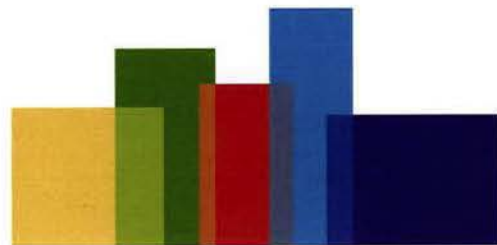


A Study of Limited-equity Cooperatives in the District of Columbia



Spring 2004



CNHED

ZONING COMMISSION
District of Columbia
CASE NO. 04-33
EXHIBIT NO. 74

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Cover photo taken by Mafara Spurlock of residents of the Ella Jo Baker Limited-equity Cooperative

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Executive Summary

Twenty-five years ago, following passage of the Rental Housing Act of 1977, the DC Government began to invest heavily in the formation of limited-equity cooperatives as an affordable housing tool. In recent years, however, some city officials and even a few non-profit developers have questioned the value of limited-equity co-ops (LECs) and expressed concern about the number of co-ops that have failed. As the City's housing prices have skyrocketed, there have been continuing reports that some cooperatives are in financial difficulty and others are being enticed to convert to condominium or sell their buildings to for-profit developers.

In order to determine the facts and ascertain whether LECs are still a viable affordable housing tool, the Coalition for Nonprofit Housing & Economic Development (CNHED), with support from the National Cooperative Bank, launched a study in the spring of 2002. Researchers set out to ascertain what had happened to the LECs formed: exactly how many were still in existence, their condition, and based on the results, make recommendations to abandon or strengthen this affordable housing tool.

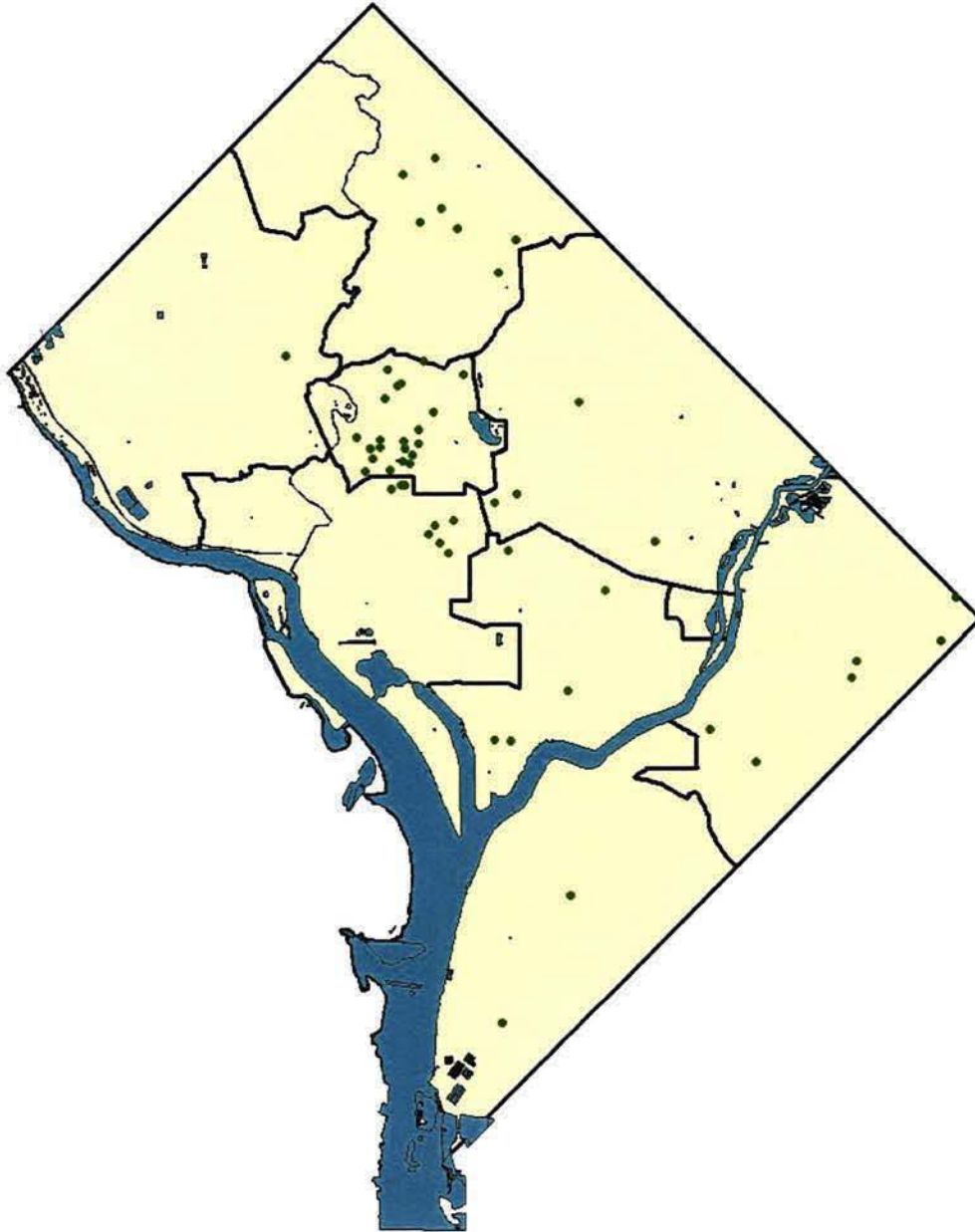
The Coalition is pleased to present the results of its research. Our study reveals that 81 LECs have been formed in the District over the last 25 years, and 57 of those still exist as limited-equity cooperatives. Surprisingly, public records indicate that only four of the LECs that did not continue were foreclosed on. By far the greatest number of limited-equity co-ops lost was from sales to private owners. Our research did not examine the reasons for these sales. Rather, we chose to focus on co-ops still in operation and the factors that appeared to contribute to or threaten their continued success.

We found evidence that nearly 80 percent of currently operating limited-equity co-ops we surveyed are in stable or excellent condition, with 20 percent in poor condition. We examined all of the pertinent public records associated with LECs and conducted interviews with their boards in order to develop a clear picture of their overall health and the issues that concerned residents. We found that a major benefit of LECs is that they provide extraordinarily affordable housing on a continuing basis. We also found that many of the co-ops are located in gentrifying neighborhoods and serve an important role in preserving affordability, thereby preventing displacement in changing neighborhoods.

We were interested in determining the characteristics that make a co-op successful. We found no significant differences in the performance of cooperatives based on size and age, but did find that an active and engaged board and membership is an important predictor of success. While the great majority of LECs appear to be financially sound, we found that almost universally, co-op boards believe they could be strengthened significantly through more training, technical assistance and management support. The overall conclusion of our report is that limited-equity co-ops are a valuable affordable housing tool. Thus our primary recommendation is that the District encourage the formation, development and preservation of LECs.

In an era when commitments to maintain long-term affordability under federal programs such as low income housing tax credits and federally supported Section 8 contracts are expiring, a housing strategy that assures ongoing affordability is a precious resource. Limited-equity co-ops are a proven tool for preserving ongoing affordability, and with proper support, we believe they can not only survive, but thrive, in the District of Columbia.

CNHED Study: Area Cooperatives



Introduction

What is a limited-equity co-op? A cooperative in which the purchase and resale price of a membership share is restricted in order to maintain affordability. Limited-equity cooperatives usually limit membership to people with low and moderate incomes. Cooperative members own a share in a corporation that owns or controls the building(s) and/or property in which they live. Each shareholder is entitled to occupy a specific unit and has a vote in the corporation. Every month, shareholders pay an amount that covers their proportionate share of the expense of operating the entire cooperative, which typically includes underlying mortgage payments, property taxes, management, maintenance, insurance, utilities, and contributions to reserve funds.

For more than two decades in the District of Columbia, a particular type of housing, limited-equity cooperatives (LECs), has been utilized as a unique tool for preserving homes for low and moderate-income individuals and families. Many of these cooperatives have been created in rapidly gentrifying neighborhoods, providing housing affordable to low income households despite rapidly rising real estate prices and rents. Limited-equity cooperatives have offered homeownership to thousands of District residents who might otherwise have been priced out of their neighborhoods.

