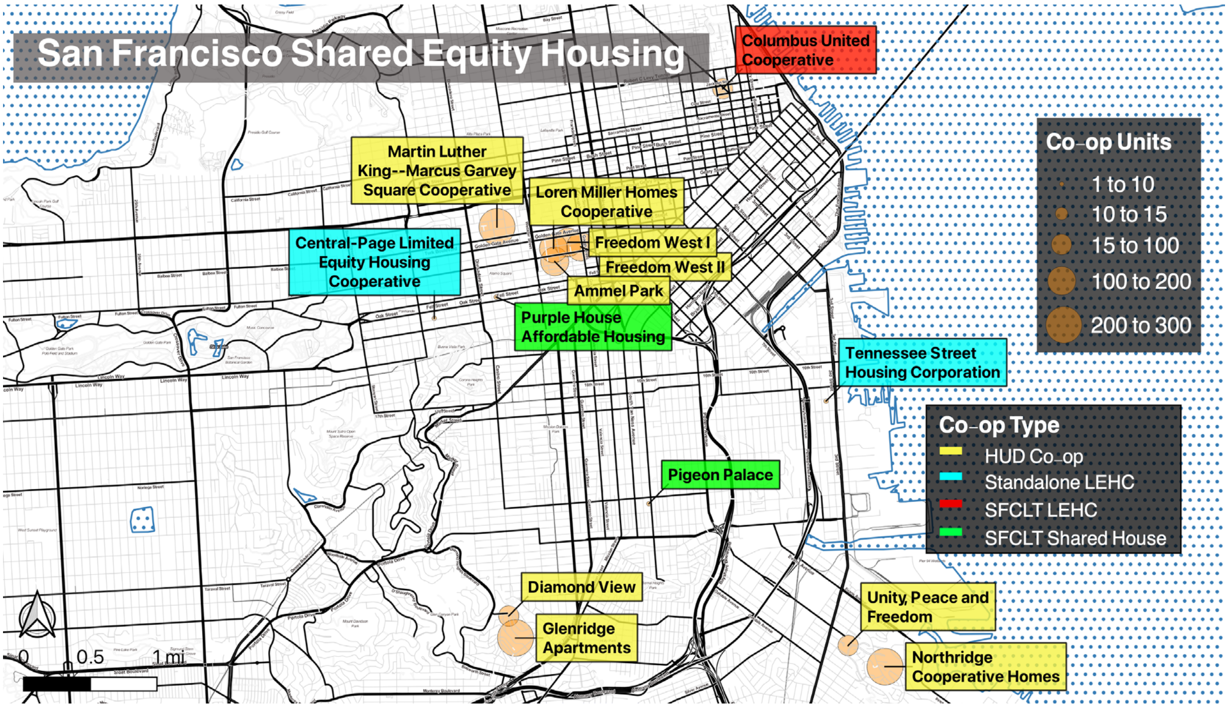
Shared Equity Co-ops in San Francisco



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Land Acknolwedgement

Urbanists and affordable housing developers are coming to terms with the racism embedded in our profession's history. The legacies of redlining, urban renewal, and displacement are topics of conversation across the sector.

Similarly, we must recognize that housing development is entangled in the history and ongoing dispossession of Indigenous Peoples from their land.

The Mayor's Office of Housing and Community Development is situated on the ancestral, unceded territory of the Ramaytush Ohlone, the original inhabitants of the San Francisco Peninsula.

Executive Summary

> “It has never been more difficult to build affordable housing”
>
> - Lydia Ely, Mayor’s Office of Housing and Community Development

San Francisco’s co-operative housing is in trouble. Most of the 1,580 limited equity housing co-operative (LEHC) units, built in the 60s through to the 80s, are plagued by chronic issues: litigious shareholders and board conflict; insufficient financing and oversight; and decades of deferred maintenance issues. Co-ops form a community of majority low-income, BIPOC San Francisco residents who deserve dignified and stable places to live. Government efforts to stabilize co-ops have, at best, been fragmented and inconsistent for decades. Today, San Francisco is at the same crossroads it has been for decades: what is the future of municipal government involvement in the co-op sector?

Most of San Francisco’s co-ops are concentrated in the Fillmore, Bayview, and Diamond Heights areas. The former, a frequent site for Black resettlement during dispossession-era urban renewal policies, houses thousands of co-op units. The Department of Housing and Urban Development (HUD) financed many using Project-based Vouchers (PBV), and historical Sections 221 and 226 mortgage subsidies or rate guarantees. Several projects receive ongoing federal subsidies through Section 8, providing significant rental revenue for their shareholders to oversee. Many have substantial deferred maintenance issues, for some a revenue shortfall issue, and others, mismanagement and board conflict.

