. However, resident selection is a very sensitive process because the goal of the selection of shareholders who can carry the responsibilities of the coop can be used to discriminate and violate people's civil rights. Maldonado and Rose (1996) point out that the self-governing nature of the housing cooperatives occasionally gives rise to

disputes and litigation between cooperative boards and tenant-shareholders when cooperation breaks down and individual self-interest takes over. They document cases in which the LEC structure generated a thin line between fair selection and discrimination. Maldonado & Rose (1996) suggest ways to avoid discrimination including formalizing the interview process, establishing objective criteria to evaluate applicants, and providing rejected applicants with written explanations.

Heskin (1991) examines the case of a LEC in California where material and ideological differences among members illustrate how challenging it is to create the self-governing community necessary for a housing cooperative to function close to the ideal. Issues related to class, gender and ethnicity caused conflict during the process of organizing the LEC, but the residents were most often able to work through to successful resolutions. Elsewhere, Heskin (1995) argues that conflict is a necessary part of cooperative life and contributes to new levels of understanding and renegotiations of unresolved problems that are important to the residents. He points out that oversight and regulation by government should recognize that conflict is not an indicator of failure but an opportunity for resolving differences democratically.

**"Those in regulator positions with governmental oversight power for cooperatives must know that residents of cooperatives must go through a process of change and adjustment to one another."
-Heskin, 1995.**

Regulations and governmental policies are often problematic for the success of LECs. According to Rohe (1995), the major obstacles to the success of converting the public housing developments he studied into LECs were: 1) a costly and time consuming renovation process, 2) tenant reluctance to participate in the process of conversion, and 3) the difficulty of explaining and developing interest in joining a housing cooperative. In these case studies, the lack of clear information for residents about the details of the project and the responsibilities of living in LECs, as well as the inadequate training that tenants received about how to manage a housing cooperative, resulted in low participation, which, in turn, contributed to poor housing conditions of LECs. Rohe (1995) recommends that conversion of public housing into LECs should be limited to developments where there is a strong and widespread interest among residents. Also, education of prospective residents about the nature of housing cooperatives and the responsibilities of shareholders is critical for their success. In addition, public housing

agencies must be committed to offering the necessary resources to make conversion succeed.

Reynolds and Jeffers (1999) stated that the actual regulations and programs do not provide the necessary framework to allow for adequate development and operation of affordable housing in rural areas. Their conclusion is that LECs need a stronger support system to be successful. Supports should include partnerships between universities, government, and the private sector; the development of structures that can offer education and training to cooperators; and looser regulations that can address projects' economic and functional needs.

Nonetheless, regulations, as well as shareholder education and fostering of democratic values, is required to assure long-term adherence to governance procedures, good management practices, and resale restrictions (Saegert, et al, 2003). In hot housing markets, shareholders may be tempted to take advantage of market demand by subletting their apartments for high prices or by selling them at high prices. In a case study of a gentrifying mid-Manhattan neighborhood, the discovery (or public admission) that some LECs were selling apartments for much more than the legal limit has led to efforts by affordable housing advocates to assist buildings in understanding their obligations, and in obtaining tax benefits in exchange for regulatory oversight (Saegert, et al, 2003). When LECs are developed, managed, or in other ways dependent on community organizations, changes in CBOs' mandates, board members, or financial situation may affect the enforcement of LEC policies, quality of housing, shareholder involvement, and shareholder education.

Thus the challenges presented to LECs are formidable, as they are in any form of low-income housing. However, several principles appear to hold:

- 1) Sponsoring organizations, financial institutions, and regulatory bodies must develop offering plans, purchase and maintenance terms, and governance and taxation structures that make the LEC investment a prudent one for low-income families.
- 2) Conveying property in good condition is essential. When this is not feasible, property should be conveyed only to residents who want to purchase and are prepared to make the necessary sacrifices.
- 3) Shareholder education and leadership development training are critical and must continue thorough out the life of a LEC.
- 4) The specific housing market and economic conditions of an area dictate different regulatory and financing arrangements.

What Niche in the U.S. Housing Market Do LECs Fill?