The History of Limited-equity Cooperatives in the District

Tenant associations began buying their buildings and turning them into cooperatives at an increasing rate in 1977, when the District's "right of first refusal" provision was enacted into law. The law was a response to the explosive gentrification taking place in the 1970s in many District neighborhoods. For example, from 1975-1978, the 60 census tracts in a two-mile radius of what was considered the Central Employment Area of the District showed an increase in the sales price of housing of 96.6 percent. At the same time the average increase in housing sale prices for the city as a whole was 56.6 percent. Over the decade of 1970-1979, the African-American population of these same 60 tracts was decreased by 54,005 persons. ¹

Faced with current and potential losses of thousands of units from the stock of affordable housing, city officials enacted legislation in 1977 designed to prevent the displacement of those who could not compete in the market place with developers, speculators, and others poised to take advantage of the increasing land values.

The *Rental Housing Act of 1977* required that tenants be given the first right to purchase their building if available for sale. Other protections were subsequently put in place by the *Rental Housing Conversion and Sale Act of 1980*, a more comprehensive law governing conversions and tenants rights. ²

One of the solutions developed in response to the dwindling supply of affordable housing was the creation of a special type of cooperative designed to assist low income individuals to become homeowners. The title of a Washington Post article from May 1978 succinctly sums up the conclusions drawn from a community seminar held that month in response to the displacement issues in the District: "Housing Crisis: Ownership May be the Solution." ³

In this article, the author, Blair Gately, notes “cooperative housing ownership was cited as an answer to . . . a ‘full-fledged housing crisis’ in the District.” As originally conceived, these limited-equity cooperatives would, often with the benefit of subsidized financing from the District government, enable low and moderate income purchasers to permanently secure their residence from displacement. However, in order to keep the unit in the stock of affordable housing, restrictions were placed on the amount of equity that could accrue during members’ tenure.

Equity restrictions vary from co-op to co-op, but a typical arrangement in the District is that residents who leave the co-op are able to receive their initial down payment back with some accrual of interest during the period of residency. Since the gain in equity allowed is based on the down payment rather than the full value of the unit and the rate of gain does not accrue at the same rate as the housing market, carrying charges remain affordable for future residents. But in recent years some have questioned the value of this tool and whether public funds should be used to support it. A perception has arisen that limited-equity cooperatives have not been successful - fueled by the struggles of and in some cases failure of a distinct minority of those that were created. This perception is undoubtedly reinforced by the decision of some co-op associations to sell their buildings or convert their LECs to market rate condos. Supporters of this form of housing, however, argue that the great majority of these co-ops have achieved extraordinary long-term affordability and continue to operate successfully. The sales and conversions reflect the fact that the residents of these co-ops control the disposition of their properties, just as any other homeowner - subject to the terms and conditions under which they were financed. These observers believe that limited-equity co-ops continue to be a valuable and viable way of providing very affordable homeownership.

Current Condition of Limited-equity Cooperatives in the District

Current conditions in the District of Columbia call for the re-evaluation of the efficacy of using the limited-equity cooperative model as a means of providing affordable homeownership opportunities to current and future low-income residents. The lack of affordable housing, driven by rapidly rising real estate prices, has become a major concern to citizens of the city. Developers are showing great interest in redeveloping multifamily properties and the sale of these properties is increasing. Long-term Federal financing commitments on affordable multifamily buildings are expiring, and the risk is increasing that owners will opt not to renew their agreements to maintain these buildings as affordable housing. Given these circumstances, the preservation of affordable housing has become a high priority of the District Government.

In the midst of this affordable housing crisis, a sizeable number of limited-equity cooperatives continue to operate in the District, providing multi-family housing that is much more affordable than comparable market rate housing - especially in gentrifying neighborhoods. It is essential to know and evaluate the state of these cooperatives as we seek affordable housing solutions for the city. It is important to determine if this affordable housing model warrants further use, and if so, to determine if there are both ways to improve the process for forming limited-equity cooperatives and their structure, in the future while also supporting those that already exist.

It is within this context that this study was undertaken by the Coalition for Nonprofit Housing and Economic Development (CNHED) with funding provided by the National Co-op Bank. The research represents the first comprehensive attempt to identify the existing limited-equity housing cooperatives in the District of Columbia, assess their functioning and better understand the role they play in affordable housing.

What is Affordable Housing? The generally accepted definition of affordability is for a household to spend no more than 30 percent of its annual income on housing. Families who pay more than 30 percent of their income for housing are considered cost burdened and may have difficulty affording necessities such as food, clothing, transportation and medical care.

Purpose of the Study

The Study was conducted to determine the following:

- A compilation of all limited-equity cooperatives established in the District of Columbia since 1977, and an inventory of those still functioning.
- A picture of the relative financial health of existing limited-equity co-ops.
- An understanding of the characteristics of successful and poorly performing limited-equity co-ops.
- Recommendations to make future limited-equity cooperatives stronger and existing co-ops better equipped to succeed.

Cooperative ownership historically has been an important way to stabilize multi-family buildings and ensure their long-term affordability. The dearth of information on the relative success of LECs in the District, however, has hampered policy-makers and practitioners in their support of this housing option. Also, housing experts have been concerned for some time about the unavailability of assistance for co-ops that need it, seemingly caused in part by the lack of information about their status.

This Study was carried out under the direction of the Coalition for Nonprofit Housing & Economic Development (CNHED), principally from January 2002 to September 2003. Research was carried out directly or was assisted by CNHED staff, legal and research consultants and a number of professionals involved in the development and management of limited-equity cooperatives. Officers of limited-equity cooperatives who were interviewed for the Study provided key information, with the understanding that the information would be used only in the aggregate without identifying individual co-ops. Multiple other methods and sources of information were used in conducting this study. ⁴

Inventory of Cooperatives

To compile a comprehensive inventory of limited-equity cooperatives established since 1977 we used more than twenty sources ⁵ including lender and District agency records; client records from developers, consultants and attorneys who have worked with co-ops over the

past two decades; a survey previously compiled by the Coalition for Nonprofit Housing and Economic Development and interviews with individuals and officials from a number of organizations and agencies. We then searched District government corporation, land and property tax records to determine which of the cooperatives were limited-equity. We verified this status with officers of existing cooperatives that were interviewed.

Assessment of Financial Health of Cooperatives

A three-pronged approach was used to assess the financial health of existing cooperatives: a search of public records, interviews of co-op officials, and focus groups and discussion with professionals experienced with co-ops.

Public Records: The search of public records included a review of public records on cooperatives at the Department of Consumer and Regulatory Affairs (DCRA), Office of Tax and Revenue (OTR) and Recorder of Deeds. Files at DCRA were reviewed to determine if corporation filings were up to date. Tax records at OTR were reviewed to determine if cooperatives were being taxed at appropriate rates, whether they had filed for homestead exemptions, and to ascertain whether property tax payments were current. Recorder of Deeds records were reviewed to determine current ownership, outstanding liens and notices of foreclosure.

Interviews: To gather information and assess current issues and concerns regarding the financial health of the cooperatives, presidents and other officers of current cooperatives were interviewed on a confidential basis.

Each of the limited-equity cooperatives identified was invited to participate in the interviews with the assurance that results would be used only in the aggregate.

Interviews were conducted with representatives of 30 cooperatives. The interview was designed to elicit both descriptive information about the co-op (size, age, turnover rates, etc.); as well as information about other factors which might impact on the financial health of the co-operative. Among other concerns, co-op officers were asked to discuss:

- The history of the cooperative and the experiences of its residents
- Daily operations of the cooperative and the activity of the members and board
- The physical and financial condition of the cooperative
- Experience with management companies
- Management concerns and challenges

Focus Groups: We engaged more than a dozen professionals involved in different aspects of cooperative development, management, and assistance at two focus group sessions to discuss the current status of limited-equity cooperatives and to make recommendations for improvement.

Findings & Recommendations

Finding # 1: Approximately 75 percent of limited-equity cooperative units created are still operated as LECs; 18 percent have been sold or converted to condos; 5 percent have been foreclosed on; and the status of 2 percent is unknown.

Finding # 2: Nearly 80 percent of existing co-ops we researched are in stable or excellent condition.

Finding #3: Limited-equity cooperatives provide affordable housing and prevent displacement in the District.

Finding # 4: Most existing limited-equity cooperatives have one or more current concerns and anticipated future challenges that must be addressed in order to ensure financial stability.

Finding # 5: Many existing limited-equity cooperatives have suffered from a lack of training, technical assistance and management support.

Finding # 6 – Severe financial distress experienced by limited-equity cooperatives is both fixable and preventable.

Overall Recommendation: As a Matter of Public Policy, the District of Columbia should support the formation, development and preservation of limited-equity cooperatives.

