

## Converting Public Housing to Cooperatives: The Experience of Three Developments

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### *Abstract*

This article assesses the feasibility of converting public housing developments to limited-equity cooperatives to increase tenants' control over their living environments. It analyzes the experience of three housing developments converted under the Public Housing Homeownership Demonstration of the U.S. Department of Housing and Urban Development.

Obstacles to conversion included the extensive renovations needed before transfer, the prohibition against involuntary relocation of tenants, the work of generating interest in the cooperatives, and the difficulty of financing. Indicators of the cooperatives' success are mixed. One faces serious financial problems; the other two are financially sound despite substantial amounts of share payments in arrears. One set of cooperators is largely dissatisfied with living in the cooperative; the other two sets are mildly satisfied. Factors inhibiting greater success included inadequate board training, poor communication between board and residents, lack of participation by cooperators, and the need for major repairs soon after purchase.

**Keywords:** Homeownership; Low-income housing; Cooperatives

### **Introduction**

Over the years, conventional public housing has been harshly criticized for failing to provide decent and safe shelter for its occupants. As Bauman (1994, 347) notes, "In the hierarchy of the most vilified social welfare policies in the United States, public housing has ranked well at the top." Some have argued that the basic idea of publicly owned housing is flawed, while others argue that underfunding, overregulation, poor management, and excessively negative publicity are responsible for the problems (Bratt 1986; Stegman 1990). Regardless of their causes, the problems associated with some public housing developments have led many to explore alternative means of housing low-income families. Many have argued that "third sector" housing approaches, such as mutual housing associations, community land trusts, and limited-equity cooperatives, offer viable

alternatives to conventional public housing (Davis 1994; Kunze 1981; Zimmer 1977). These forms of housing for low-income persons are said to have a variety of advantages over conventional public housing.

The purpose of this article is to assess the feasibility of converting public housing to limited-equity cooperatives. Three questions will be addressed:

1. What are the major obstacles to transferring public housing developments to the tenants?
2. Have limited-equity cooperatives created from former public housing developments been successful?
3. What factors contributed to and detracted from the success of these co-ops?

These questions will be addressed by looking at the experiences of three limited-equity cooperatives that were created by the transfer of multifamily public housing developments to former public housing tenants.

## **The policy context**

The transfer of public housing units to tenants was first authorized in the 1974 Housing and Community Development Act. Under Section 5(h) of that act, the U.S. Department of Housing and Urban Development (HUD) was granted the authority to approve the sale of public housing units to the tenants at prices determined by the local public housing authorities (PHAs), while the federal government continued to pay all outstanding debt on the units. The act included no support for these sales, so the provision largely went unused. From 1974 through 1984 a total of 540 units were sold to tenants, and almost all of those were scattered-site, single-family units (Koch 1985).

In 1984, the Reagan administration proposed the Public Housing Homeownership Demonstration (PHHD) as a means of testing the feasibility of an expanded sales program. Congress approved this program but limited the number of units that could be sold to 2,000. HUD invited applications from local housing authorities and received 36 applications, 17 of which it considered acceptable. Altogether these 17 PHAs proposed selling 1,315 units to tenants. Most of the approved sales programs involved the sale of scattered-site, single-family units, but 5 programs

involved the sale of multiunit developments: One of these was to be sold as individual condominium units, and the other 4 were to be sold to limited-equity cooperatives whose shareholders would be former public housing residents.

At the end of the four-year demonstration period, only 320 units had been transferred to tenants. A HUD-commissioned evaluation of the demonstration identified a number of obstacles to the transfer of units, including lack of funds for counseling and training, lack of funds to repair the units before transfer, lack of replacement housing, and lack of assistance in accommodating nonparticipating tenants (Rohe and Stegman 1990, 1992, 1993).

In 1987, congressional Democrats proposed their own version of a sales program that was adopted as Section 21 of the U.S. Housing Act. Rather than selling units directly to tenants, Section 21 authorized HUD to approve the transfer of entire housing developments to qualified resident management corporations (RMCs), which could then sell individual units to tenants. These RMCs had to be approved by existing resident organizations or by a majority of the residents and have an elected board of directors. Prior to ownership transfer, the RMCs had to have a management contract with the PHA and have managed the development effectively for at least three years. The first Section 21 sale occurred in September 1990, when 132 units of the 464-unit Kenilworth-Parkside housing development in Washington, DC, were sold to its RMC for one dollar.

The Section 21 program was to be short-lived. In 1990 it was replaced by the Homeownership and Opportunity for People Everywhere (HOPE) 1 program. HOPE 1 authorized support for an expanded sales program, providing funds to PHAs to both plan and implement sales programs. The act authorized planning grants of up to \$200,000 and implementation grants of unspecified amounts to cover the costs of counseling and training, relocation, property rehabilitation, administration, and economic development activities designed to increase the incomes of tenant purchasers.

To date HUD has made planning grants to 231 PHAs, totaling more than \$30 million. It has also made implementation grants to 29 PHAs, worth more than \$70 million, for the sale of 2,212 units. Although the program is not a high priority for the Clinton administration, it is continuing to support sales efforts that are under way. The housing authorities that will be converting developments to cooperatives under the HOPE 1 program should learn from earlier experience. This article will contribute to an

understanding of the potential of cooperatives for providing decent, safe, and affordable housing to low-income families.

### **Limited-equity housing cooperatives**

Cooperative housing is owned and managed by an organization that, in turn, is controlled by the occupants of the individual dwelling units. Rather than owning their units, as with condominiums, cooperators own shares in the corporation that owns the development. A share gives a cooperator the right to occupy a specific unit and to vote on corporation matters such as the election of a board of directors. *Limited-equity* cooperatives seek to keep the dwelling units affordable to future low- and moderate-income families by restricting the sale price of shares. The share price at resale is determined not by market value only, but by a formula included in the bylaws and the subscription agreement signed when the share is purchased.

Beyond these common defining elements there is great diversity among limited-equity cooperatives. One important distinction is that between self-managed and professionally managed cooperatives. In some co-ops the residents assume most or all of the management tasks themselves, while in others professional management companies are hired. Clearly a self-managed cooperative requires much greater commitment from residents. Although most cooperatives are single buildings or multifamily developments, scattered single-family units or groups of small multifamily units have also been formed into cooperatives (Heskin 1991; Rohe and Stegman 1993). Resale formulas adopted in limited-equity cooperatives also vary widely. Some are very restrictive, while others are much more liberal.

Limited-equity cooperatives are thought to have several major advantages over conventional rental housing (Davis 1994). They can provide greater security of tenure, for example, since co-op bylaws normally require “just cause” for eviction. The occupants also have more control over their living environments—including rent increases and upkeep and improvement of their developments—since they are voting members of the corporation. Cooperators also have greater freedom to make changes to the interiors of their units and often have the right to bequeath their shares to their heirs. Finally, while most cooperatives provide shareholders with at least a portion of the equity associated with the appreciation of their shares at the time of resale, the units are kept affordable for future low- and moderate-income families.

## **Arguments for and against the feasibility of cooperatives for very low income persons**

Proponents of cooperatives as a viable form of low-income housing argue that they offer a variety of benefits not available in conventional public or private housing. Cooperatives are said to have the potential to lower operating costs, since residents have a greater financial and emotional investment in their housing developments (Davis 1994; Miceli, Sazama, and Sirmans 1994). Lower operating costs lead to more affordable rents or less need for subsidy. Cooperatives can also instill community pride and a sense of empowerment by giving residents greater control over living conditions in their developments (Peterman and Young 1991). According to Franklin (1981, 393), "Many feel that the most important aspect of the cooperative concept is the high level of democracy and community spirit that develops; members take pride in their property and join together to make needed repairs and protect their buildings." Cooperators also enjoy the same tax advantages as fee-simple owners and, depending on the equity limitation provisions, may accrue some equity in their units.

Others are not convinced that cooperatives are realistic for very low income persons. Kunze (1981), for example, questions the financial feasibility of cooperatives composed entirely of low-income persons. He suggests that "just as public housing was never designed to serve the very-low income, public-housing cooperatives are even less likely [to do so]" (p. 493). The incomes of the tenants may simply be too low, even if the developments are transferred at greatly discounted prices. Others question the ability of very low income persons to successfully manage their developments given that they are likely to have low education and skill levels (Marin 1986). Finally, still others question whether low-income persons desire to join housing cooperatives. Peterman and Young (1991, 29), for example, argue that "low-income households were often less interested in empowerment than in obtaining adequate shelter and therefore frequently showed little enthusiasm for the extra work and the risks associated with being a co-op member."