Despite these challenges, co-ops are a powerful model of resident participation and community control. Their self-government features are a central concept in co-op development, and shareholders demand to be recognized for the homeowners they are, rather than a low-income tenant. Co-ops are a political project themslves, an example of decommodified housing with an explicit equity mission. They can only realize this mission with the consistent, adequate investment and resources which have not yet come to fruition in San Francisco’s history. San Francisco’s most challenged co-ops must be understood as a part of our story of racialized disinvestment in public housing.

Co-op residents form the leadership and decision-making body in each project, overseeing the needs and future health of the co-operative. Managing a multi-million dollar, 200+ unit residential real estate portfolio is complicated, yet no consistent training is provided to ensure board member success. While leadership is often strained, the relationships and community within a co-op can foster social capital development and create meaningful connections across demographic lines. Co-op residents and families have decades-long histories in their buildings and memories of the ongoing relationship with urban planners and decision-makers.

The relationship between San Francisco co-op shareholders and federal and municipal governments is fraught today. After 1980s-era tax cuts, HUD co-op development subsidies never returned. The City, supporting hundreds of affordable housing projects and reviewing numerous proposals annually has financed only one LEHC. Simultaneously, HUD continues to threaten co-op properties with foreclosure or subsidy removal to address chronic problems. The City has invested in occasional co-op technical assistance, primarily through one-off capacity grants to co-ops in crisis. New investments in the San Francisco FY23 budget demonstrate a commitment to serving the co-op community with capacity development and project subsidies. A $20 million fund for co-op housing repairs and $500,000 for technical assistance signal a significant shift in the co-op landscape.

This research study illustrates the complex dynamics in co-op housing across the nation. Multiple case studies in San Francisco, peer-city analysis of D.C. and Vancouver, BC, a research review, and dozens of interviews with sector experts form the basis of this report. The findings point to recurring trust issues for co-ops with HUD and the City and County of San Francisco (CCSF). Insufficient investment has expected results: co-ops are ailing, filled with complex social and political dynamics, which vastly outweigh individual shareholders' and boards' technical expertise. Notably, for the purposes of this study, we did not speak to co-op shareholders or their boards. Fractured trust requires a long-term rebuilding effort which was outside of the scope of this study, and requires dedicated resources with MOHCD staff. However, this document serves as a sectoral overview of co-op successes and challenges.

Many factors contribute to co-op disarray. Locally, HUD's co-op disinvestment mirrored disinvestment in all affordable housing. While nonprofit providers and public housing owners rearranged their assets co-ops were on their own as self-managed corporations. Shareholder in-fighting and apathy has severe consequences for co-op health and viability. Maintenance and governance issues grow without the leadership to address them. Consequently, risks increase, and oversight becomes more critical. Without accountability for, and investment in, co-op leadership, conditions deteriorated while government partners acted as a crisis-responder rather than proactively and holistically.

This report explores numerous findings in affordable co-ops: Management companies make a big difference; disinvested HUD Co-ops are common across the United States; San Francisco's co-op ecosystem is small; co-ops are ineligible for most financing programs; co-ops lack affordable housing development expertise and rarely expand; relationships are strained; people vary and lose interest in participating; bylaws are enforced inconsistently and unequally; co-ops are in old buildings, and old buildings have challenges; and Unit counts matter.

Co-ops need to be understood as a racial justice project in that their investment is also an investment in the leadership and organization of low-income BIPOC shareholders. Co-ops need recognition as a unique housing typology where blanket policy affecting all affordable housing projects, such as tenant selection and financing conditions, may not work. Most importantly, co-operatives need sustained and ongoing support to thrive -- a reality that has yet to happen in San Francisco.

However, there is a way forward. If practitioners embed key principles into their work, co-ops can secure their affordability and their future outlook. The principles include: (1) Race Matters for HUD Co-ops; (2) All Co-ops are Not HUD Co-ops; (3) an Investment in Co-ops is an Investment in Resident Leadership; (4); Tenant Selection is Key; and (5) Co-ops Need Consistent Support to Thrive. This report includes recommendations based on these principles, spanning from short-term actions to broader ecosystem goals.

Although San Francisco's co-op system is deeply fractured, there are outliers and peers to look for solutions. Locally, the Columbus United Cooperative and the Central Page LEHC are well-run, democratically engaged projects in good health with a positive long-term outlook. D.C. and New York City feature effective third-party service providers who help distressed co-ops through crises and ensure others stay healthy. In Canada, Vancouver met the same disinvestment in co-ops with a well-designed policy structure to maintain renewed subsidies with significant affordability restrictions with a self-funded technical assistance provider. San Francisco has yet to invest in an ecosystem of support, a necessary ingredient in co-op success.