Specific Recommendations: In order to stabilize, strengthen and preserve limited-equity cooperatives, the District Government and philanthropic community should support limited-equity cooperatives in the following ways:

Recommendation #1: Support training and leadership development for co-op residents and officers.

Recommendation #2: Support regular fiscal and operational “Check-ups.”

Recommendation #3: Fund technical assistance.

Recommendation #4: Provide financial assistance to promote long-term stabilization and affordability.

Recommendation #5: Consider alternative equity accrual options.

Recommendation #6: Create an Association for Limited-equity Cooperatives.

Research Findings

The findings that resulted from this research are described below.

Finding # 1: At least 75 percent of limited-equity cooperative units created are still operated as LECs; 18 percent have been sold or converted to condos; 5 percent have been foreclosed on; and the status of 2 percent is uncertain.

Co-op Inventory

The study began by compiling an extensive list of cooperatives from more than twenty sources including client and membership lists, DC government records, a previous survey and individual contacts. By cross-checking lists, conducting an extensive search of public records, and consulting with professionals who have worked with cooperatives over the past 25 years, we were able to determine that at least 81 limited-equity co-ops (3,028 units) have been formed in the District since 1977. Using these same sources along with site visits and interviews with co-op officers and residents, we determined that at least 57 of the LECs (2,269 units) formed are still in operation as indicated in Table 1, Figures 1 and 2 below.

Table 1: Current Status of LECs Formed

Action Taken	No. of Co-ops	No. of Units	% of Units
LECs formed	81	3028	100 %
Current status unknown	2	24	1%
Changed LEC status			
Sold	14	489	16 %
Foreclosed	4	136	5 %
Converted to condo	2	65	2 %
Disposition unknown	2	39	1%
LECs known to still be in operation	57	2269	75 %

Figure 1: Current Status of LECs Formed (number of co-ops)

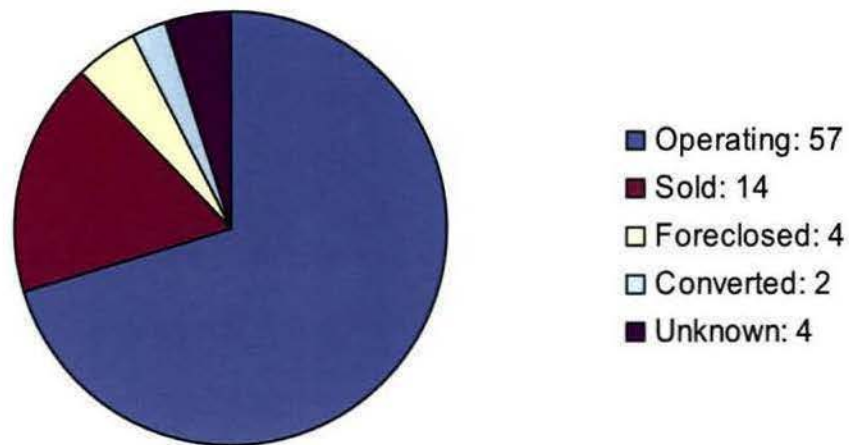
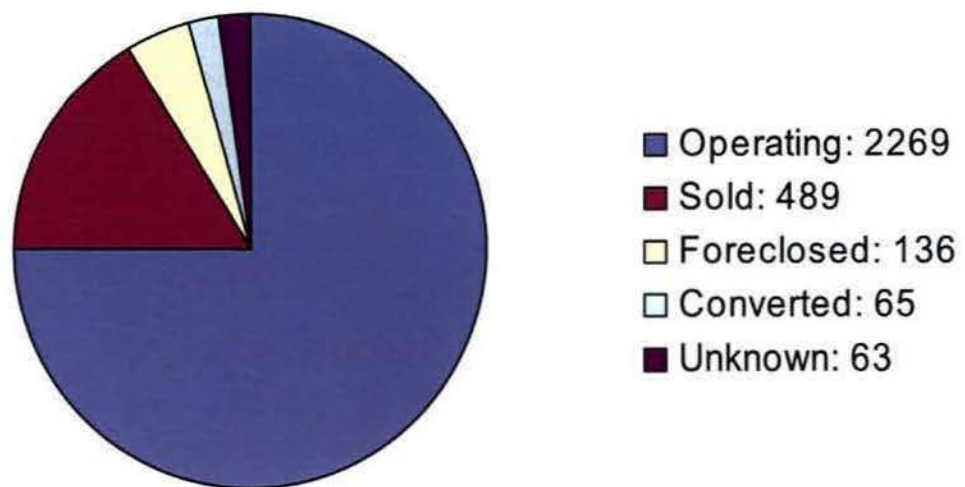


Figure 2: Current Status of LECs Formed (number of units)



We determined that of the 22 co-ops that changed from limited-equity ownership, 16 were the result of action taken by the co-op association to convert or sell the property and 4 the result of involuntary foreclosure by the lender. In two instances, we could not determine how ownership had changed.

We did not attempt to determine the reasons co-op associations decided to sell or convert their buildings to condominiums.

Finding # 2: Nearly 80 percent of existing co-ops we researched are in stable or excellent condition.

All 57 of the cooperatives identified were invited to participate in the study. We contacted each co-op by mail and by phone where possible and sought interviews with officers for each co-op. We were ultimately able to conduct personal interviews covering 30 of the 57 current limited-equity cooperatives. We conducted a public records search for all of the coops including the 27 co-ops we were not able to interview. We then compared results between the co-ops we interviewed and the ones we were unable to interview, and found similar results in our public records search. The same percentage of co-ops failed to claim the home-stead exemption, were taxed at the wrong rate, and there was a similar proportion of liens recorded on deeds.

Our conclusion, as a result, is that the un-interviewed cooperatives are very likely to have similar financial and physical health issues to those we found in the interview group of 30. To measure whether existing cooperatives were financially viable, we attempted through survey questions and public document searches to ascertain certain facts: physical condition of the building, financial reserves, status on payments of loans and expenses, and the impact of delinquencies, turnover and vacancies.

Information was sufficient on 24 of the interviewed cooperatives to rate their financial health. Each was rated on a scale of 1-3 with "1" representing those in excellent condition, "2" for stable condition and "3" for those in poor condition. The designations and the number of interviewed cooperatives that fell into each category appear in Table 2.

Table 2: Financial Health of Cooperatives

The cooperatives interviewed for this study were arrayed along a continuum of financial health. Nearly 80 percent of these cooperatives were at the very least financially stable, and a number were highly successful. About 20 percent of the properties, however, were severely troubled and in need of immediate assistance.

Rating/Description	Number of Cooperatives (Sample Size =24)
Group One: Excellent Condition • Stable finances into the foreseeable future • Appropriate reserves • Expenses/loans up to date • Building in good repair • Able to cover any necessary projects or repairs without jeopardizing reserves. • Active Board of Directors and membership engaged in maintaining the property • Board is diligent about finances.	Six (25 Percent)
Group Two: Stable Condition • Financially solvent • Currently stable, but will require proactive management to maintain stability • Short term concerns about delinquencies, vacancies and required repairs • Longer term picture includes concerns about carrying charges, required repairs, appropriate reserve levels, vacancies and/or delinquencies. • Board is actively working to address financial challenges	Thirteen (54 Percent)
Group Three: Poor Condition • High delinquencies/vacancies • Not current with loans and expenses • At risk of foreclosure • Currently in workout or need to be in workout. • Old boards ineffective; some new boards working to resolve problems	Five (21 Percent)

Finding #3: Limited-equity cooperatives provide affordable housing and prevent displacement in the District.