## **Prior research on limited-equity cooperatives**

Although research on limited-equity cooperatives is scant, several studies have shed light on the feasibility and the benefits of co-ops. One of the earliest studies was conducted by Sadacca, Drury, and Isler in 1972. They selected a sample of 20

developments owned by nonprofit corporations, 20 developments owned by limited-dividend corporations, and 20 housing cooperatives to compare vandalism costs, presence of litter, turnover rate, and total operating costs. They found that the cooperatives scored better than the other forms of housing on each of these indicators. More recently, Parliament, Parliament, and Regmi (1988) studied 18 Section 8 developments and found lower operating costs among those that were cooperatives.

Leavitt and Saegert (1990, 3) studied the impacts of three different programs designed to “stabilize and reclaim still inhabited, landlord-abandoned buildings.” One program turned buildings over to tenant associations that then created limited-equity cooperatives, one turned buildings over to nonprofit corporations, and one turned buildings over to “screened” private landlords. From interviews with the residents, Leavitt and Saegert concluded that “tenants in the co-ops rated their housing as physically better, better managed and more satisfactory. They reported more attachment to their homes and more cooperative relationships among tenants” (pp. 6–7).

Heskin’s 1991 study of three scattered-site cooperatives in Los Angeles suggested a less sanguine view of the feasibility of cooperatives made up of low-income persons. He described a variety of problems, including poor management, internal conflict, and lack of support from outside institutions. He concluded that “it is a struggle both to attain and keep community. The battle is never finally won and the war ended. Many forces of disempowerment both outside and inside the community continually work against any organization for empowerment” (p. 2).

There are a number of examples of the outright failure of low-income cooperatives. In Leavitt and Saegert’s study, 4 of the 10 cooperatives studied were considered “struggling.” In fact, 2 of these had actually failed, and the buildings were back in the hands of the city. Peterman (1989) described the failure of Racine Courts in Chicago, a public housing development that had been converted to a cooperative, and the U.S. General Accounting Office (1988) described the demise of the Longwood Cooperative in Cleveland. Poor management, inadequate reserve funds, and the poor condition of the property were blamed for the failure of Racine Courts, while Longwood’s failure was attributed to ineffective management, lack of capital, and security and maintenance problems.

Given evidence of both successes and failures of low-income housing cooperatives, the key question is not whether they are

feasible, but rather under what conditions they are feasible. What are the necessary ingredients for successful low-income cooperatives? The study described below was designed to shed light on this question.

## **Case studies**

The cooperatives in the case studies presented below (in Denver, CO; Paterson, NJ; and St. Thomas, VI) are three of the four created under the PHHD. Unfortunately, the fourth co-op, in Nashville, TN, would not cooperate with the data collection. For each case, the article describes the process and terms of the transfer of public housing developments to low-income cooperatives and the experience of these cooperatives since their creation.

The case studies are based on several types of data collection. First, personal interviews were conducted with a variety of key informants, including housing authority officials, cooperative board officers and members, management agents, technical assistance providers, and other actors in these programs. These interviews were guided by protocols developed for each type of participant. Interviews were conducted during three site visits: one in 1987, one in 1989, and one in 1994. Second, during each visit a variety of documents were collected, including articles of incorporation, bylaws, subscription and occupancy agreements, annual budgets, minutes of board meetings, correspondence, and marketing materials. Third, in 1989, in-home interviews were conducted with cooperative members in Denver. These interviews focused on satisfaction with the unit, the neighborhood, and the co-op board as well as the perceived effects of becoming a cooperator. The original research design envisioned interviews with all PHHD participants, but two of the cooperatives had not been created at the time the initial research funding ended. Fourth, tenant and cooperative board meetings were observed during the site visits. Finally, focus groups or in-depth interviews with cooperators were held at each of the sites in the summer of 1994. (See tables 1, 2, and 3 for summaries of the formative stages, financial information, and operational stages of the three cooperatives.)

Before presenting the case studies, it is important to put the developments involved in the larger context of public housing developments. The developments in Paterson and St. Thomas are in neighborhoods that are undoubtedly better than those surrounding most multifamily public housing developments. The

Table 1. Summary of the Formative Stages of the Cooperatives

	Upper Lawrence, Denver, CO	Brooks-Sloate, Paterson, NJ	Pearson Gardens, St. Thomas, VI
Number and style of units	44 town house units in 8 buildings	242 town house units in 42 buildings	120 apartment units in 15 buildings
Relation to public housing	Units were part of 448-unit development (7 square blocks).	Units were an entire development.	Units were half of a 240-unit development.
Year built	1954	1950-51	1954
Condition	<ul style="list-style-type: none"> <li>- Never modernized</li> <li>- One of PHA's most physically and socially distressed properties</li> </ul>	Extensive modernization and repairs needed	Recently modernized with \$8 million of HUD funds
Scope of renovations	<ul style="list-style-type: none"> <li>- 20 units demolished to create central courtyard and parking</li> <li>- New utility systems</li> <li>- New roofs and windows</li> <li>- New kitchens and baths</li> <li>- \$22,000 per unit</li> </ul>	<ul style="list-style-type: none"> <li>- New windows and entrance doors</li> <li>- New storm doors</li> <li>- Baths and kitchens renovated</li> <li>- New siding.</li> <li>- Street repairs</li> <li>- Community center</li> <li>- \$28,000 per unit</li> </ul>	<ul style="list-style-type: none"> <li>- Given recent modernization, only minor repairs necessary to individual units</li> <li>- \$50,000 per unit</li> </ul>
Tenant training	<ul style="list-style-type: none"> <li>- Of 44 families, 26 received training; interim co-op board was trained by PHA staff.</li> </ul>	Consultants trained tenants and interim co-op board.	Consultant trained tenants and interim co-op board.
Relocation	64 families relocated	75 Section 8 certificates used to allow people to stay or move	Relocation to other half of the development and to other developments
Length of development process (years)	2	7	6

Table 2. Summary of Financial Information on the Cooperatives

	Upper Lawrence, Denver, CO	Brooks-Sloate, Paterson, NJ	Pearson Gardens, St. Thomas, VI
Purchase price (\$)	968,000	500,000	1
Cooperator annual incomes (\$)	12,000–15,000	9,700–13,000	6,000–15,000
Down payment (\$)	800, but 600 could be borrowed	1,050–1,500, paid in installments	375–725
Monthly payment (\$)	329 originally, then increased by 25 and 40	235–341	176–290
Project reserves (\$)	2,000	– 150,000 replacement – 125,000 major repairs – 43,000 share payment assistance	67,000

*Table 3. Summary of the Operational Stages of the Cooperatives*

	Upper Lawrence, Denver, CO	Brooks-Sloate, Paterson, NJ	Pearson Gardens, St. Thomas, VI
Management	<ul style="list-style-type: none"> <li>- Self-management not successful</li> <li>- 3 management agents in 4 years</li> </ul>	<ul style="list-style-type: none"> <li>- PHA managed for first 2 years</li> <li>- Private management brought in</li> </ul>	<ul style="list-style-type: none"> <li>- Private management company from beginning</li> </ul>
Board functioning	<ul style="list-style-type: none"> <li>- Conflict between board and PHA over quality of repair work</li> <li>- Conflict within board</li> <li>- Conflict between board and residents</li> <li>- No ongoing board training</li> </ul>	<ul style="list-style-type: none"> <li>- New members not trained; little ongoing training</li> <li>- Poor communication with residents</li> <li>- Has not assumed full responsibility until recently</li> </ul>	<ul style="list-style-type: none"> <li>- New members not trained; little ongoing training</li> <li>- Conflict within board</li> <li>- Poor communication with residents</li> </ul>
Financial health	<ul style="list-style-type: none"> <li>- 2 years behind on taxes</li> <li>- Withholding second-mortgage payments</li> <li>- Reserves down to \$2,000</li> <li>- \$8,000 in arrears 30+ days</li> </ul>	<ul style="list-style-type: none"> <li>- Current on all bills</li> <li>- Adequate reserves</li> <li>- \$29,000 in arrears 30+ days</li> <li>- Substantial income from Section 8 renters</li> </ul>	<ul style="list-style-type: none"> <li>- Current on major bills</li> <li>- Adequate reserves</li> <li>- \$16,000 in arrears 30+ days</li> </ul>
Resident satisfaction	<ul style="list-style-type: none"> <li>- Residents threatening rent strike</li> <li>- Widespread dissatisfaction</li> </ul>	<ul style="list-style-type: none"> <li>- Residents like affordability and improved security</li> <li>- Residents dislike condition of units and grounds</li> </ul>	<ul style="list-style-type: none"> <li>- Residents like stable rents and faster maintenance service</li> <li>- Some improvement in living conditions, but major problems persist</li> </ul>

Paterson development is in an area composed mainly of single-family units occupied by moderate-income persons. The St. Thomas development is between an upper-middle-income neighborhood and the downtown commercial area. The location of the Denver development is more typical of multifamily public housing developments. It is in a low-income neighborhood with a mix of single-family and multifamily units.

