



SquareOne Villages

## Limited Equity Cooperative Legislative Agenda (HB2465 & HB2466)

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### **Problem:**

Despite the success of manufactured dwelling park co-ops, *multi-family housing* organized as a limited equity cooperative (LEC) remains an unfamiliar concept in Oregon and an untapped resource for addressing the state's housing affordability crisis. As a result, LECs do not currently qualify for several incentives that are available to other affordable housing types serving a similar income demographic.

### **Addressing the Problem:**

**HB2465 & HB2466** have been proposed to extend two existing housing finance incentives to LECs. The overall intent is to 1) allow LEC projects to hit deeper affordability goals in providing resident-owned housing, and 2) encourage more housing developers to pursue the LEC ownership structure.

Both bills have been endorsed by **Oregon Housing Alliance**, **Oregon Cooperative Housing Coalition**, and **SquareOne Villages**.

**Support HB2466:** To amend the Low-income Rental Housing Property Tax Exemption to also include housing owned by LECs serving very low-income households.

- The savings to the LEC would be directly passed on by reducing the monthly carrying charges paid by residents to the LEC, helping to create a resident-owned housing option for households under 60% area median income.
- A property tax is already available to rental housing serving this same income demographic. While an LEC is a form of resident-owned housing, the resale price is restricted in order to preserve long-term affordability.

**Support HB2465:** To allow LECs to qualify for Oregon Affordable Housing Tax Credits (OAHTCs) without going through a rental program.

- This would allow the LEC to reduce the interest rate on its mortgage by 4%, a savings that would be directly passed on by reducing the monthly carrying charges paid by residents to the co-op.
- OAHTCs are already offered to manufactured dwelling park co-ops and to rental housing projects paired with LIFT Rental.

**Background:** In 2019, SquareOne Villages received a grant from Meyer Memorial Trust to research and develop the LEC ownership model. SquareOne piloted a 6-unit LEC in Springfield in 2020 (C Street Co-op), and we are currently under construction on a 70-unit LEC in Eugene that will be permanently affordable to households under 60% Area Median Income (Peace Village Co-op). We have another large LEC project in the pre-development stage, and several other future development opportunities on the table. There has also been growing interest in the cooperative housing model in Oregon as a long-term affordable housing solution. The Oregon Cooperative Housing Coalition recently formed as an effort to organize and advocate for these interests.

**What is Cooperative Housing?** It's multi-family housing that is collectively owned by the residents through forming a cooperative corporation. Each resident has an ownership interest in the co-op rather than owning their individual dwelling unit.

**What is a Limited-Equity Cooperative (LEC)?** The proceeds that members can get from selling their ownership interest in the co-op is limited by the pre-determined formula set in the bylaws. This keeps the cost of shares low and preserves affordability for future members.

### **Limitations of Rental Housing & Single-Family Homeownership**

- The vast majority of public investment into affordable housing is restricted to low-income rental housing. In rental housing, low-income residents lack control, security of tenure, and equity.
- Homeownership is not a one size fits all solution. In traditional single-family homeownership, lower-income residents are exposed to significantly greater risk and are far less likely to generate wealth when compared to higher-income homeowners.
- Combining single-family homeownership with a community land trust model is an effective way for creating greater accessibility and stability to low-income households, however the household still must qualify for a mortgage, which is out of reach for many.
- Oregon Housing & Community Services has two divisions, rental and homeownership, which target different demographics. The rental programs primarily target households under 60% area median income (AMI), whereas the homeownership programs primarily target households between 60% to 80% AMI.

### **How LECs Fill a Gap**

- LECs can provide a pathway to *resident-owned* housing for households under 60% AMI, providing greater stability and control to a population otherwise relegated to rental housing.
- LECs don't require each households to qualify for an individual mortgage. Instead, the co-op holds a single mortgage, and each member pays monthly carrying charges to cover all operating costs, debt service, reserves, etc.

### **Implementing Permanently Affordable LECs at Scale**

- In 2021 the state legislature awarded SquareOne \$2m under HB5202 to create a "Shared-equity Affordable Homeownership pilot program". Along with some other one-time funding, this allowed SquareOne to begin construction on the 70-unit Peace Village Co-op, which combines and LEC with a CLT model, creating a permanently affordable homeownership opportunity for households under 60% AMI.
- In order to replicate this, the state needs to establish ongoing funding and incentives for LEC housing, such as:
  - Property Tax Exemption (as proposed in HB2466)
  - Oregon Affordable Housing Tax Credits (as proposed in HB2465)
  - Additional funding for the Shared-equity Affordable Homeownership pilot program

**Finance Diagram: Community Land Trust - Limited Equity Co-op Hybrid Ownership Structure**