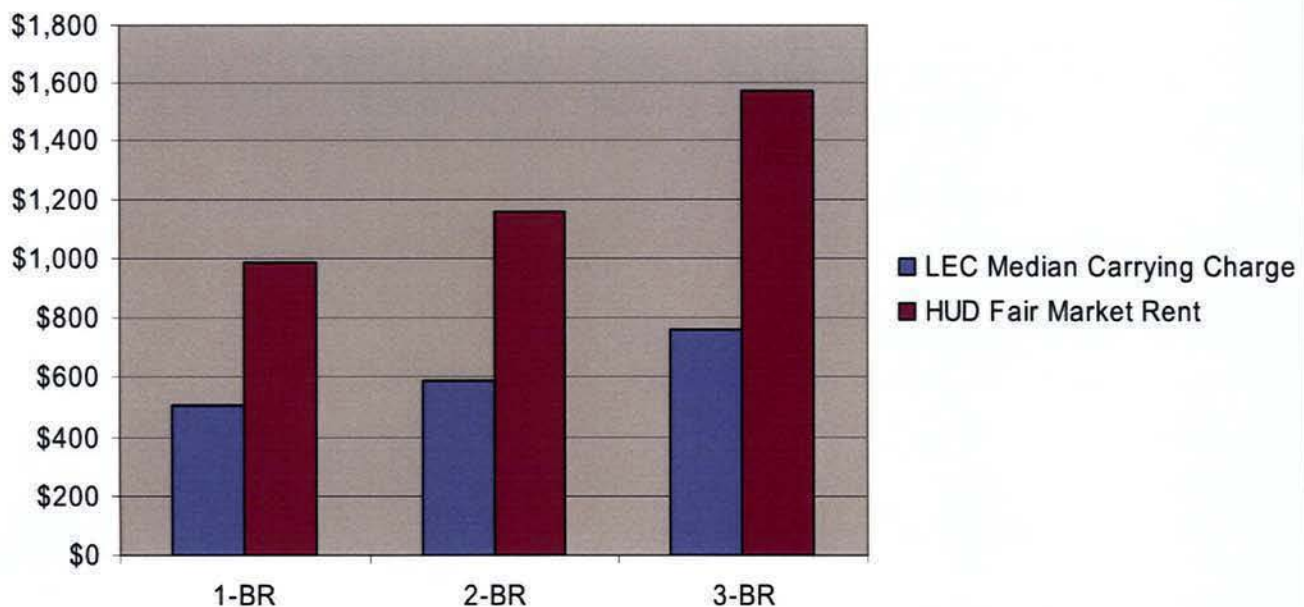
LECs Provide Ongoing Affordability

Limited-equity cooperatives remain much more affordable over the long run than either market rate multi-family rentals or condominiums because resale prices are restricted and as a result carrying charges (the equivalent of mortgage payments) are kept low. For the 30 cooperatives we examined Table 3 and Figure 3 below show that median monthly membership charges being levied in 2003 were just about half HUD's 2003 fair market rental rate for the District.

Table 3: Comparative Monthly Costs District-Wide

	1 Bedroom	2 Bedroom	3 Bedroom
LEC median carrying charge ⁷	\$504	\$587	\$761
HUD Fair Market Rent (2003) ⁸	\$984	\$1154	\$1573

Figure 3: Comparative Monthly Costs District-Wide



Residents benefiting from these low charges include both the original members and new members who purchase a co-op share when a previous owner sells. Thus, the principal advantage of limited-equity cooperatives is that they are a proven way of assuring ongoing affordability - unlike market rate co-ops and condos, which even if affordable to the first buyer, may be resold at unaffordable market rate prices to subsequent buyers.

LECs: One Tool to Prevent Displacement

There is growing evidence that displacement and relocation of long-time, low-income residents is occurring in Washington, D.C. The Fannie Mae Foundation's "Housing in the Nation's Capital" for 2003 notes that poverty has increased in a number of already low-income census tracts and states.

A disproportionate share of residents in the tracts that made a transition into high-poverty status moved in between 1995 and 2000...In all, more than one of every four residents of the tracts with rising poverty rates had moved from somewhere else in the city within the past five years. This evidence suggests that rising house prices and the loss of low-cost stock in other neighborhoods may be leading to displacement and contributing to the city's worsening poverty concentration. 9

A Healthy Cooperative

Cooperative A is an example of a cooperative that has managed to maintain affordability, mitigate displacement and run itself with a businesslike efficiency.

When the cooperative was originally taken from the owner and awarded to its tenants, they did a partial renovation that included all the major work that would be vital to maintaining the building's infrastructure. Future improvements were noted, so that the cooperative could use them as goals for the membership. Twenty years after its inception, the cooperative is still home to 75% of its original members (including one statutory tenant). The Board of Directors is large and includes representatives from each of the coop's buildings. They hold regular meetings and are intimately involved in running the building, and Board elections are held regularly. The membership meets twice a year, and the shareowners are active through membership committees. The past two years have been a major challenge for the cooperative—there are many renovations that the members would like to do, and their Section 8 contract is due to expire. They realized that they needed both a cash infusion for the work they wanted to do and technical assistance to re-negotiate the contracts. Their first trust loan will be paid off shortly, as well. They sought refinancing, but also realized that they needed to raise carrying charges—doing so for the first time in their history. They decided to make changes, but incrementally—the increases were explained to the membership, along with a schedule the cooperative worked out for continuing to raise the carrying charges over the two years, which will still stay well below the current market in their neighborhood, but would also meet their debt service and renovation costs. The cooperative, which has enjoyed a low turnover rate, has also become more proactive about delinquencies—they have not had to evict anyone, but they raised late fees and worked out payment plans with the 5% of membership that was 30 and 60 days past due. Residents of the property attribute its success to two factors—their attention to finances, and the familial atmosphere of the property. The residents know each other well and look out for each other. They also trust their Board of Directors to make thoughtful and careful decisions—the raised carrying charges were a difficult proposition, but in the end the members recognized the benefit. With active leadership and a well thought out plan for future health, the coop is confident about their continued success in the future.

Renters in gentrifying neighborhoods in the District are subject to market forces that are pushing rents higher, even in rent controlled buildings, or increasing the likelihood that their buildings will be sold or converted to condominiums. Tenants who have successfully exercised their 'first right of purchase' have in the past often used the limited equity co-op model to achieve ownership status – something many with lower incomes and weaker credit ratings could not have achieved through any other mechanism that existed at the time. Residents that have been fortunate enough to purchase a share in a limited-equity co-op – either when it was formed or later at restricted prices when previous owners sold – are protected from the threat of displacement and can afford to remain in their neighborhood indefinitely.

The neighborhoods of Columbia Heights and Shaw are gentrifying and have experienced a dramatic increase in investment in recent years accompanied by a steep increase in housing prices. In Shaw, single-family home prices increased 50 percent from 1999 to 2002 while condo prices rose 86 percent. ¹⁰ These two neighborhoods along with the Adams Morgan neighborhood (where prices also continue to rise) are home to 25 of the 57 existing limited-equity co-ops.

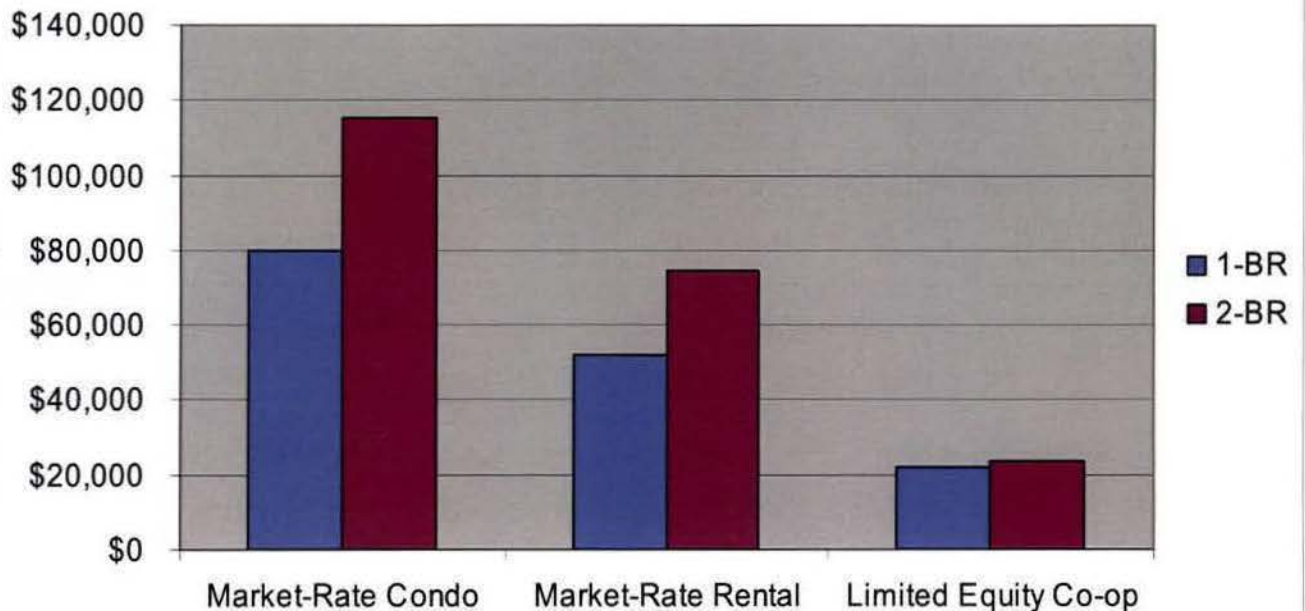
A recent informal survey indicates (Table 4, Figure 4 below) that a household would need an annual income of \$115,000 to be able to afford to purchase a median-priced 2-bedroom condominium costing \$352,500 in these neighborhoods and an income of \$74,000 to afford to rent a median priced 2-bedroom apartment at \$1,859 per month. By contrast, a household with an annual income of only \$23,740 could afford the current median monthly carrying charge of \$587 for a 2-bedroom limited-equity co-op unit in those neighborhoods. The median household income of Shaw residents in 1999 was only \$28,800 overall and \$24,800 for renters, making limited-equity cooperatives one of the few affordable options that could allow many residents to remain in the neighborhood as prices continue to escalate. ¹¹

**Table 4: Income Required to Afford Housing in 2003 ¹²
in Columbia Heights, Shaw and Adams Morgan**

Income required to buy a median-priced condominium in the three subject neighborhoods is more than four times what is required to pay median carrying charges at existing limited-equity co-ops in those neighborhoods. Income required to pay the median advertised rent is more than three times the LEC carrying charge amount.