In two of the developments, the characteristics of those who joined the cooperatives differ substantially from those of typical public housing residents. In both Denver and Paterson, the average annual household income of the cooperators at the time of transfer was approximately \$14,000. The average income of all public housing residents was \$6,539 (National Association of Housing and Redevelopment Officials 1990). Moreover, the percentage of households with at least one person employed full time and the percentage of two-parent families were considerably higher in these two developments. The residents in the St. Thomas development were more typical of public housing residents in general but still above the average (Rohe and Stegman 1990). Given both the locational advantages and the resident characteristics, the cooperatives created from the conversion of these developments should be more likely to succeed than the typical multifamily public housing development.

### *Upper Lawrence Cooperative, Denver, CO*

The Upper Lawrence Cooperative was created in 1987 and consists of 44 town house units arranged around the periphery of a single square block. This block was once part of the Curtis Park public housing development that was built just north of downtown Denver in 1954. Curtis Park originally contained 448 units and covered seven square blocks.

*Formative stage.* By the mid-1980s, Curtis Park had become one of the most physically and socially distressed developments of the Denver Housing Authority (DHA). The units had never been modernized, and extensive renovations were needed. In addition, crime and gang activity had become serious problems. The city was also interested in revitalizing the surrounding neighborhood and viewed the condition of the Curtis Park development as a major obstacle to this effort.

DHA was in the process of developing plans for revitalizing Curtis Park when the PHHD was announced in 1985. The PHHD was seized on as an opportunity to improve the condition of at

least one section of the troubled development and to contribute to neighborhood revitalization by increasing homeownership.

After HUD approved the proposal, an architectural firm was hired to develop modernization plans for the block that was to be sold to tenants. The firm began assessing renovation needs by interviewing residents about their preferences and by examining the existing units. Its final proposal, which DHA accepted, called for extensive modernization, including the demolition of 20 units. The center units were razed to make space for off-street parking and a recreation area. Other improvements included new plumbing, electrical, and heating systems; new kitchen cabinets, fixtures, and appliances; new windows; new bathroom fixtures; and the replacement of flat roofs with sloped ones. Fences were also erected to foster a sense of ownership and territoriality. These repairs cost approximately \$22,000 per unit, for a total of \$968,000, and were completed by DHA's own construction staff.

To accomplish these extensive renovations, all residents had to be relocated either to other public housing developments or to private units with the assistance of Section 8 certificates. Involuntary relocation violated PHHD guidelines, but DHA argued that the relocation was planned before residents applied to the program. Moreover, since the alternative housing offered was more attractive than Curtis Park, there was little resistance to moving. The original residents were also promised priority for cop membership if they could qualify. However, none of the original residents became members of the cooperative.

Under the PHHD, HUD allowed the participating housing authorities great freedom in setting the prices of units to be sold. DHA decided to set the sale prices of what was to become the Upper Lawrence Cooperative at the cost it incurred in making the renovations: \$968,000. DHA then set a minimum income for cooperators at \$12,000, which it calculated as the minimum needed to pay the carrying costs, including the mortgage and operating expenses. The maximum income was the same as for public housing eligibility: 50 percent of the median for the area.

Once the repairs were completed, DHA began the process of attracting and screening potential cooperators. All DHA residents with incomes above the minimum were notified by letter, and the program was also publicized in the authority's newsletter. Interested tenants were encouraged to attend a series of meetings to discuss the program. At these meetings DHA staff sold the idea of cooperative living to those in attendance. What the cooperators remember of these meetings is that DHA staff

emphasized the relatively low monthly payments (originally thought to be \$250), the stability of rent, and the possibility of accruing equity. Two consulting groups, Brothers Redevelopment, Inc., and Northeast Denver Housing, were chiefly responsible for screening applicants.

An initial group of 26 families was selected, and they moved into the renovated units in October 1986. Throughout the fall and early winter, the heads of these families received group and individual training from DHA staff on topics such as what a co-op is, how it is governed, how to put together a budget, and how to manage a cooperative. Unfortunately, this training was not repeated for the remaining 18 families that were to move into units in the spring. Moreover, DHA staff members responsible for this training had themselves only recently been trained on these topics by staff from the National Federation of Housing Counselors. According to the cooperators interviewed, the training was not effective.

While the cooperators were being selected and trained, DHA was also arranging financing for the sale. The National Cooperative Bank agreed to lend the cooperative \$600,000, but only after DHA agreed to indemnify the co-op against default on individual shares. Under the agreement, if a co-op member leaves, as long as DHA is notified in a timely fashion, DHA is responsible for refurbishing the unit and making share payments until a new cooperator is found. The Colorado Housing Finance Agency provided a second loan of \$200,000 and a grant of \$100,000.

The sale of the units to the cooperative was completed in May 1987. Each cooperator had to make an \$800 down payment, although the Denver Families Housing Corporation, a local nonprofit agency, provided financing of up to \$600 to be repaid over five years. To guard against windfall profits and to ensure that the cooperative will continue to provide housing opportunities for low-income persons, the terms of the sale allow co-op shares to be transferred only to families with incomes at or below 50 percent of the area median.

Upon closing, a reserve fund was established with a portion of the sale proceeds. Although the HUD-approved program plan called for this reserve fund to be capitalized with a grant of \$25,000, only \$10,000 was actually deposited. The reason for this change was never made clear. DHA also offered the co-op a warranty on the plumbing and sewer lines in the development. None of the other renovation work, however, was covered by warranty.

The initial share payment was set at \$329 per month, considerably higher than the \$250 discussed during recruiting, and this change caused a great deal of discontent among the cooperators. The higher monthly payment was due to DHA's underestimation of the co-op's operating expenses as well as the last-minute inclusion of an \$8,500 second mortgage. According to the DHA auditor's report, the original pro forma operating budget omitted several major items, including water and sewer charges and property insurance.

Overall, the process of establishing the Upper Lawrence Cooperative was a relatively smooth one. From the beginning of the project it took approximately two years for the units to be transferred to the cooperative. The most difficult and lengthy task was negotiating the first mortgage with the National Cooperative Bank. This relatively painless process was in stark contrast to what was to come.

*Operational stage.* The seven-year history of the Upper Lawrence Cooperative can only be described as rocky. It included conflict with DHA, turnover in management agents, a high rate of cooperator turnover, a sizable amount of share payments in arrears, late first- and second-mortgage payments, and conflict among co-op board members.

The initial co-op board, which consisted of six members elected by the cooperators, began to assume responsibility for management upon transfer of the property to the co-op. Because the co-op was small, the plan called for it to be self-managed. The board would be directly responsible for all activities, including collecting rent, paying bills, and arranging for maintenance of the common areas. The cooperators themselves were expected to volunteer their time to perform routine maintenance such as cutting the lawn and picking up litter.

Over the next several months the board began to receive complaints from cooperators about construction defects and realized that other major improvements were needed. Many residents, for example, complained that because roof gutters were lacking, water was running down the outside walls and into their units. All units also lacked screen doors, and many other minor problems concerned the new owners. At the site level, the board came to the realization that maintaining the grass in the public areas would require a sprinkler system.

The co-op board brought these problems to DHA's attention and expected it to rectify them. DHA's initial response was that the

co-op was now an independent entity and would have to address the problems on its own. This attitude led to strained relations between DHA and the co-op board, and the board responded by hiring an attorney to represent it in negotiations. After threats of a lawsuit, DHA agreed to make the requested repairs at its own expense.

It was clear from the beginning that the co-op board was not adequately trained to manage the cooperative. A DHA auditor's report dated June 1987, for example, stated that "nobody [on the board] knew how much the individual member's total monthly payments were supposed to be or even what size units people had. When the co-op was handed the responsibility for day to day operation, they were unprepared. The co-op did not have a bank account, post office box, or a bookkeeping system."

By mid-1988, more than \$12,000 in share payments were in arrears, the grounds were not being properly maintained, three families had already been evicted for nonpayment, and many more had simply walked away from their units. In an April 1988 meeting with the DHA board of directors, the president of the co-op board said that she felt "totally unprepared for the task of managing a co-op." She complained that the training she received was very general and did not cover the specific tasks involved in running a business. She also complained that the cooperators themselves had not been carefully screened or trained and were not participating in governance or maintenance.

