



COMMUNITY OWNERSHIP ORGANIZING PROJECT (COOP)

349 62nd Street
Oakland, California 94618

tele: (415) 652-9699



regional housing newsletter

No. 4

SAN FRANCISCO BAY REGION

SPRING 1974

THE POTENTIAL OF COOPERATIVE HOUSING By Edward Kirshner and Eve Bach*

Non-profit cooperative ownership of housing can be the beginning of a solution to the chronic housing problems of low-to-moderate income people. Housing prices can be lowered because of (1) savings inherent in the cooperative structure, and (2) savings derived from a program built around a partnership between non-profit cooperative housing corporations and local governments—both cities and counties.

Such a comprehensive program, formulated by the authors, is designed to assist low-to-moderate income people who are overwhelmingly renters. Housing provided by this program would remain perpetually available to the low-to-moderate income population.

In most areas, the program would have greatest applicability to the rehabilitation of housing converted from rental to cooperative ownership. It can also be used with equally favorable results in new construction.

Cooperative Ownership

People can own their housing cooperatively by means of a non-profit cooperative corporation, which would hold one mortgage and retain equity for all the included housing. Cooperative members would own and control their corporation by purchasing shares—one share per unit, one vote per share.

Because cooperative housing can be 100% financed (a prerequisite of the program), the corporation does not need to raise significant capital from its members. Thus, the cost of a share can be nominal—little more than first and last months' payment. Monthly payments would be set to cover the members' share of the common mortgage plus expenses.

Tax Advantages

By transforming people who would otherwise be tenants into owners, the cooperative makes them eligible for homeowners' tax advantages. Cooperative owners can deduct property tax and mortgage interest payments for California and federal income tax purposes. More impor-

* The views expressed are those of the authors and not of the Association of Bay Area Governments. Both authors have planning and research backgrounds, and are presently consultants in the Bay Area on the use of cooperative arrangements to lower housing costs.

tantly, each cooperative member is eligible for the homeowner's property tax exemption on the first \$1,750 assessed value per unit.

For low-income elderly, cooperative ownership offers even greater tax advantages: up to 96% rebate of property tax payments or 100% property tax exemption. Elderly renters in market housing are ineligible for this relief.

Refinancing and Real Estate Transfer Costs

Because mortgage and equity are retained by the corporation rather than by members individually, no refinancing occurs. To transfer ownership, the member who is moving out would sell his or her share back to the cooperative for cost (possibly adjusted for inflation). The cooperative corporation would then resell the share for the same price to a new member. The 6% real estate fee and other transfer charges would play no part in this transaction.

Cooperatives as Prerequisite for a Comprehensive Program

By acting as mortgage lender to housing cooperatives, local governments, at no cost to themselves, can allow additional price reductions. From savings (such as pension funds) or their borrowing powers (tax exempt bonds, for instance) loans can be issued to the housing cooperatives at below market rates. The loans can be structured as index loans; payments are initially very low and increase only with the cost-of-living or some other price index.

Further, local government can establish ownership to the land where the housing cooperatives are located, and then defer land rent until after the mortgage on the housing is paid off.

The above methods to reduce housing prices do not contain local subsidies. Yet they allow housing that at market rents would require a minimum annual household income of \$14,000 to be provided to households with incomes of \$7,000. Poorer households can be reached with limited subsidies, such as property tax exemption on land. More expensive subsidies, such as rent supplements and rehabilitation grants can be applied. Sources for the subsidies might be special revenue sharing funds, housing allowances, or the money raised by a capital gains tax on real estate transfer.

TAX INCREMENT FINANCING OF COOPERATIVE HOUSING

By E. Kirshner and E. Bach*

The preceding proposal for a partnership between local government and a non-profit cooperative housing corporation can be successfully combined with tax increment financing. As described in the Winter, 1973 issue of this newsletter, the tax increment district allows for property taxes on the additional value generated by redevelopment to be returned to the redevelopment district for debt service on land write-down, public improvements and relocation housing.

No election is needed to issue tax-exempt bonds in connection with a tax increment district. The usual penalty, in the form of increased property taxes on rehabilitation, is removed.

However, retaining the tax increment within the district may represent a local subsidy. If the housing generates additional local costs, these are paid by the rest of the community. Often the tax increment district does not involve local subsidy. For example, rehabilitation housing does not entail increased costs for other jurisdictions. New housing for the elderly does not increase school district costs.

In cases where tax increment district financing would involve subsidy, public policy determines whether the rest of the community is willing to absorb any added costs. In any case, since the tax increment district dissolves when debt service is complete, the redeveloped property is eventually fully returned to the tax rolls.

The Case of the Elderly

Consider a case that illustrates the potential benefits of using the tax increment district in conjunction with the preceding proposal on housing for the elderly poor. As cooperative members, they would pay their property taxes on their rehabilitated housing, and receive most of it back from the state in rebates. Yet the taxes they paid the district would also come back to help finance the cooperative.

Thus, housing that would require a minimum annual income of over \$12,000 at market rents would be affordable by elderly people with incomes under \$4,000 if they live in cooperative housing within the redevelopment district. ●

From the Reader of the Conference on Alternative State & Local Public Policies held June 13-15, 1975 in Madison, Wisconsin. The reader was edited and compiled by Derek Shearer and Lee Webb.

This item was made available by the Cornell University Library.

From Collection #6756, Conference On Alternative State And Local Policies Records.

Copyright and Permissions

Most of the items included in the Reader on Alternative Public Policies were published without copyright notice and hence entered the public domain upon initial publication. Some of the items found in the Reader are still subject to copyright. In some cases, even after extensive research efforts, we were unable to identify a possible rightsholder. We have elected to place the items in the online collection as an exercise of fair use for strictly non-commercial educational uses.

The Cornell University Library provides access to these materials for educational and research purposes and makes no warranty with regard to their use for other purposes. Responsibility for making an independent legal assessment of an item and securing any necessary permissions ultimately rests with persons desiring to use the item. The written permission of the copyright owners and/or holders of other rights (such as publicity and/or privacy rights) is required for distribution, reproduction, or other use of protected items beyond that allowed by fair use or other statutory exemptions. There may be content that is protected as "works for hire" (copyright may be held by the party that commissioned the original work) and/or under the copyright or neighboring-rights laws of other nations.

The Cornell University Library would like to learn more about these materials and to hear from individuals or institutions having any additional information about rightsholders. Please contact the Division of Rare and Manuscript Collections in the Library at: <http://rmc.library.cornell.edu>.