Type of Multi-Family Housing	one-bedroom	two-bedroom
Market-Rate Condo	\$79,702	\$115,566
Market-Rate Rental	\$51,900	\$74,360
Limited-Equity Co-op	\$22,000	\$23,740

Figure 4: Income Required to Afford Housing
in Columbia Heights, Shaw and Adams Morgan, 2003



Co-op Residents Speak: Limited-equity cooperatives have often stemmed the tide of displacement. Residents describe the cooperative experience as a positive one in a variety of ways.

I moved here in 1971, but I wasn't living far from here and I knew I wanted to try to stay in this neighborhood, near my family. When I first moved onto the block there were 25 other Black families. Now our properties are the only remaining Black ones. The houses around us all sold for a lot of money and the neighborhood has changed completely from when we first got here. (Resident of U Street area co-op)

Other people are always coming by the building and asking us do we want to sell it to them. We don't accept their offers. We know we pay the least amount of anybody living on the block. (Resident of a Northwest DC co-op)

Finding # 4: Most existing limited-equity cooperatives have one or more current concerns and anticipated future challenges that must be addressed in order to ensure financial stability.

Limited-equity cooperatives face a variety of challenges, including the physical condition of buildings, management issues and financial concerns. The data in Table 5 below was gathered through interviews of coop officers and/or a review of public records. We could not determine accurately the incidence of valid liens currently pending against cooperatives because records filed at the Office of the Recorder of Deeds are not always up-to-date and complete. Co-op officers were insufficiently familiar with reserve requirements to reach a conclusion regarding their adequacy.

Table 5: Challenges Facing Cooperatives

Challenge	Sample Size	Incidence	Percentage
Significant/major repairs	26	11	42
Delinquencies >10%	25	9	36
Vacancy rate >10%	25	5	20
Turnover Rate >10%	26	2	8
Not current in paying expenses	25	4	16
Not current in paying debt	25	2	8
Dissatisfied with management company	26	7	27
Property tax issues:			
Arrearage on property taxes	24	5	21
Taxed at incorrect higher rate	24	5	21
Not claiming homestead exemption	24	4	17

Other matters of concern to some co-op officers included the issues of raising carrying charges, equity accrual, refinancing the building, and/or converting to a market rate condominium.

These concerns and challenges are no different than those faced by owners of other forms of multi-family housing. But because LECs strive to maintain very low carrying charges for their low and moderate income owners, operating margins may be lower, making it essential that they quickly identify and address concerns that could threaten financial stability.

Finding # 5: Many existing limited-equity cooperatives have suffered from a lack of training, technical assistance and management support.

Concerns About Training and Technical Assistance

Most co-op boards reported receiving little support if any from other cooperatives, lenders, or other organizations. Of the cooperatives interviewed for the study, 80 percent expressed some concern about needing help in running their building. Assistance was needed in fairly narrowly focused areas mentioned in Finding 4.

One resident said:

If there was one place we could go, to ask questions and get help that would make a big difference.

All of the cooperatives involved in the study received technical assistance and/or training in the initial conversion of their building. The vast majority, however, are now fifteen to twenty (some are even thirty) years in existence, and need assistance in dealing with the issues that have arisen. Access to more training and technical assistance was a major need for each cooperative. Every interviewee indicated that they thought access to more training and technical assistance was a major need for their cooperative.

Concerns about Management Companies

Interviews with residents and professionals involved with the co-op revealed that there is a wide variation of competence and commitment among the management companies utilized by cooperatives. More than 25% of the co-op resident interviewees stated that they were currently dissatisfied with the performance of their management company. Several other cooperative officers who are currently satisfied commented that they had had unsatisfactory relationships with previous companies. The source of the dissatisfaction ranges from a simple lack of responsiveness from the management company to allegations of fraud.

The cooperatives that were rated in "stable" and "poor" condition in the study were the ones that had experienced the lion's share of problems with management companies. In the case of more than one cooperative rated in "poor" condition, their former management companies appear to share culpability for their dire financial conditions.

The co-ops rated in “excellent condition” in our study have a businesslike approach to working with management companies. One resident said this by way of advice:

Run your co-op like a business and remember that the management company works for you. Check and double-check anything they give you.

This same resident’s cooperative goes over its management reports in monthly board meetings, and has empowered the management to hire only vendors that are pre-approved by the membership. Further, they maintain constant contact with their management company and submit all requests to them in writing as well as by phone.

Conversely, three of the five cooperatives in the category rated in “poor” condition stated that their management reports were inconsistent, cooperative money was not properly accounted for, and that the management companies they had engaged failed to respond in a timely fashion to major emergencies on the property.

Finding # 6 – Severe financial distress experienced by limited-equity cooperatives is both fixable and preventable.

Fixable:

Workout Plans

A number of limited-equity cooperatives in the District that have experienced severe financial stress have been salvaged through the use of “workout plans.” These plans, often brokered by a third party (e.g., their lawyer, their management company, a nonprofit agency) involve a legally binding agreement reached between the cooperative and its new and/or old lender. The agreement typically encompasses specifications on how the building will be governed and managed, how lagging cash flow will be increased, work that will be done on the building, terms for refinancing or additional borrowing, repayment terms and other provisions designed to restore the cooperative to financial stability.

Preventable:

Adequate Initial Rehabilitation and Financing

The physical condition of the building has played a crucial role in the financial picture of cooperatives in the District. Our research found that one of the most important determinants of current building condition was the extent and quality of the initial rehabilitation at the time the building was converted to cooperative use. Co-ops that had not secured adequate rehab financing or competent contractors to carry out the rehab were often unable to keep up with the financial drain of the on-going repairs. One co-op president in this situation commented that the inability to actually secure the financing promised for rehab just “crushed this building.”

Minimizing Delinquencies, Vacancies and Turnover

Co-ops that experience serious financial distress have usually experienced high turnover and lost revenue from excessive vacancies. Similarly, vigilance is required in minimizing delinquencies, with the willingness to evict those who fall behind on payments and/or do not adhere to catch-up payment agreements.

Adequate Carrying Charges and Operating Reserves

Cooperatives that have managed their finances well have assessed monthly carrying charges for members sufficient to cover normal operating costs as well as to maintain appropriate operating and other reserves. Operating reserves are essential to cover lost revenue during periods of economic downturn, unexpected expenses and other contingencies. In the course of interviewing co-op officers, we found that the majority did not know whether their cooperative had adequate operating reserves.

A Cooperative in Workout

Cooperative B was facing foreclosure because its membership was unable to make their mortgage payments.

Their subsidy payments had not been recalculated in years, several of the units had fallen into disrepair and were vacant as a result. Furthermore, there were several members who were severely delinquent on their carrying charges, (the ongoing violent and illegal activity in close proximity of the buildings had actually seeped into the building—the vacant units were being used as bases of operation) and a board of directors that had essentially abdicated its responsibility. The cooperative is unique in its neighborhood—it is located in an almost completely gentrified area, where both single-family homes and units in multifamily properties in close proximity recently sold in the high six and low seven figures. The units in the property are large and include as many as four bedrooms, a feature virtually unheard of in the current market. Rather than seize the asset, their mortgage company worked with the membership to develop an agreement that would get the cooperative back on its feet. The stipulation was that the cooperative sign a contract that bound them, their management company and a third party nonprofit, which would provide technical assistance and training. The contract provided them an opportunity to refinance their debt, and offered the following provisions:

- All members must attend re-training from the nonprofit, designed to help all of them understand their responsibility for managing the cooperative, making their mortgage payments and overseeing the work that needed to be done to restore the co-op to good working order;
- A new board of directors was elected;
- Anyone delinquent on carrying charges either worked out a payment plan or was evicted; and finally
- The much-needed work happened immediately in order to get the vacant units filled.