To address these problems, the board hired a management company, Whare, Inc., to advise it, represent it before DHA, and assume some of the day-to-day management responsibilities. Whare was the first of three management agents to work for the cooperative. After one year, Whare was fired for poor performance and replaced by Hawkeye Management Company, which quit after two years. Hawkeye quit, according to the current co-op president, because of serious and divisive conflicts that had developed among members of the co-op board. After six months with no management agent, Triad Management was hired in 1992 and continues to manage the co-op. Triad was the first agent to establish an on-site management office.

Throughout its seven-year history, the Upper Lawrence Cooperative has struggled to meet its financial obligations. Vacancies and late payments have caused the cooperative to fall behind on its first-mortgage payments for short periods and its second-mortgage payments for longer periods. At times the vacancy rate

has been as high as 25 percent, and the amount of share payments 30 days or more in arrears has exceeded \$28,000. The reserve account currently contains only \$2,000, so there is almost no cushion.

At last visit, in 1994, the cooperative's financial condition was improving, although it was still two years behind on its real estate taxes and was withholding payments on its second mortgage because it felt that DHA had not followed through on promised repairs. A more aggressive approach to collection and eviction had brought the amount of share payments 30 or more days in arrears down to approximately \$8,000. Despite this progress, the manager described the financial status of the co-op as "hand-to-mouth."

To put the co-op on a more secure financial footing and to pay for deferred maintenance, at the urging of the management agent and the National Cooperative Bank the co-op board authorized an increase of \$40 per unit in share payments. This increase came approximately one year after a \$25 increase. Some cooperators were angry over the increase and at the time of the last visit were threatening a share payment strike. In response, the board was threatening to evict cooperators who withheld their payments.

Conflict among the board members of the Upper Lawrence Cooperative has also been a persistent problem. Besides causing the second management agent to resign, the conflict has discouraged cooperators from attending meetings and running for seats on the board. In interviews, current and former board members described board takeovers, attempted coups, and meetings degenerating into name-calling and personal attacks.

As might be expected given these problems, dissatisfaction has been high among the cooperators. A 1989 survey of the cooperators found that 37.5 percent were dissatisfied with their houses, 67.8 percent were dissatisfied with the performance of the co-op board, and 65.5 percent had regrets about joining the cooperative. In a 10-person focus group convened in 1994, cooperators were asked about sources of satisfaction and dissatisfaction with living in the cooperative. Most of the ensuing discussion focused on sources of dissatisfaction, including the increase in share payments, the shoddy rehabilitation work done by DHA, the second mortgage that they felt forced into assuming, and a lack of cooperation among residents.

In summary, the Upper Lawrence Cooperative has been in a continuous struggle to survive. The flawed financial analysis of the operating costs, the poor quality of the repair work, the inadequate preparation of the co-op board and the membership, and the lack of competent management appear to be the main problems. The current management agent and board appear to be making progress toward putting the cooperative on a sound financial footing, but they clearly have a long way to go.

*Brooks-Sloate Cooperative, Paterson, NJ*

After more than six years of effort, in June 1992 the Paterson Housing Authority transferred 242 public housing units to the Brooks-Sloate Cooperative. The Brooks-Sloate development, built in 1950 and 1951, consists of 42 buildings on 23.2 acres in northwest Paterson. The buildings are town house structures with four to eight dwellings each.

*Formative stage.* Interest in converting the Brooks-Sloate development to a cooperative dates back to 1973 when, at the tenants' urging, the Paterson Housing Authority asked HUD for permission to sell the development to the tenants. In 1984, before the PHHD was announced, the housing authority hired a consultant to prepare a proposal for converting the units to condominiums. This proposal laid the groundwork for Paterson's PHHD application.

Paterson Housing Authority representatives give three reasons for selecting Brooks-Sloate. First, there was long-standing tenant interest in purchasing the units. Second, it is one of only two family public housing developments in Paterson that consist of low-rise, low-density town house units with individual front and rear entrances. Third, the development is in an attractive neighborhood, consisting predominantly of single-family homes averaging \$100,000 in value.

Before the development could be transferred to the tenants, however, extensive modernization and repairs were needed. Windows and entrance doors were replaced, storm doors were installed, and major improvements were made to the heating system. Bathrooms and kitchens were renovated, siding was replaced, and extensive street repairs were made. Those improvements cost approximately \$28,000 per unit, or a total of \$6.8 million. Unlike the project in Denver, where the modernization was financed by the housing authority itself, the Brooks-Sloate project used funds from the HUD Comprehensive

Improvement Assistance Program (CIAP) to pay for these improvements. The work was performed by a variety of contractors and took several years to complete. As in Denver, the quality of the repair work would become an issue for the co-op board once it assumed full responsibility for the development.

The terms of the transfer were generous. The Paterson Housing Authority essentially offered to sell the development to the cooperative association for 50 percent of the equity payments made by the cooperators. The units were affordably priced at \$3,500 for a two-bedroom unit, \$4,500 for a three-bedroom unit, and \$5,000 for a four-bedroom unit. The total amount of equity payments was estimated to be slightly over \$1 million, as the housing authority would receive slightly more than \$500,000. The authority agreed to use \$60,000 of its proceeds to capitalize a loan-guarantee fund (to encourage lenders to provide loans to prospective cooperators), and an additional \$142,000 was to be used to support a new mutual housing association sponsored by the Paterson Housing Authority. The remaining proceeds were used to reimburse the housing authority for the \$144,000 in unbudgeted expenses it incurred in the transfer and to add to the authority's reserve fund. Thus, there was no blanket financing to arrange, and the cooperative would have no mortgage debt.

Program participants were required to pay a \$500 nonrefundable application fee and to pay a minimum of 30 percent of the purchase price in eight monthly installments. The remainder of the purchase price would be financed by a credit union in New York City. For example, a purchaser of a two-bedroom unit would pay \$131.25 per month for eight months, thus accruing \$1,050 in equity. The remaining \$2,450 would be financed over a five-year period.

Based on a projection of the cooperative's operating costs, minimum monthly share payments were set at \$235 for a two-bedroom unit, \$289 for a three-bedroom unit, and \$341 for a four-bedroom unit. If this amount was less than the rent the member was paying to the housing authority, the member would continue to pay the previous rent for the first 18 months after closing. These additional rent payments would be placed in a special reserve account and used to provide loans to cooperators who had temporary difficulty making their share payments.

Given the expected share and loan payments, minimum incomes of \$9,700, \$11,500, and \$13,000 were established for two-, three-, and four-bedroom units, respectively. Marketing of the

cooperative idea commenced in early 1986 with a series of three meetings designed to explain the program. These meetings were organized by the housing authority, which hired two consultants to assist it. The meetings were followed up by a series of mailings designed to further explain the program and to elicit an early indication of tenants' ability to buy and interest in buying into the cooperative. The response to those mailings revealed considerable interest, but there was also a sizable minority who either did not respond or clearly could not afford to buy.

In the fall of 1986 the recruitment efforts were hampered by a newspaper article that reported a disagreement between HUD staff and members of Congress over the likely relocation of some Brooks-Sloate tenants. The Paterson Housing Authority planned to relocate nonparticipating tenants to other public housing developments or to give them Section 8 certificates so that they could find private rental housing. When this plan was made clear to the tenants, some of those who would not or could not buy into the cooperative complained to the Passaic County Legal Aid Society, which brought the problem to the attention of sympathetic members of the House of Representatives, including Democrats Barney Frank of Massachusetts and Henry Gonzalez of Texas. This was the beginning of a controversy that would take almost three years to resolve.

The Paterson Housing Authority took the position, strongly supported by the prospective cooperators in Brooks-Sloate, that for the cooperative to be successful 100 percent of the units would need to be owner occupied. The members of Congress took the position that the PHHD guidelines clearly prohibited involuntary displacement. HUD found itself in the middle, trying to work out a compromise that would allow the project to move forward. In October 1987, the housing authority received a letter from HUD officials approving the relocation plan, and recruiting and modernization resumed.

Then in October 1988, as the initial transfer date was approaching, the Passaic County Legal Aid Society filed suit on behalf of three tenants and a person on the housing authority's waiting list. Again the future of the program was in doubt. In July 1989, a settlement was reached under which the housing authority agreed not to require nonparticipants to move and HUD agreed to provide Section 8 vouchers to those who wanted to stay and rent from the cooperative. A total of 75 vouchers were allocated for this purpose.

The Paterson Housing Authority, HUD, and the interim co-op board were all concerned about the settlement's effect on the viability of the project. They still felt that a critical mass of buyers was needed for a viable cooperative, and thus they decided that the conversion would proceed only if at least 180 of the 242 households chose to join the co-op.