1580
Co-op Units

11
Co-ops

1
MOHCD funded co-op

Recommendations

There is no simple way to address the decades of issues faced by HUD co-ops today. As explored throughout this report, residents have long histories in poorly managed buildings, and numerous systemic issues extend from disinvestment. CCSF is left with an important policy question: in absence of State or Federal government intervention, what should be done?

Short Term Actions

Some policy interventions require huge strategic shifts in order to change systems. However, a number of immediate, short-term actions will help co-ops today.

Compile Capital Needs Assessments and an audit of the co-ops not yet studied

Several co-ops have no information sharing agreements with MOHCD and it is unclear when their last Capital Needs Asssessments (CNAs) were completed. A project to compile CNAs from each co-op would help the City diagnose the issue and address potential risks in unit loss or future building crisis. This would also begin the process of trust building with co-ops.

Require board TA engagement in all new co-op funding

Any new loans could add a simple clause requiring board engagement with TA providers. As TA support is made available by the City, and in the medium-term, as boards routinely attend TA sessions, future loans could dictate requirements to pay for and attend board education sessions to mitigate potential issues. Training plans could be developed alongside MOHCD asset managers for review.

Add MOHCD staff capacity to respond

In order for MOHCD to collaborate with a technical assistance provider and increase involvement with current distressed co-ops, new staff capacity is required. In the past, MOHCD staff would attend board meetings and work on ecosystem issues with HUD and boards.

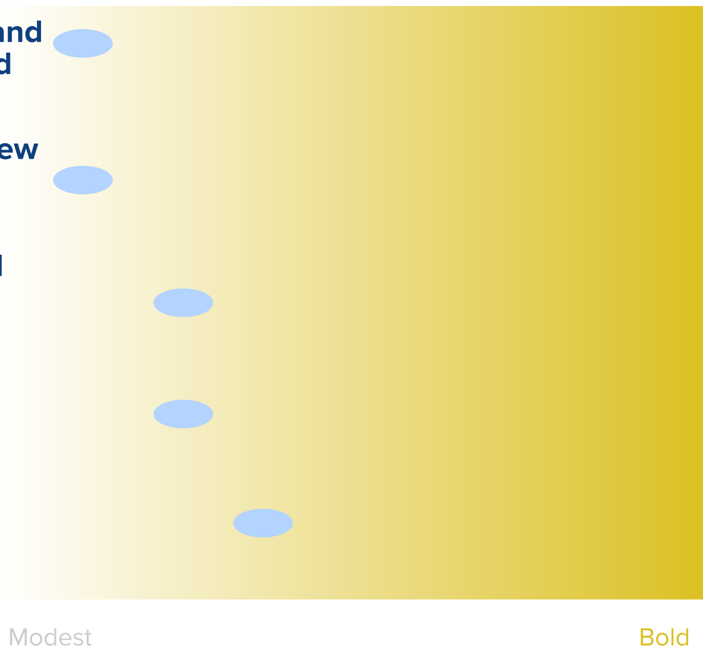
Engage an independent TA provider, allow their advocacy

As the 2022 Request for Proposals on co-op technical assistance launches, the provider must be collaboratively supported to address co-op concerns at an arms-length distance from MOHCD. In the past, specific City involvement with a TA provider has created challenges in maintaining trust between boards and provider staff. Similarly, in order for the TA provider to become entrenched in the community of co-op practitioners and shareholders, their advocacy on the issue must be recognized as a valid and helpful part of the policy process.

Build up resident capacity & co-operative housing spirit

As MOHCD staff pointed out repeatedly during this research, a number of co-op shareholders operate from a point of individualism, outside the best-interests of the co-op as a whole. This work moves beyond the boards as other shareholders may occupy board seats in subsequent elections and it is vital to address capacity in all co-op leaders, elected or not.

1. Compile Capital Needs Assessments and an audit of the co-ops not yet studied
2. Require board TA engagement in all new co-op funding
3. Add MOHCD staff capacity to respond
4. Engage an independent TA provider, allow their advocacy
5. Build up resident capacity & co-operative housing spirit



Possible Long-Term Goals

Change in the co-op sector requires parameters around potential policy. San Francisco must explore the future of co-ops and the role CCSF should play in problem-solving and funding new ones. The City's policy options are varied and dependent on the larger goals set for co-ops in the affordable housing ecosystem. Goals to consider:

1 Co-ops have an ecosystem of service providers and funding for rehab

A true ecosystem requires a critical mass of organizational funding and experts. In order for co-ops to maintain good health, they need service providers who understand their needs and have tailored solutions. San Francisco's network is small and fragile, and too few organizations like management companies are familiar with co-op interventions.