In order to receive a cash infusion, the co-op had to have all of the units recertified by the Housing Authority, which is responsible for paying the Section 8 subsidy that was assisting residents in making their carrying charge payments. The fair market value of each unit had not been adjusted in several years, so there was a huge gap between the potential amounts the unit could be generating and what the cooperative was actually being paid. The re-adjustment allowed the Housing Authority to make a one-time payment that served as a major cash infusion to facilitate much-needed repairs. In addition to remaking the building physically, the cooperative members needed to remake their attitudes and perceptions of responsibility for the property. The re-training of the board and membership focused on resolving differences between residents and also engaging them in the decision-making process as renovations went forward, redrafting their by-laws and reforming committees to undertake the maintenance of the property.

One requirement for a successful limited-equity co-op is to have a board that is willing to raise carrying charges if necessary, not only to cover normal operating costs, but also to build up reserves. This also requires an educated and responsible membership.

Adequate Replacement Reserves

Replacement reserves must be maintained at adequate levels in order to make major repairs and capital improvements such as replacing or upgrading roofs; heating systems and windows. Cooperatives that have managed their buildings and finances well have maintained adequate replacement reserves.

Even for co-ops that were adequately rehabbed the age of the housing stock dictates that significant repairs will be required periodically. Repairs required in the cooperatives that we examined in depth indicates a wide range of needs as illustrated in Table 6 below – 11 out of 26 co-ops examined with 542 of 908 units needed significant or major repairs.

Table 6: Repairs Needed in Sample Co-ops			
Category	Extent of Required Repairs	# of Co-ops (26)	# of Units (908)
None	Building had just completed repairs and nothing else was anticipated.	7	154
Routine	Building requires some repair to cover routine wear and tear.	3	60
Special Projects	Upgrades not crucial to health or safety, e.g. upgrading cabinets, exterior fencing	5	147
Significant Repairs	Repairs are required to one or more systems	2	334
Major Repairs	Replacing roofs, rehabbing units, major structural systems.	9	208

We concluded from our research that requiring adequate replacement reserves and making funding available to assist co-ops with repairs are two of the most important measures that can be taken to preserve affordable cooperatives.

Recommendations

The weight of evidence gathered from our research leads us to conclude that limited-equity cooperatives are a valuable tool that should be supported and encouraged. This tool is particularly useful at this time, because of its proven impact in providing very affordable housing on an ongoing basis. Because the residents of these cooperatives are the owners, they have full control over maintaining affordability and a second (and third, and fourth) generation of buyers who move in will benefit from below market prices, as well. Limited-equity cooperatives' fees have become increasingly more advantageous as surrounding real estate prices have escalated. At a time when many multi-family rental buildings are being put up for sale, it is important that there be mechanisms to assist tenants to purchase their buildings. For these reasons we make the following recommendations:

Overall Recommendation: As a matter of public policy, the District of Columbia should support the formation, development and preservation of limited-equity cooperatives.

By linking a requirement for continued affordability to financing, the District Government can justify providing low cost financing to support the formation of new limited-equity co-ops. Public subsidy buys affordability not just for an owner, but for successive owners. Likewise, in exchange for a commitment to keep the cooperative affordable in the future, the District should make rehab financing available to current limited-equity cooperatives, to help ensure their continuation. Technical assistance and training should also be supported as a means of helping to guarantee the city's investment in limited-equity co-ops and to preserve affordable housing.

In addition to supporting limited-equity co-ops directly, the District Government should offer financial support to nonprofit organizations that provide development advice and assistance to tenant organizations that are seeking to purchase their building; form a limited-equity co-op or refinance and rehabilitate their property. These are very labor intensive endeavors, and without outside support, few limited-equity co-ops will be developed or undertake major renovations.

A Neglected Cooperative's Demise

Cooperative C was originally converted in the mid-eighties, receiving an acquisition loan from the city. The residents identified a number of things that needed to be fixed in the property, and were promised a construction loan and permanent financing from the city as well. Unfortunately, the financing never came through. Co-op C was slowly but surely bankrupted by the huge financial burden of maintaining an ailing property. Their ancient heating system failed at least twice a year, and lacking the funds to replace it completely, the co-op was forced to pay for its repair repeatedly. In addition to the heating system problem, the residents also had a large number of members who aged into retirement and began living on fixed incomes. In order to raise the cash for the continued repair of the building most cooperatives would have raised carrying charges. Because of the large number of fixed-income residents, the cooperative was not only unable to raise charges, but also began to experience a sharp increase in delinquencies.

Specific Recommendations: In order to stabilize, strengthen and preserve limited-equity cooperatives, the District Government and philanthropic community should support limited-equity cooperatives in the following ways:

Recommendation #1: Support training and leadership development for co-op residents and officers.

Research participants commented frequently about training—both its value and the need for additional training. Co-op residents recognized the acquisition and rehabilitation process, with its accompanying training as a valuable learning experience. The individuals interviewed came from a wide range of educational and socio-economic backgrounds. Many felt that they benefited from the training they received as part of the building conversion process. They not only learned how to make an offer of purchase, but also how to hire contractors, choose amenities for their units, fund-raise, shop for financing, and engage in advocacy efforts with city officials. As one president of a Northwest co-op noted:

Most of the things we really needed to know [about managing a building] we learned in training. And we learned that we need to keep on learning.

Her comment echoed the sentiments of every co-op officer interviewed, who expressed an ongoing need for training of residents and co-op boards. Although they received training at the outset, many different issues and situations subsequently arose that required additional technical assistance.

Professionals who work with co-ops in a variety of different roles unanimously felt that the majority of existing co-ops were in need of additional training on a number of issues. In some cases, initial training at the point of conversion was inadequate or poorly done. In other cases, the training needs of a mature co-op were simply different than the training offered at the point of conversion. The unit turnover in some buildings resulted in a 2nd or 3rd generation resident who had no real understanding his/her responsibilities as a share owner or board officer in an LEC. Training in effective leadership and to promote good working relationships between members and the board is needed. Many interviewees felt that training was so essential that it should appear annually as a line item in the co-op budget.

Recommendation #2: Support regular fiscal and operational “Check-ups.”

Many existing co-ops could benefit from a “check-up” which focuses on routine indicators of fiscal and operational health as well as on the specific issues of concern to the co-op. These issues of concern vary widely. For LECs whose initial financing was dependent on now expiring Section 8 contracts or balloon loans, these check-ups could focus on measures related to efforts needed to secure alternative financing. Other possibilities include a review of property tax assessments, government monitoring requirements, compliance with loan terms, status of required filings or the need to fund capital improvements or minimize loss of income due to delinquencies or turnover.

Based on the results of the checkup, a plan of action could be developed to address problems noted. This plan could include training, technical assistance, or other action steps that are needed.

Recommendation #3 Fund technical assistance.

Co-op officers we interviewed universally stated the need for technical assistance to help them make critical decisions, work with their management companies and to simply have someone whom they could turn to for objective advice. If a cooperative waits to seek assistance until a problem has become a crisis, it may have serious lasting consequences that could ultimately result in the loss of affordable housing for that co-op's residents as well as a loss of affordable housing stock in the District of Columbia. It is important that once a co-op "check-up" (see Recommendation 2) is performed, there be a readily available source of technical assistance that co-ops can access quickly at little or no cost. The cooperatives that need help the most will be the least able to afford it. We recommend that the District government and the philanthropic community make it a priority to fund technical assistance for LECs in order to preserve this valuable affordable housing resource in the District.

Recommendation # 4: Provide financial assistance to promote long-term stabilization and affordability.

One of the survey questions asked the Cooperative Board to identify their greatest concern about the current status of their cooperative. Almost universally the response dealt with financial aspects of the cooperative that involved the need for additional financing or addressed concerns about whether to raise carrying charges or consider converting to market-rate housing. The most commonly mentioned concerns were:

- Financing necessary repairs
- Refinancing the building
- Having sufficient income to cover the mortgage
- Converting to condo or to a market-rate cooperative

A number of co-ops face expiring Section 8 contracts that may need to be renewed, balloon loan payments, or repairs to an aging building without sufficient reserves to cover them. The inability to refinance the cooperative loan or finance repairs constitutes the greatest threat to preserving this existing affordable housing. In the case of at least five of the interviewed co-operatives some type of emergency measure was required to refinance or immediately stabilize their financial situation. Assistance in the form of a funded "work out" plan developed in concert with a competent developer and better loan tools would protect these buildings from the risk of foreclosure.