The extended conflict over relocation caused uncertainty about the future of the cooperative, and this uncertainty greatly hampered recruitment. Moreover, some of those who had signed subscription agreements began moving out, and others stopped making equity payments. In February 1988, confident that the conflict would be resolved, the housing authority hired a second consulting group, Two Rings, to follow up with residents who had not indicated their interest in joining the cooperative and to prepare those who had subscribed to participate in the cooperative. Over the next two years, Two Rings conducted individual and group sessions on topics including financing the purchase of a share, co-op terminology, co-op documents, simple household repairs, budgeting, and holding effective meetings.

An interim co-op board was elected at a 1988 meeting of those who had signed subscription agreements. The board began to undertake a variety of activities, including developing the co-op's bylaws and occupancy agreements. The housing authority also involved the board in identifying problems with the repair work being done. Besides the training provided by Two Rings, Boden and Flatow (another consulting firm) conducted six training sessions with the board. The interim board members also attended training sessions offered by the New York Council on Cooperatives, and the board president and vice president attended conferences of the National Association of Housing Cooperatives. The housing authority allocated \$10,000 to the interim board to cover its expenses during the organizing period, but the board members complained that the authority debited their account for expenses that the board had not authorized.

At the time of transfer the Paterson Housing Authority passed warranties for portions of the rehabilitation work to the cooperative, and reserve accounts were capitalized with a portion of the equity payments made by the cooperators. Funds were distributed among four accounts. Approximately \$125,000 was placed in an account to help build a community center on the site; the residents expected that the remaining funds needed for this center would come from Paterson's allocation of Community Development Block Grant funds. In addition, approximately \$150,000 was put into a replacement reserve account, and

\$125,000 was placed into a major repairs account. Finally, approximately \$43,000 was put into a “social” account, to be used for loans to cooperators who lost their jobs and needed short-term assistance with share payments. The remainder of the equity payments went to reimburse the housing authority for its expenses in creating the cooperative.

Brooks-Sloate was created as a limited-equity cooperative whose bylaws provided that there would be no appreciation of equity for 10 years except for (1) annual adjustment based on cost-of-living increases and (2) tenant-installed improvements that had the prior approval of the co-op board. In spite of extensive recruitment efforts, by June 1992 there were still only 140 tenants who had made their equity payments. Revising their earlier decision to proceed only if 180 tenants subscribed, the housing authority decided to go ahead with the property transfer, confident that others would join the co-op once it was fully operational. Many of the remaining tenants had signed subscription agreements but had not accumulated sufficient equity to purchase a share. Approximately 40 tenants, however, showed no interest in joining. Section 8 certificates were provided to all remaining renters.

After the closing, the cooperators were surprised and chagrined to learn that the closing documents did not include the bylaws and house rules they had worked so long to develop. Apparently the housing authority lawyer could not find those documents, so he substituted the bylaws and house rules from a condominium project in which he had recently been involved. The co-op board members are still working to re-create these important documents.

*Operational stage.* In spite of the transfer of the property to the cooperative, the transition from public housing to an independently functioning cooperative was gradual. For the first five years, the cooperative was to be managed by the Paterson Housing Authority. Under a contract with the cooperative, the authority collected rent, kept the books, and handled maintenance. The rationale for the housing authority’s continuing involvement was the need for further recruitment and a recognition that the co-op board was not prepared to assume full management responsibility. The board was having trouble making decisions, and the director of the housing authority worried that private management companies would take advantage of the inexperienced board.

But management by the housing authority was not particularly successful. In interviews, co-op board members expressed

considerable dissatisfaction with its management. They were particularly critical of the authority's tendency to do things without consulting the board and not to do things the board had requested. The director of the housing authority also came to believe that it was not up to the task of providing effective management services to the co-op. After two years the housing authority delegated its management responsibilities to a newly created nonprofit organization called Christina, which in turn hired an experienced private management company named Rensselaer to manage the cooperative. Christina's involvement allows the housing authority to maintain some influence over the cooperative, since the authority is represented on Christina's board of directors. The co-op board expressed support for the new management, which consists of a full-time manager, two full-time secretaries, a groundskeeper, and a superintendent.

Two years after the development was transferred to the cooperative, there are still only 157 cooperators of the 240 needed for full participation. A number of the continuing renters are trying to purchase shares in the co-op but have had difficulty obtaining financing. Shortly before the most recent site visit, 32 of 40 tenants who had applied to the Sixth Avenue Credit Union for loans had been turned down, mostly because of poor credit histories. The housing authority and the co-op board intend to ask the city of Paterson to provide financing from its HOME funding.

The co-op board membership has been fairly stable since the board was created in 1988. As of the last visit, 6 of the 11 members were charter members. Since taking ownership of the property, however, the board has had no additional training, so the 5 new members have received no training in managing a cooperative. In interviews with board members, many expressed the need for additional training, particularly in interpreting financial statements and educating and communicating with cooperators. The board hopes to arrange for additional training in the future. Given the continued heavy involvement of the Paterson Housing Authority in the affairs of the cooperative, it is too soon to say whether the board is up to the challenge of management.

At the time of the last visit, the co-op's financial health was generally good, in spite of a substantial amount of rent in arrears. The co-op was current on all its bills, there were only two vacancies, and the reserve accounts had not been touched. In fact, the reserve accounts were growing as the number of cooperators increased. The rent payments in arrears, more than \$29,000, were overwhelmingly concentrated among the

continuing renters. With the board's consent, however, the new management agent was moving aggressively to evict tenants with substantial amounts of rent in arrears.

The good financial health can be attributed to several factors. First, the lack of a mortgage means that the cooperative has to cover only operating costs. Second, the reserve accounts were well capitalized, and the cooperative has needed no major repairs. Third, all but two of the continuing renters have Section 8 certificates, and the co-op receives fair-market rents for those units. Fair-market rents are substantially higher than the share payments made by the cooperators.

Recognizing the benefits of the higher Section 8 rent payments, the co-op board has changed its position on the number of renters it would like to see in the development. Originally, the board wanted no more than 12 continuing renters; now it plans on keeping 40. Moreover, fears that renters would undermine the sense of community in the cooperative and not take care of property have been assuaged. "We were a little worried about them [renters] hindering our coming together as a community," said a former board president. "It has worked out better than we anticipated. A lot of the tenants are long-term residents and feel like permanent residents."

The level of resident satisfaction in the cooperative might be described as fair. On the positive side, board members and residents talked about the affordability of the units. Many were paying less as cooperators than they had been as renters. They also mentioned the greater sense of security and control over their living environment. In response to a question on the benefits of living in the cooperative, typical comments included the following:

One is security. I can stay until I die. I don't have to leave if my financial situation changes. For a lot of people here this is a big issue. They can pass the unit down or stay until they die. The feeling of stability and security.

Mostly a feeling of having a choice in my future. Before, things were dictated by the housing authority. Now I can call the office and make suggestions. Again this is extremely important.

Before, [adult] sons and daughters were hesitant to stay with their parents as adults because their income was counted. Now they're free to stay to save up a little

money. . . . This offers a sense of security; this can be a place of refuge; this is important that you can offer your children a place to stay.

The cooperative has also hired a private security firm to patrol the development from 4 p.m. to 4 a.m., and the patrols have given residents a greater feeling of safety.

On the negative side, residents expressed dissatisfaction over both the repair work that had been done and the repair work that had not been done. At the time of the last visit, several roofs needed replacement, and many more needed repair. Residents and the manager reported problems with the heating and plumbing systems in many units, and the storm sewers were said to clog regularly. The lack of landscaping was also identified as a problem. In general, much of the repair work done before the transfer was said to be shoddy.

Lack of communication between the co-op board and the residents was also a source of dissatisfaction. Attendance at board meetings has been minimal, and the board has not developed a regular means of communicating with residents. Residents find out about new rules, such as a prohibition against erecting fences without board approval, but they do not understand the rationale for the rules. Because the decisions are not explained, some residents feel they are arbitrary. Relations between the board and many residents are strained.

In summary, largely because of the conflict over the relocation of nonparticipating tenants, it took more than six years for the Brooks-Sloate Cooperative to take ownership of the development. This long development period caused a variety of problems, including difficulty in recruiting, problems with sustaining interest in joining the cooperative, and board training that was not closely timed with the assumption of board responsibilities. Moreover, after the transfer, the Paterson Housing Authority continued to manage the development and play a strong role in co-op affairs.