Public policy and public sentiment in the United States regard homeownership as the best option for improving the quality of life by obtaining property, achieving housing independence, and accumulating equity. However, the growing number of low-income homeowners with thin equity cushions, along with the reliance of low-income buyers on high-cost mortgage products, may undo recent homeownership gains and introduce new risks into the overall housing market (State of the Nations Housing, 2002). In November, 2002, the *New York Times* reported that foreclosure rates were higher than any time since 1980. These issues demand, and are receiving, attention. Meanwhile, the option of LEC ownership may provide affordable, stable housing with many of the benefits of homeownership.

Expiration of government housing subsidies, limited governmental assistance for tenants to buy their apartments, and unaffordable rents in many communities make it difficult for many moderate and low-income families to afford housing and other necessities such as food, medical care, and higher education. In many metro areas, combined income from two full-time minimum wage jobs will not pay for

**Rental housing options often impose severe cost burdens on low and moderate income households: 14 million of 34 million renters pay more than 30% income and 7 million pay more than 50%.
-State of the Nations Housing, 2002**

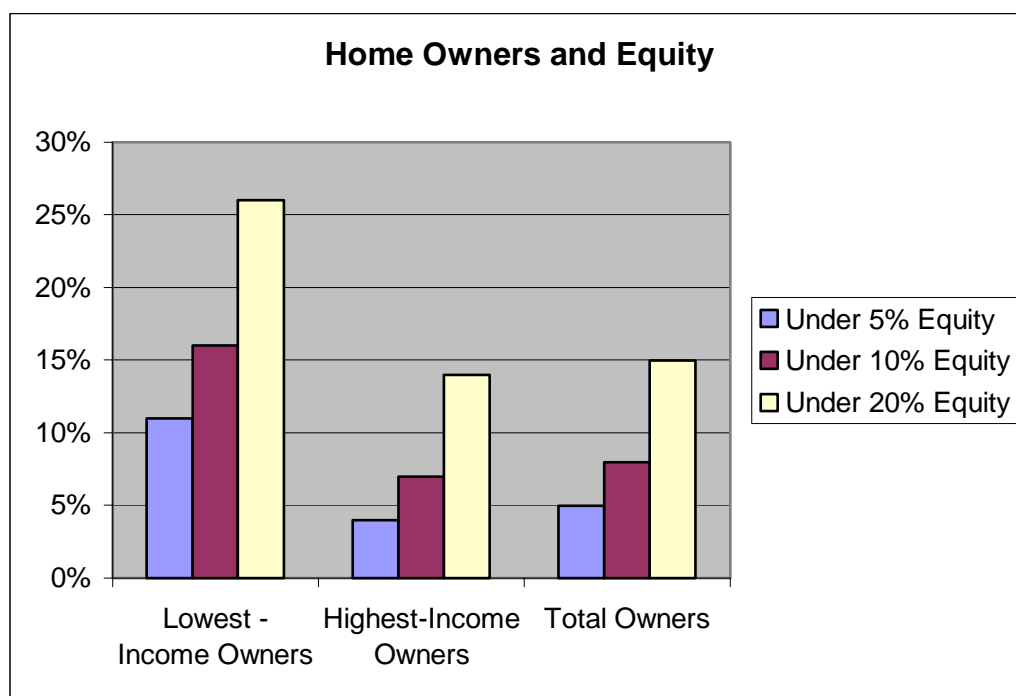
a modest two bedroom apartment at 30% of household income. And in some areas, moderate income families face severe cost burdens. For example, two teachers in Washington, D.C. would pay much more than 30% income for such a rental unit (State of the Nations Housing, 2002).

The State of the Nation's Housing reports for 2002 indicates that even during the current economic downturn, rents and housing prices have continued to rise in much of the country. Yet for the poorest 20% of the United States population, real incomes have been steady since 1975, totaling only 4% of U.S. household income and averaging about \$10,500. The Commerce Department has reported that about 1.3 million more people were poor in 2001 than in 2000.

Even when low income households are able to carry the cost burden of ownership, Chart 4 shows that, across all owners, low-income owners' equity accumulation falls well below that of higher income homeowners.

For low-income households, home ownership provides less of a tax advantage, less equity accumulation, and a greater risk of foreclosure.

Chart Four



Source: State of the Nations Housing, 2002

An extensive review by Rohe and his colleagues of research on the benefits of homeownership (2000) also raises some cautions concerning homeownership for low-income households:

- 1) the financial investment in housing may keep people from moving if their homes become difficult to resell;
- 2) households with variable or flat income trajectories are at risk for losing their homes or being unable to maintain them at a reasonable standard;
- 3) It is probably counterproductive to encourage households to buy homes in areas that do not have stable or increasing property values.