Similarly, in order for co-op units to be preserved, rehabilitation dollars need to be available for their maintenance needs. Some co-ops may be capable of refinancing and funding their maintenance on their own accord, however, several will require subsidies.

2 MOHCD has the capacity and interest to respond to co-op advocates with new development

Presently, MOHCD lacks resources to respond holistically and carefully to co-op needs. The future could look different, with MOHCD staff resources to address co-ops with dedicated time, technical support and funding available from within the City, and resources to analyze the issue holistically. Similarly, MOHCD's interest in co-operative development in the long term may shift.

3 MOHCD prioritizes tenant leadership and agency

A co-op's promise of community development through participation and agency are not necessarily exclusive to the co-op model. These values can be realized throughout affordable housing typologies with funding strategies that prioritize resident engagement and leadership.

4 Ensure permanent affordability

Protecting co-ops may require substantial re-investment in their units, thereby entrenching co-op structures even further. To address permanent affordabiliy, one may need to look at redevelopment on the site, or deeper co-op partnerships to mitigate concerns such as market-rate developer acquisiton of co-op land.

5 Redevelop co-ops with where possible redeveloped under a Land Trust model

Lastly, a proper oversight administrative organization may be an effective tool for co-operatives in the future. A strong Community Land Trust with a history of co-op acquisiton and the relationships and capacity to address legacy HUD co-op issues may be the best long-term solution to co-op health. However, this intervention requires substantial investment and time.

Four Decisions for San Francisco

CCSF must define co-op policy priorities to support these goals.

Decision 1: What is the scope of a third-party co-op organization?

This work can look like a simple technical assistance workshop provider, or a larger sectoral advocacy organization responsible for co-op intervention and comprehensive support.

1.1 Light Touch: Support a TA provider for two years

1.2 Systems Change: Create a UHAB-like sectoral advocacy organization

Decision 2: How can long term affordability be protected?

While the City of Vancouver leveraged land leases to embed new restrictions in the property, MOHCD has made small moves in loan documents on LEHCs. This is a policy decision with a long-term time horizon.

2.1 Light Touch: Deeper loan restrictions with new development financing

2.2 Systems Change: Transition Co-ops into a CLT superstructure

Decision 3: How will resident participation and control fit into MOHCD's policy goals?

Co-op features of control and participation are not exclusive to one housing typology. For co-ops, they can be implemented in small ways through workshops and technical trainings on co-op history and involvement best practices. Conversely, shareholder engagement can be an organizing project for MOHCD, where residents are mobilized through ongoing and committed engagement from a community-based organization. This can be amplified further, where MOHCD applies a resident leadership lens to all affordable housing projects.

3.1 Light Touch: Engage co-op leaders in board trainings

3.2 Medium Touch: Build up resident capacity & co-operative housing spirit

3.3 Systems Change: Prioritize resident leadership across affordable housing typologies

Decision 4: How to address deferred maintenance and redevelopment potential?

Some co-ops need massive investment in the coming years. MOHCD can leverage this as an opportunity for broader scale change and further investment in the co-op model, or provide the rehab funds and move on to other projects.

4.1 Light Touch: Rehab existing co-ops and protect against development risk

4.2 System Change: Utilize co-op land for new development through enhanced partnerships and co-op expansion

Policy Interventions in Support of Long-Term Goals

Conclusion

For decades, San Francisco’s affordable co-operatives have operated with too little support. Today’s policy outcomes are a part of a larger and longer history of disinvestment in affordable housing with few proposed solutions. HUD’s approach has steadfastly ignored co-operative housing ecosystem health, and there is no record of investment in their long-term viability. Similarly, the State of California has missed intervention opportunities and has yet to work alongside co-ops or their partners. Most of the local co-ops have received no city funding, leaving many questions about who should step in to solve problems. As various levels of government point fingers or divert their gaze to the rest of the housing crisis, co-op shareholders struggle.

Although many co-ops have problems, there are outliers, and solutions are possible. Local success stories of LEHC join the national sector’s advocates who push for the expansion of low-income housing ownership and permanent affordability. Across the world, advocates recognize co-ops as part of the affordable housing toolkit, and several fixes to technical problems are implemented daily. With sustained public investment in co-operative housing, these shareholders and their boards will have the chance to promote an alternative to status-quo affordable housing and a model prioritizing low-income resident participation and control.