As in Denver, in spite of extensive pretransfer rehabilitation, the units required additional major repairs shortly after transfer. Unlike the situation in Denver, however, the cooperative's financial position remains sound because of the lack of mortgage payments, the well-capitalized reserve funds, and a substantial number of Section 8 renters who are paying higher rents.

*Pearson Gardens Cooperative, St. Thomas, VI*

The Pearson Gardens Cooperative was formed in June 1991, when the Virgin Islands Housing Authority (VIHA) transferred 120 units of public housing to the cooperative association for a nominal price. Pearson Gardens is an unusual project in that the units transferred were half of the 240-unit Pearson Gardens public housing development, originally constructed in 1954. As built, the development consisted of 30 two-story buildings, each containing a mix of eight one-, two-, three-, and four-bedroom units. To create the cooperative, the development was subdivided into two parcels, each containing 15 buildings. One parcel was then transferred to the cooperative association, whose members are former public housing residents.

*Formative stage.* The VIHA board was interested in giving its residents homeownership opportunities and saw the PHHD as a means of accomplishing that goal. The board proposed the sale of Pearson Gardens because it was a desirable set of units in a desirable location. Moreover, the development had recently been modernized at a cost of approximately \$33,000 per unit, and it was in sales-ready condition.

The board had originally hoped to sell the entire development to the tenants, but HUD raised concerns about the demand for the units and the difficulty of relocating a potentially large number of nonparticipants. For these reasons the decision was made to divide the development, keeping half as public housing and selling the other half to the residents. This arrangement reduced the number of units to be sold, and nonparticipants could be relocated from one side of the development to the other.

Soon after its application to HUD was approved, VIHA hired a consultant, Ed Phillips, to conduct a feasibility analysis, including an assessment of tenant interest in participating in the program as well as ability to pay. The consultant was also charged with developing a more specific proposal for transferring units to the tenants and for training them to organize and manage a cooperative. Once hired, Phillips assumed the major responsibility for the homeownership program.

The consultant began by holding a series of meetings with the residents of Pearson Gardens. In an initial meeting, the idea of transferring half the development to a cooperative composed of former tenants was discussed. At a second meeting, the Tenants' Coalition Committee was formed to represent tenants interested in participating in the program, and at a third meeting, the

coalition decided to survey all tenants on their interest in the program. The survey showed that 80 families were interested in becoming members of the cooperative, 95 were undecided, and 62 were not interested.

VIHA had agreed to sell the units to the cooperative for a nominal price, so no financing was needed. Phillips worked with the tenant group to establish share prices. The result, which was approved by the housing authority, was that participants would pay a \$15 nonrefundable application fee and an equity payment equal to 5 percent of the appraised value of the unit. This payment ranged from \$375 for a one-bedroom unit to \$725 for a four-bedroom unit. The low cost of shares meant that no financing was needed for the purchase of individual shares. The equity payment could be made in installments before the transfer of the property to the cooperative. Based on a projection of operating costs, the estimated monthly share payments ranged from \$156 to \$270. The actual payments were approximately \$20 higher because of inflation.

In June 1987, interested tenants met to vote on the formation of a nonprofit housing cooperative, and an interim co-op board was elected. The consultant worked with this board to develop the articles of incorporation, bylaws, and occupancy agreement for the cooperative. These documents were completed and adopted by mid-1988. The bylaws specify that the transfer value of the shares is limited to the shareholder's down payment plus the value of any improvements installed by the shareholder with prior approval of the board. Thus, there is no opportunity for equity appreciation.

In spite of the efforts of the consultant and the interim co-op board, by June 1988 only 68 applications for membership had been received. Of those applying, 34 were living in the units to be transferred, 26 were in units that were to remain public housing, and 8 were from other public housing developments on St. Thomas. This lack of interest seems attributable to two factors. First, according to the consultant and the co-op president, tenants had great difficulty in understanding the concept and the advantages of a cooperative; they did not see it as true homeownership. Second, Pearson Gardens had developed a serious crime problem, and tenants were reluctant to commit to staying in an unsafe development. According to a report filed by the consultant, "The response up to May 15 has been gratifying, considering the increased incidence of crime in the Pearson Gardens community, including two homicides in recent weeks,

police drug raids, and the sound of gun shots reverberating throughout the project area on an almost nightly basis.”

Recruitment efforts continued, however, and by August 1989, 91 residents had paid the application fee. The transfer of units to the cooperative was also slowed by VIHA’s inaction. The sales program was not a high priority for the authority, and there was some ambivalence about it. When the units were transferred, the authority would lose a substantial amount of HUD operating funds. Moreover, there were conflicts within the housing authority and an eventual change in the executive director. These problems stalled the transfer until 1991.

At the time the units were transferred to the cooperative, 80 households had made equity payments. An additional 21 households joined the co-op after it assumed ownership of the units, and 18 households were relocated as suitable replacement housing became available. One household received a Section 8 certificate and continues to rent from the cooperative. The vacated apartments were filled with households who joined the co-op, so all units but one are now occupied by cooperators.

To ease the transition from public housing management to cooperative management, VIHA, at the urging of the consultant, agreed to provide the cooperative with a variety of services over its first two years of operation. These services—including maintenance, rent collection, and utility bill collection—were to be provided free of charge so that the cooperative could use a portion of its rent collections to capitalize a reserve fund.

*Operational stage.* Soon after the transfer of units, the co-op board hired Edison Management Group (EMG), a subsidiary of Ed Phillips Associates, to manage the cooperative. The management agreement called for EMG to lease vacant apartments, enforce lease provisions, oversee maintenance, prepare operating budgets, keep the books and pay the bills, open an on-site office, and make periodic reports to the board. The management had to assume responsibility for maintenance, since VIHA reneged on its offer to handle maintenance, citing insufficient funds.

To help manage the development, EMG hired a full-time on-site manager, two full-time maintenance men, and a part-time emergency repairman, all of whom were residents of the development. According to interviews with the current president and members of the co-op board, the management company has generally performed well. Several board members did express concern, however, that management was not involving the board enough

in important decisions. Nonetheless, the board signed a new management contract with EMG in January 1994.

The original co-op board had five members. In addition, three committees, composed of other cooperators, were created to handle social events, grounds cleanup, and fund raising. To make it easier to attain a quorum and to increase participation, the board was subsequently expanded to seven members. Conflict among board members arose in 1992 over who would be authorized to dispense funds. From the beginning, the management agent controlled the checkbook. A newly elected treasurer felt that she should have that control. She was supported by the co-op president but strongly opposed by the management agent. If management was responsible for tracking finances, EMG argued, it needed to control disbursement. When the rest of the board supported the management agent, the president resigned.

Board member and shareholder participation in the meetings has been generally low. The co-op president estimated that only 15 to 20 residents show up at meetings. The board at times has had difficulty achieving a quorum, and at last visit only one of the committees was active. Moreover, written communication between the board and the shareholders is sporadic. Flyers are used to notify residents of upcoming meetings, but there is no regular newsletter to inform residents about issues or actions taken by the board.

Only one of the original members still serves on the co-op board. Yet all the current board members except the president have received some training. This training has largely been limited to attendance at the National Association of Housing Cooperatives annual workshops, however. Both the management agent and the board members themselves feel that additional training is needed in all aspects of managing a cooperative, but particularly in how to involve the residents.

In response to a question regarding the problems the cooperative had experienced since it was created, the co-op board president talked of residents' distrust of the board. Rumors had circulated among the residents that board members were giving free apartments to family and friends and that the honeymoon of two board members was paid for by the cooperative. In the president's own words, there is "a lot of hearsay and confusion . . . some of them look at the board as the landlord. That's unfortunate, since that's not what we do at all." The lack of communication between the board and the residents undoubtedly plays some role in this mistrust.

The financial health of the cooperative can generally be described as good in spite of a significant amount of rent in arrears. At last visit the cooperative had a cash balance of approximately \$190,000 with no major bills outstanding. Moreover, this balance has been steadily increasing. The co-op does not have a separate reserve account, but \$67,000 has been designated as general reserve funds in its current budget.

Forty persons were in arrears one month or more, including 13 who were in arrears more than three months. The total amount owed the cooperative was \$16,063. Two shareholders have been evicted for nonpayment of carrying charges. So far the board has not enforced a provision of the bylaws that stipulates that shareholders pay the legal fees associated with taking arrears cases to court. At the time of the last visit, however, board members were discussing deducting these fees from the shareholders' down payments.

One of the co-op's major expenses is the water bill. Without individual metering, there was no disincentive for excessive water use, and the bill has increased sharply. The cooperative has been able to cover the cost of installing individual water meters by applying for and receiving Community Development Block Grant funds. But soon the cooperative is likely to face major expenditures to replace leaking solar water heaters. The board tried to get VIHA to replace the heaters, but it refused. The cooperative also expects a sharp increase in its insurance payments as insurers react to the claims resulting from Hurricane Hugo.