When faced with the need for major additional financing, refinancing, or adjusting carrying charges to meet increased costs, co-op boards and memberships are increasingly being offered alternatives – such as converting to market rate condominiums and cashing in on the tremendous rise in prices that has occurred around them. We believe that public policies should favor long term affordability, using incentives such as low-cost financing when necessary to encourage preservation.

Recommendation #5: Consider alternative equity accrual options

Surprisingly, in the course of the interviews few residents talked about their co-op's equity restrictions (i.e. limitation on resale prices) as a consideration in their decision to form a limited-equity co-op. Most focused on their intent to stay in their homes and the process by which they had managed to achieve that goal. Other residents did express interest in investigating ways in which the equity restrictions could be removed or altered or mentioned plans for moving to a different ownership structure. One president commented: *I would like to be in a condo so I can use the money from it.* Others had observed friends or relatives purchasing single-family homes and looked forward to taking that step as well.

Professionals who develop or manage limited-equity cooperatives expressed far more concern about the equity accrual restrictions than did the residents who were surveyed for this study. Many felt that the use of different equity accrual schemas could result in greater wealth creation for individuals while still preserving affordability for the next purchasers. Two potential ways in which alternative equity accrual opportunities could be created would be:

1. Using hybrid models of equity accrual or differing base calculations, allow residents to develop a greater equity share than is currently and typically practiced.
2. Establishing programs or a mechanism, e.g., savings account, IDA or escrow account, to help members who are using the LEC as a stepping stone to a single family dwelling or another equity-building housing opportunity.

Given the need and desire of lower income residents to build wealth through home ownership and considering the increased temptation for cooperatives to convert to market rate housing, greater equity accruals may be warranted than have been allowed by many DC limited-equity co-ops. Conversely, the need to preserve a co-ops' long-term affordability argues for limits on equity gains. We believe that allowing co-op members some additional equity gain when they sell can be justified, even when public funding is provided, so long as the resale price for the property is limited to an amount affordable to specified lower-income ranges. This serves as a sensible compromise between maintaining long-term affordability and allowing co-op owners to realize equity gain on their property.

Recommendation #6: Create an Association for Limited-equity Cooperatives

A number of co-op officers and professionals who have worked with them noted that limited-equity co-ops could benefit greatly from establishing an organization for LEC training, mentoring, resource-sharing, and advocacy in the District. There are existing organizations for co-ops that address some of these issues but they are focused more on the needs of market rate co-ops than on the specific needs of LECs. One co-op president spoke for many when she commented on the need for a reliable source they could go to for advice and assistance.

If there was a place we could go for help, that would really be good. Or a place we could call when we need help.

We believe that in addition to training and technical assistance (see Recommendations 1 and 3 some of the assistance needed could come from other co-ops. For example, through an association DC based co-ops could share common experiences and problems and seek out group training directly applicable to their needs.

Conclusion

Multi-family ownership offers a timely solution to providing affordable housing in the District. In the past three years, residents of 85 buildings¹³ in the District, containing 5,661 units, sought tenant purchase assistance because owners had given them notice that their buildings were being offered for sale, and they faced being forced out of their homes. During that same period, nearly 100 buildings¹⁴ were sold using a loophole provision in the tenant purchase laws, without giving the tenants the opportunity to purchase. As more and more apartment buildings are sold, ownership options for tenants who live in these buildings must be considered. Use of affordable limited-equity cooperatives is one of the obvious choices.

Limited-equity cooperatives offer very affordable housing in some of our hottest real estate markets. It makes good public policy sense to do everything possible to preserve this type of affordable housing, which offers permanent affordability to low and moderate income residents. At a time when subsidies of up to \$50,000 per unit are required to achieve affordability for apartments in hot neighborhoods, a modest investment in technical assistance, training, and in some instances limited financing could preserve affordable housing at a much lower cost per unit than could be achieved with new construction or the acquisition and renovation of other existing buildings in those neighborhoods.

Following the recommendations made in this report will strengthen limited-equity co-ops as a valuable tool for both encouraging tenant home purchase and preserving affordable housing in the District of Columbia.

Notes

- 1) Paige, J.S. and Reuss, M. M. "Safe Decent and Affordable: Citizen Struggles to Improve Housing in the District of Columbia, 1890-1982"; Studies in DC History and Public Policy Paper #6, May 1983
- 2) The Rental Housing Conversion and Sale Act of 1980 requires that tenants be given adequate notice of conversion and that relocation payments be made to those who choose to leave. It also prohibited the eviction of elderly tenants who had incomes of less than \$30,000 per year.
- 3) Gately, B. "Housing Crisis: Ownership May be the Solution." *Washington Post* May 18, 1978 Cited in Paige, J.S. and Reuss, M.M., "Safe, Decent, and Affordable: Citizen Struggles to Improve Housing in the District of Columbia, 1890-1982; Studies in D.C. History and Public Policy Paper #6," May 1983
- 4) A description of the study methodology is presented in Appendix B.
- 5) A listing of sources used in developing the inventory of co-ops is provided in Appendix A.
- 6) A copy of the survey interview appears in Appendix C.
- 7) Median carrying charges for the thirty limited-equity cooperatives we interviewed.
- 8) Department of Housing and Urban Development, "fair Market Rents for Existing housing," Washington, DC: HUD, 2003:12.
- 9) Turner, M.A. et al., *Housing in the Nation's Capital*, Washington, DC: Fannie Mae Foundation, 2003: 55.
- 10) Davis, M., *The Changing Face of Shaw, Washington, DC: Manna CDC, 2003: 5.*
- 11) Davis, M.: 6.
- 12) Income required to afford housing assumes no more than 30% of income is spent on housing costs. Median sale price of market-rate condominiums was \$244,000 for one-bedrooms and \$352,500 for two-bedrooms. Median rent of market-rate apartments was \$1,298 for one-bedrooms and \$1,859 for two-bedrooms. Median rents and sale prices were determined based on analysis of classified advertisements in *The Washington Post*, and listings in the Metropolitan Regional Information Services database. Data was gathered in November 2003. Calculation of income levels necessary to afford median prices assumes a 30-year mortgage at 6% interest, \$5000 down payment and industry standards for insurance, property tax and closing costs. Calculation also includes a median condo fee of \$200 a month. Calculations of affordability for sales and rents do not include utility costs.
- 13) Source: University Legal Services.
- 14) O'Toole, A., "Testimony Submitted to the Committee on Consumer and Regulatory Affairs of the Council of the District of Columbia on the Rental Housing Conversion and Sale Act of 1980, Amendment Act of 2002," 2002:8.

Appendix A

Source Documents Used to Develop Initial Inventory

- Eisen and Rome Client List (dated 1-26-99)
- National Co-op Bank Client List (12-8-00)
- CNHED Multifamily Ownership Survey (1-30-97)
- University Legal Services Client List (no date)
- Edmund Flynn Company Client List (no date)
- DCRA List of Applicants 1978-97
- Rinker and Associates Mailing List (5-14-97)
- District of Columbia Conversion Registrations from 1977 to 1992
- Harrison Institute Records (1988-1992)
- List of District of Columbia Co-ops from the DC Department of Tax Revenue Database (1993)
- DC Mutual Housing Association, Inc. Membership List from late 1980s
- MUSCLE Client Records (1992)
- Affordable Co-ops Database maintained by MUSCLE (1992)
- Personal contacts with MANNA, WISH, ULS, GWMHA, Kriegsfeld, Linda Carson, New Columbia Land Trust
- DC Cooperative Housing Coalition membership list (January 1990)
- DC Mutual Housing Association, Inc membership list (from late 1980s)

Appendix B

Study Methodology

Description of Phase I “Research/Compile Baseline Inventory”

- Describe how/when inventory was developed
- Public document search
- Triangulation of data to establish co-op population

The next three charts show some descriptive data about the current LEC stock in the District of Columbia: location (by city quadrant), size, and length of time in existence.