The limited investment and low monthly charges required by most LECs and the shared responsibility for upkeep and marketing of units reduce the first two liabilities of home ownership. Most inner city LEC pioneers do not match the profile for first time homebuyers. Many are older, often single parents, widows, or members of extended families, and with too few resources to be inclined to resettle in another environment. By recycling ownership of housing that has become no longer profitable to the private sector, they can remain in their homes, improve their housing and neighborhood, and

contribute to a more positive future for their community. The use of abandoned or undervalued property by LECs can provide a useful counterpoint to cyclical disinvestment, followed in some areas by reinvestment that leads to rising housing costs. Such properties are also likely to be located in areas with economically depressed populations who can most benefit from LECs.

LECs' Benefits and Return on Public Investment

Assuring decent, affordable housing for people with low incomes, in most cases, requires some level of subsidy (direct or indirect through tax deductions and mortgage insurance), as well as government regulation and oversight, private sector financing innovations, technical assistance, and involvement of intermediaries (Turner, 1998; Weicher, 2001). The same is true for LECs. Thus it is appropriate to ask whether the subsidies and other forms of public investment in LECs are efficiently used. While there is little comparative evidence on this question, Sazama and Willcox (1995) report data from a variety of sources indicating that LECs spend less on vandalism, litter removal, maintenance and operating expenses, and total costs of operations including depreciation compared to non-profit and limited dividend housing. **This data, plus the evidence on LECs' resistance to foreclosure and gentrification, indicate that LECs are an efficient way to invest public funds to assure access to decent housing for low-income households. LECs require non-cash investments from shareholders and the groups that assist them. LECs' niche in the larger housing market is not to replace other ownership options, but to serve buyers who will make these investments. Nor is it to replace rental options, although our review suggests that more subsidy dollars currently targeted toward rental subsidies could profitably be directed toward LECs.**

Most research evidence indicates that LECs provide good housing, offer lower entry costs, and remain affordable over the long run. Thus our research review confirms the findings of Sazama and Willcox's (1995) review that LECs are a good, cost-efficient housing option for many low-income households.

The only negative evidence on housing quality and financial benefit that we discovered came from the study of three cooperative conversions of public housing to LECs (Rohe, 1995). These studies remind us that for LECs to work, the sponsoring organization must assure that the buildings are delivered to shareholders in good repair and on financial terms that will at least not require shareholders to invest more money than they can afford and more than they are likely to realize in a resale.

In summary, LECs have the potential to fill a larger niche in the housing market for low-income households and others who have less ability or desire to own a single family home. While the private rental stock will no doubt continue to be the main housing supply for these groups, the State of the Nation's Housing reports for a decade have indicated that they are an often costly and inadequate housing alternative. The ownership, governance, and financial structure of LECs will and should vary according to local conditions and current funding mechanisms for low-income housing. However, there is room for innovation in all of these areas. The ability of shareholders to make decisions about their residential environments has given rise to successful housing forms that support the needs of the elderly and the physically disabled. Many cohousing schemes among wealthier populations employ limited equity cooperative ownership to assure continuing community control over housing decisions and community norms. These examples indicate that LECs provide a structure for innovative physical housing and community forms that could provide more satisfactory living environments for some households than those commercially available, especially those with limited financial resources.

Conclusions

This review of research indicates that LECs can provide a less costly, high quality housing alternative to homeownership, especially for the populations least likely to become homeowners, for those, such as the elderly and the disabled, who can be burdened by the demands of home ownership, and for others who are financially and socially less suited to the constraints and demands of single-family home ownership. LECs promote residential stability and increase resident control of housing. While asset accumulation potential is limited, low purchase prices and monthly charges presumably give LEC shareholders a greater ability to accumulate savings than cost-burdened renters and owners. LECs can provide access to secondary mortgages for educational and other needs, as well as tax advantages. Associations of LECs, as well as CLTs, can be effective in applying cooperative cost-saving and risk-sharing principles to the purchase of goods, services, and insurance. The research evidence that exists shows that LECs have a strong record of providing high quality, safe, affordable housing for low- and moderate-income populations.