A recent survey of the cooperators by a local consultant provides an indication of resident satisfaction with the cooperative. This survey, which included 71 of the 118 cooperators, asked about problems with the co-op and whether the problems had gotten better or worse since the conversion to a cooperative. Among major problems, 90 percent of the residents named loitering; 82 percent, illegal drugs; 66 percent, graffiti; 64 percent, animals (pigeons, cats, or fowl); and 61 percent, litter. Yet overall those surveyed saw modest to large improvements in most of these problems since the conversion. The only problem for which no improvements were reported was illegal drug use.

According to the manager, one of the main obstacles to improving conditions in the cooperative is its lack of separation from the remaining public housing units. Currently, there is nothing that either physically or symbolically separates the two properties. It is impossible by a visual inspection to tell where one

property begins and the other ends. The manager has recommended putting fences and plants between the co-op and the public housing units and closing the U-shaped road that provides access to both sets of units to create two cul-de-sacs. These changes, in his opinion, would give the cooperative more control over the development. The board members have been reluctant to follow his recommendations, however, since they worry that friends and relatives who live in the public housing units will accuse them of elitism.

When asked about the main benefits of living in the cooperative, residents emphasized the economic advantages, including the low rent, the stability of rent (which no longer increases with income), and the ability to save money. Faster maintenance service was also mentioned frequently.

In summary, the Pearson Gardens Cooperative is in relatively good financial shape in spite of a significant number of cooperators being in arrears on their share payments. As in Paterson, the lack of mortgage payments means that the co-op's expenses are modest. Moreover, despite minor problems, most units were in good shape at the time of transfer, so repair expenses have been low. Expenses are expected to rise soon, however, and this may eat into the cooperative's cash balance.

The cooperative has also been able to achieve modest improvements in residents' quality of life. Repairs are made more quickly, and the development is cleaner. The cooperative also provides inexpensive housing, and rents do not increase with income. But the cooperative has had no impact on the serious crime and drug problem in the development. The residents seem to blame mainly the police for their inaction in addressing this problem.

Three major problems stand out. The first is the minimal training received by co-op board members; both the management agent and board members talked of the need for additional training if they were to effectively address the problems cooperators still faced. Second, communication between the co-op board and the residents is minimal; this lack of communication undoubtedly contributed to the rumors and residents' distrust of the co-op board. Third, shareholder participation on committees and in the general affairs of the cooperative is minimal; most cooperators are uninvolved and act as if they still rent their units.

## **Obstacles to the transfer of public housing units to cooperatives**

The experiences of the three cooperatives suggest several major obstacles in transferring multifamily public housing developments to the tenants. First, extensive renovation is often required before public housing units can be transferred, and this renovation can be costly and time-consuming. The sponsoring PHAs have to find ways to pay for repairs and improvements, plan them, and carry them out. DHA hoped to recoup its investment in renovation by passing the costs along to the cooperative, but the costs contributed to the co-op's financial problems. The Paterson Housing Authority used HUD modernization funds that gave the cooperative a better financial position but left the remaining public housing units in worse condition. The HOPE 1 program seeks to avoid this obstacle by including funds for renovations in the implementation grants provided.

Handling nonparticipating tenants is clearly a second major obstacle to transfer. In all three cases, a substantial number of households did not want to participate in the cooperative. The Paterson Housing Authority's plan to move nonparticipating tenants to other public housing developments resulted in a legal challenge that delayed the transfer by several years. In St. Thomas, the unusual decision to split the development in two was largely to accommodate the nonparticipants. The only reason relocation was not a problem in Denver was that the PHA ignored the program guideline prohibiting involuntary relocation.

Clearly, PHAs need to develop an equitable and workable arrangement for handling nonparticipants. Such an arrangement must involve a range of options, including relocating to another public housing property, moving to private housing with the aid of a Section 8 certificate, and remaining in place with the aid of a Section 8 certificate. The Paterson experience indicates that having a substantial proportion of continuing renters need not cause problems and may even benefit the financial health of the cooperative.

The difficulty in explaining and developing interest in joining a cooperative is a third major obstacle. In all three cases, the program sponsors talked of great difficulty in recruiting tenants. The cooperative concept is still foreign and difficult for many people to understand. This was particularly true in Denver and St. Thomas, where there are only one or two other cooperatives

in the area. Moreover, once the tenants understood the concept, many seemed to feel that cooperative ownership was not real ownership. They wanted to hold the title to the property and be able to sell it for whatever it was worth.

In St. Thomas, and to a lesser extent in Denver and Paterson, crime and disorder in the development also impeded interest in joining the cooperative. In Denver, the program sponsors reacted by overselling the concept. Many cooperators ended up believing that rents would never go up and that they would accrue substantial equity in their units. They were disappointed on both counts.

If developments are to be sold for more than a nominal price, financing the sale is likely to be a fourth major obstacle, particularly in areas where cooperatives are rare. DHA was able to get the National Cooperative Bank to finance a portion of the sale price, but it had to self-finance the rest. In Paterson, even though the development is being transferred at a greatly discounted price, prospective cooperators still have to borrow between \$2,450 and \$3,500 for an equity payment. Many have had a difficult time obtaining even these relatively small loans.

Finally, the sponsoring PHAs' lack of experience in sales programs in general and cooperatives in particular contributed to the delays in transferring the units. Those in charge of the programs were learning as they went. Consultants were hired to bolster their expertise, but there was still much for which the PHAs were responsible. Moreover, these sales programs tended to have low priority because they were not part of the core activities of the sponsoring authorities. In each case, some PHA staff members were at best ambivalent about selling public housing units.

### **How successful have these cooperatives been?**

Three indicators of success will be considered. The most basic of these indicators is survival. All three cooperatives studied have survived for at least two years, and one has survived for more than seven. However, the continuing roles that the sponsoring PHAs have played in their survival cannot be ignored. In all three cases the housing authorities have provided services and other support to the cooperatives, at no or reduced cost, well beyond the transfer of the properties. DHA is still responsible for preparing vacated units for occupancy, the Paterson Housing

Authority provided management services for the first two years, and VIHA continues to collect the rent and utility payments.

The second indicator of success is financial health. The Upper Lawrence Cooperative in Denver is in very bad financial condition, being in arrears on both its property taxes and its second-mortgage payments, in addition to having minimal reserves. Brooks-Sloate and Pearson Gardens, on the other hand, are current on their bills and have substantial reserves.

The main factor accounting for this difference in financial health is debt burden. The Upper Lawrence Cooperative has first and second mortgages that total more than \$900,000, and this burden has strained its ability to make ends meet. The other two co-ops have no mortgage debt. They need cover only the operating costs.

The financial problems of the Upper Lawrence Cooperative are also attributable to a pro forma operating budget that left out several major costs and an unrealistic assumption that the residents could manage the co-op and do much of the maintenance work themselves. In the other two cooperatives, the financial analysis proved to be more accurate, and they anticipated the need for professional management and maintenance. The lack of a mortgage also meant that they had a larger cushion to fall back on.

All three co-ops have substantial amounts of share payments in arrears. All three managers interviewed thought that this was primarily a result of some tenants behaving as they did when they were public housing residents and of the co-op board's reluctance to evict cooperators or renters who were substantially behind on their payments. There appears to be a tension between the desire to be flexible with those who have difficulty paying rent and the need to pay the bills. Being low-income persons themselves, the board members empathize with those who fall behind on their payments. At the urging of their management agents, all three boards are moving to make sure that policies on fines and eviction are enforced. At the time of the last visit, all three boards were taking actions to lower the number of delinquent payments, including evicting residents far behind on rent.

The third indicator of success is resident satisfaction. Are the cooperators more satisfied with their living environments than

they were when they rented from the PHA? Although before-and-after surveys were beyond the scope of this study, the post-occupancy surveys conducted in Denver and St. Thomas and the focus groups held in Paterson and Denver provide evidence on this issue. Generally, the cooperators in Denver were dissatisfied with living in the cooperative, while those in St. Thomas and Paterson were mildly satisfied.

Looking across sites, the major source of satisfaction was low rent. In both Paterson and St. Thomas, low rent was the most frequently mentioned advantage of living in the cooperatives. Although the cooperators in Denver complained about rent increases, many acknowledged that they were still paying less than a similar apartment would cost in the private market. The stability of the rent was also a major source of satisfaction in both Paterson and St. Thomas. The cooperators were happy that their rent had been uncoupled from their incomes. Modest improvements in the cleanliness and attractiveness of the developments also contributed to satisfaction in both St. Thomas and Paterson.