LOCATION of LECs by CITY QUADRANT

Quadrant	Survey Participants (N=30)	Non-participants (N=22)
Northwest	23	14
Northeast	4	2
Southwest	1	1
Southeast	2	5
TOTAL	30	22

SIZE of LECs (Number of Units)

Number of Units	Survey Participants (N=30)	Non-participants (N=22)
10 or less	3	6
11-25	14	10
26-40	6	3
41 or more	7	3
TOTAL	30	22

Length of Time in Existence		
Age of Co-op (based on Incorporation date)	Survey Participants (N=30)	Non-participants (N=22)
5 years or less	1	1
6-10 years	5	5
11-15 years	11	3
16-20 years	5	5
20 years or more	4	2
Unknown	4	6
TOTAL	30	22

B. Description of Phase II “Conduct Survey”

Survey design and review (include copy in appendix)

Pilot test description

Describe how/when survey was conducted

Describe compilation of results

Tapes

Notes

Checklists

Matrix Summaries

B. Interviews and Site Visits

Each identifiable cooperative was contacted and invited to participate in the CNHED survey. (At the point when interviews were set up, 52 co-ops were on the viable list. Subsequent research turned up an additional 3 co-ops—bringing the current viable total to 55.) Multiple attempts were made to contact the co-op president or another officer to insure the maximum possible participation in the study. Contacts were made via phone, letter, invitation to a meeting, and in many cases, via the developer or management company with whom they had worked. A total of 29 interviews were conducted, representing 30 cooperatives. Of these 29, nineteen interviews (covering 20 properties) were taped. For interviews where there was no tape, the interviewer completed detailed notes.

Limited Equity Cooperative (LEC) Participation in the Survey		
LECs invited to participate in the Survey	52	
LECs participating in the Survey		30
Unable to contact (no usable contact info)		10
LECs refusing to participate/return contact		12
TOTAL	52	52

C. Survey Data

The interview survey was designed to elicit two types of information about LECs. The first type of information was simple descriptive data about each cooperative (size, turnover rates, etc.) The second type of information was more subjective in nature. In an attempt to elicit factors favoring co-op success or failure, respondents were asked a number of questions about their perspectives and concerns about their cooperatives.

A copy of the interview outline appears in Appendix E. The topics discussed appear below.

Initial Conversion Issues

Member/Board Activity

Financial Condition

Physical Condition

Co-op Management

President's Perspective on Co-op

C. Discuss Phase III "Analysis and Recommendations"

Describe how recommendations emerged

Discuss use of focus group with co-op professionals

As part of this research inquiry, two focus groups were conducted with groups of professionals who had worked with Limited-Equity Cooperatives (LECs) in various capacities. Participants included co-op developers and technical assistance providers, management company representatives, and attorneys.

Prior to the focus group, participants received a list of questions that would be discussed in the group. The questions were designed to foster discussion about each participant's professional perspective on the role and relative merits of LECs as well as recommendations for existing and future LECs.

Appendix C

Interview Survey

Introduction:

Mr./Mrs./Ms. _____, thank you for taking time to meet with me today. As I mentioned [on the phone/at the co-op meeting], I'm a [student intern] working with the Coalition of Nonprofit Housing and Economic Development. The coalition is a group of people who are working to improve the housing and job situation here in the District. There are many tenant groups in DC who are trying to purchase their buildings and become co-ops just as your group did. We are trying to talk with all the existing co-ops to learn the best way to help tenant groups.

As you know, the process of becoming a co-op can be pretty difficult. Your experience as [president] of co-op is very valuable and could help other groups. Anything you tell me is strictly confidential. We want to hear about your experiences and your advice, but we will not reveal the identity of any co-op or co-op president who helps us with this survey.

Before we begin, do you have any questions you would like to ask me?

[Request permission to tape]

Resident History

1) The first thing I would like to ask you is how you came to live in this building?

Probe: What prompted you to move here?
Were you living in the building before it became a co-op?

2) What was the building like when you moved in?

Probe: What was the physical condition of the building?
What was the situation with vacancies, relationships between tenants, etc.?

Building Conversion

3) You mentioned that the building was not a co-op when you first moved here, what happened to change that?

Probe: Relationship with landlord

[If respondent moved in post-conversion, skip question #3 and ask #3a and #3b]

3a) You moved into the building after it had become a co-op, do you know anything about the history of the conversion—why did the residents purchase the building and decide to become a co-op?

3b) What did you know about co-ops when you first moved in?

Probe: What did you know about the difference between renting and being in a co-op?

4) How did the tenants' association get organized?

Probe: Who had the idea to organize?

How did the tenant group learn about becoming a co-op?

What was your role in the tenant association?

5) Was the cooperative incorporated in the District, if not—where were the articles of incorporation filed?

6) Did you receive any training or assistance from a developer or another outside group to become a co-op?

Probe: What groups helped?

What was the nature of the assistance?

7) Are you currently working with a developer or outside group? If so, who?

8) What did you think would be different about being in a co-op rather than being a renter?

Probe: What were the goals, hopes for being in a co-op?

Have these goals been realized?

Overall experience—positive or negative?

9) How many units do you have in the co-op? Are all of them occupied by co-op members or are some rented out to tenants?

Member Activity in Co-op Affairs

10) How active are the residents now in the co-op organization?

Probe: How often are meetings held?

What are the relationships like between residents and board—cooperative, supportive, adversarial?

11) How active are the board members in running the co-op?

Probe: How long have the current members been on the board?
Are all board positions filled?
How are vacancies on the board filled?

12) Has the co-op had to deal with any serious problems? How were they handled?

Financial and Physical Health

One of the most difficult things that most co-ops deal with is keeping up with repairs and the management of the building. I'd like to ask you a few questions about how your co-op handles things like this. Also, most co-ops find that compared to what they paid as renters, their monthly charges increased as a co-op. I'm wondering if this was true for you?

13) How did your monthly payment change from being a renter to having co-op carrying charges?

Probe: What are the carrying charges for each size unit.
What is the history of carrying charge increases?

14) Were any units able to receive Section 8 certificates at the time of the conversion?
Do they still have these certificates?

15) Were any other subsidies received by the co-op? If so, what? When do these subsidies expire?

16) What kind of down payment did each tenant have to pay in order to be in the co-op?

17) If you move out of the co-op what do you receive back from your initial down payment or investment?

Probe: What kind of equity accrues according to by-laws

18) When the building converted to co-op, what kind of rehab was done?

Probe: Was the rehab completed?
Was the rehab. done well?

19) Are there any major repairs that you think need to be done now?

Probe: How critical and how expensive the current repairs are.

20) Are there any problems or difficulties in getting these repairs made?

21) What is the hardest part of dealing with the co-op finances?

Probe: Do you get all the information that you feel you need?
Are the reports difficult to understand?

29) How do you use these reports when you receive them?

Probe: What is the working relationship between mgt. company and president?
How often do they meet or discuss co-op situation.

Wrap-Up

I really appreciate all the time you spent with me today. It has been very helpful to hear about your experiences as a co-op president.

30) To wrap up, I'd like to know what you think have been the biggest factors in your success (or struggles) as a co-op? *(If this question does not elicit a meaningful response, try one of the three alternatives below)*

31) I've asked you lots of questions, but I'm wondering if there are any things I haven't asked that you think would be helpful for us to understand about co-ops?

{Use one or more of the following questions if number 30 doesn't seem to get a meaningful response—I would ask the one or two which make the most sense given the interview responses and which give the respondent a chance to summarize their advice and experience about the co-op.}

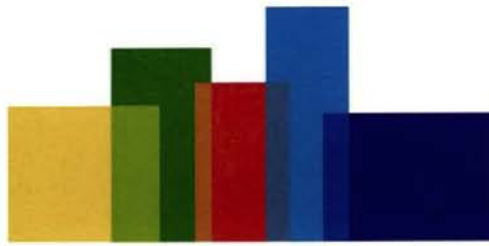
A) If you could give advice to a new co-op president, what are the most important things you think he or she should know or do?

C) What are the best (and worst) things about being in a co-op?

Conclude

**Thank you again for your help. Do you have any questions for me before I leave? [Discuss access to completed report or feedback on survey results]
[If appropriate, explore or discuss interest in receiving information or assistance for co-op from appropriate sources.]**

32) Verify respondent address and phone number for follow-up. Ask for alternate contact on board (name and number)



CNHED

About CNHED:

The Coalition for Nonprofit Housing & Economic Development is a membership organization that represents the affordable housing and neighborhood based economic development industry in the District of Columbia. CNHED's mission is to strengthen and support the ability of nonprofit community development organizations to improve the quality of life in the District of Columbia's neighborhoods through advocacy, information sharing, training, capacity building and communications.

Coalition for Nonprofit Housing & Economic Development

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