LECs also offer important intergenerational assets to the society and to the children of residents. LECs must either be passed on to heirs or sold at prices that are

affordable by low and moderate income families. Thus they preserve the public's investment in housing for low-income people for the purposes for which it was intended, while promoting the intergenerational transfer of the use value and the secondary financial benefits of ownership. Studies strongly suggest that LEC residents also accumulate more social and human capital than comparable renters. These non-financial assets position their children to achieve greater financial security in their life times.

At the same time, LECs provide a counterweight in the national housing stock to economic swings that promote disinvestment in poor neighborhoods and low-income housing in down markets, and, in up markets, contribute to gentrification, displacement and homelessness for low-income populations. Periods and regions characterized by economic distress present opportunities for the development of LECs in locations where they are most needed. When the private sector disinvests in a community, land prices and jobs both decrease. The populations who remain in these areas need lower priced housing, but often find badly neglected, and sometimes still overpriced, options in the private market. When properties are available, the low cost of land and housing acquisition and the opportunity presented by forfeits, foreclosures, and abandonment lower the amount of public investment required. LECs nurture the social and human capital of residents, thus supporting the personal and community development of residents who remain in distressed communities. Their dense social networks, as well as formal, democratically determined rule structure of LECs can contribute to informal helping arrangements for the inevitably large segment of such populations whose lives are limited by old age, chronic disabilities, and multiple family demands. The financial and social benefits of LECs suggest that they, as well as CLTs, might deserve consideration during buy-outs of subsidized housing with expiring use restrictions and of properties owned by failed or struggling Community Development Corporations, especially when residents and a substantial portion of the local population have incomes too low to afford market rate housing.

Finally, LECs may have an especially important place in a society that strives to be democratic and includes a diverse ethnic population, many immigrants, and citizens who differ vastly in wealth. Suburban, single-family housing developments make up the largest proportion of the nations housing stock, with rental housing located mostly in central cities providing the second largest housing supply. These housing options have supported increased segregation by class and race over the last decades (Massey & Denton, 1993; State of the Nations Housing, 2001). The segregationist tendencies of such

a national housing market has been exaggerated at both ends of the income spectrum by new upscale suburbs of “McMansions” and gated communities and an increased public nonchalance about high levels of homelessness. Our analysis indicates that the populations who could be attracted to LECs, and whom research shows to be well served by them, spans a broad spectrum of income and ethnicity. The shared responsibility and democratic principles of LECs promote the formation of real working relations among residents, even when they differ in ethnicity, income, and human capital. In addition, the social and leadership skills that are learned in LECs increase residents’ resources and motivation for civic participation. LECs and CLTs are almost unique in the extent to which they link the social capital that community organizations and tenant activists promote to the control of economic capital in the form of real estate (DeFilippis, 2001).

Thus we conclude that LECs constitute a valuable, if underutilized, form of housing ownership with the potential to improve the quality of life for certain low and moderate income households and to contribute to the physical and social quality of the larger community.

The subsidy and regulatory requirements and support structures needed to increase and sustain the LEC supply are similar to those that exist for home ownership and subsidized rental housing. They include tax advantages and tax caps to reflect limitations on resale potential; low-cost development loans and mortgage insurance; regulation and oversight to insure proper adherence to governance, management, and resale

agreements; and shareholder education, counseling, and technical assistance. Just as home ownership and rental housing are sustained by large networks of government, financial, legal, and technical organizations with an interest in their success, LECs’

LEC’S Benefits

- ◆ **Affordable alternative to homeownership, especially for populations less likely to become homeowners**
- ◆ **Promote residential and neighborhood stability**
- ◆ **Increase resident control of housing**
- ◆ **Because of low purchase prices and monthly charges, LEC give shareholders greater ability to accumulate savings**
- ◆ **Tax advantages**
- ◆ **Safe environment**
- ◆ **Promote greater income integration**
- ◆ **Provide a counterweight in the national housing stock (disinvestment in poor neighborhoods and gentrification)**

prosperity would be aided by the creation of formal and informal associations of the professional, governmental, financial, and technical institutions that contribute to their functioning. LECs should have access to existing venues for financing low-income housing, especially tax credit financing which is now not used for LECs (if still valuable after tax cuts take effect). Finally, target markets for LECs need to be reached to inform them of the nature of limited equity cooperatives, their benefits and demands, and the evidence for their success. To this end, a stronger body of research on LECs would be desirable. But even in its absence, enough evidence exists to indicate that LECs could usefully expand to define a unique and valuable niche in the housing market.

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