A major source of dissatisfaction was the condition of the units. Cooperators complained about the quality of the rehabilitation work done in both Denver and Paterson, and in St. Thomas they had problems with leaking solar water heaters. Clearly, the housing authorities did not pay enough attention to the condition of the units at the time of their transfer to the tenants. Crime and vandalism were also sources of dissatisfaction, particularly in St. Thomas but also in the other two sites. In hiring private security guards, the Brooks-Sloate Cooperative was the only one to take action to address this problem. The share payment increases in Denver were the main source of dissatisfaction there.

### **Factors inhibiting greater success**

A number of factors seem to be keeping the cooperatives from reaching their full potential.

#### *Inadequate board training*

First and foremost, the training received by the co-op boards was woefully inadequate. Although all three of the original boards received some training, it fell far short of what was needed to create confident and effective boards. The training was very

basic and not hands on. The boards were simply not prepared to take control of the developments.

Moreover, all three cooperatives lack ongoing board training beyond sending some board members to the annual meetings of the National Association of Housing Cooperatives. Many of the new board members in each cooperative have received little or no training. In St. Thomas, the current board president has not received any training. In the other two sites, some board members have not had any training. When board members were asked what subjects they would like additional training in, the most frequent responses were understanding budget and financial statements, involving residents in the affairs of the co-op, and running effective meetings.

Given the relatively low education levels of the board members and their general lack of experience in formal organizations, extensive board member training programs seem essential. The simple desire to take control of their living environment is not enough—the board members must have the skills to succeed. Observations of board meetings in all three sites reveal that board members particularly need training on how to run and participate in effective meetings. Differences of opinion among board members seemed to turn quickly into personal conflicts. Board members need to learn how to differ in respectful ways, rather than in ways that generate personal animosity.

### *Lack of communication*

In all three cooperatives, communication between the co-op boards and the residents was minimal. None of the boards had a regular newsletter or other means of keeping residents informed of board actions. At best, flyers were distributed notifying residents of upcoming meetings. In all three co-ops this lack of communication has contributed to the spread of false rumors of board corruption or favoritism and a general distrust of the co-op board among the residents. The boards have come to be seen as the landlord rather than as a group of fellow residents.

This view of the co-op board among many residents may also be a result of what might be described as a victim perspective on the part of the residents. They seem so accustomed to being, or at least feeling, victimized by the PHA, welfare agencies, and other organizations that they find it difficult to look at those in charge in any other way. They seem distrustful of all authority, even if it is a group of neighbors they have elected. Heskin

(1991) reports a similar phenomenon in the co-ops he studied in Los Angeles.

### *Lack of participation*

Inadequate cooperator training and involvement have also been common problems. Cooperator participation in the affairs and activities of the co-ops has been minimal. Attendance at meetings is very low, as is participation in committees. In Denver the board has not even been able to achieve a quorum at its annual meetings to elect officers as called for in the bylaws. A common complaint of board members in all three co-ops is that the cooperators do not understand the difference between being a renter and being a cooperator.

This lack of participation is not surprising, for several reasons. First, none of the co-ops have any clear guidelines on what is expected from the cooperators. No minimum number of volunteer hours is expected, for example. Second, the co-op boards have not actively worked at involving the residents. Third, because of the need to include a high proportion of the existing tenants in the cooperatives, the benefits of living in a cooperative were often exaggerated. Finally, in all three cooperatives the main reason most gave for joining was the low rent offered. Although low rent is certainly a legitimate and important reason to join, it may not be enough to sustain a healthy cooperative. Active participation in running the cooperative seemed to be lacking. As one board member put it, "The cooperators are not cooperative."

### *Poor quality of housing stock*

All three cooperatives faced the need to make major repairs soon after they assumed ownership of the developments. The poor quality of the repair work done by the sponsoring housing authorities strained both the financial and the organizational resources of the co-ops. The attention of all three cooperative boards was largely consumed with trying to get the housing authorities to correct these problems or addressing the problems themselves, which left little time for community-building activities. These physical problems also negatively affected the attitudes of the cooperators and undermined faith in the entire endeavor.

Note that each of the housing authorities spent considerable money repairing the units before they were transferred. Given

the age and original condition of the developments, however, the repairs were simply not enough. The fact that the developments were originally built as public housing also complicated the repairs and modernization. In all three sites, for example, the plumbing systems of individual units were not independent. Because the same set of pipes served several units, difficulties developed as the cooperators became responsible for fixing stoppages and other problems. The units were simply not built with cooperative ownership in mind.

## Conclusion

The experiences of the three cooperatives described here suggest that converting public housing developments to cooperatives is feasible, although it is likely to take considerable time, effort, and expense. The sponsoring housing authorities must be prepared to make a substantial commitment to the conversion program and stick with it over an extended period. The properties must be sold to the cooperatives at little cost and be in good shape at the time of transfer.

The success that the cooperatives achieve, at least in the short run, seems to depend largely on the sponsoring housing authority's ability to design and implement a conversion program. If adequate arrangements are not made for nonparticipants, if pro forma budgets omit major costs, if repair work is insufficient or badly done, or if co-op board members are not properly educated, the co-ops will be less successful or simply fail.

Being a shareholder in a cooperative does offer low-income persons an opportunity to have greater control over their living environments. But this opportunity is realized only if the conversion is well executed. If the project is in need of substantial repair or if the board is insufficiently trained, being a shareholder can be a demoralizing experience. It is important not to romanticize cooperative ownership and its benefits, as one representative of DHA did. After listening to Upper Lawrence residents talk of rent strikes, conflict, poor housing conditions, and other problems, the DHA representative was asked what he thought the biggest benefit of the conversion program was. He answered, "We have empowered those people." Clearly, the residents felt anything but empowered.

Because PHAs lack experience in creating cooperatives, they should not be in charge of designing the conversion programs. A better model would be for the housing authority to hire an organization with experience in creating cooperatives to oversee the entire conversion process. Such an arrangement would also be more likely to involve the residents in the design and implementation of the program. Consultants were hired in all three conversion programs described here, but they were engaged in limited tasks rather than in developing and implementing the whole program. The conversion process in St. Thomas came the closest to this arrangement as the consultant worked closely with the residents to design many aspects of the program. In the other two examples, the program design was developed largely by PHA staff and then presented to the tenants.

Clearly the prohibition against involuntary relocation greatly complicates the conversion process and results in the inclusion of residents who would not normally seek out cooperative living. Miceli, Sazama, and Sirmans (1994) argue that residents of co-ops can control housing externalities (such neighbors who are loud, engage in criminal activity, or do not maintain their property) through resident selection and monitoring. The requirement to involve as many present renters as possible, however, means that resident screening cannot be very strict. In fact, in the present examples tenants with limited understanding of the cooperative concept and low motivation levels were seduced into participating by promises of low rent.

Lax screening, in turn, diminished the potential for self-management, since many cooperators were not willing to contribute the time and effort required to run a cooperative. As Miceli, Sazama, and Sirmans (1994, 485) note, "to be successful [a limited-equity cooperative] must attract tenants who are willing to participate in self-management and assume responsibility for their own housing." The prohibition against involuntary relocation makes it difficult to ensure that a large proportion of cooperators will be willing to assume that responsibility.

The solution to this problem is either to remove the prohibition against involuntary relocation or to provide newly constructed units to those public housing residents who truly desire cooperative living. The latter solution is more desirable for several reasons. First, although it may be somewhat more expensive, it adds new units to the housing stock. Conversion programs are expensive yet add no new units. Second, it does not reduce the number of public housing units available to low-income households. Most local public officials have a difficult time justifying

the sale of public housing units when there are long waiting lists. Finally, new developments can be designed with cooperative living in mind. As such, they are likely to avoid the maintenance and replacement problems experienced by the cooperatives studied here.

The conversion of public housing developments to cooperatives should not be seen as a solution to the problems faced in many public housing developments, and it certainly does not offer a realistic general alternative to traditional public housing. Conversion is a very expensive undertaking. The costs of rehabilitating the units, staff time and outside technical assistance, training the cooperative boards, and providing Section 8 certificates to nonparticipating residents are substantial. Given the modest improvements in the quality of life of cooperators in this study, the long waiting lists for subsidized housing, and the general shortage of funds for low-income housing, the use of these funds for conversion projects, which do not add to the number of affordable units, must be seriously questioned.

If conversions are to continue, however, they should be limited to developments where there is strong and widespread interest among the residents and a genuine commitment by the sponsoring PHAs. Conversions that are the result of top-down pressure or salesmanship are not likely to succeed.

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