AFTER THE FIRST GENERATION THEN WHAT?

Building an Enduring Cooperative Movement on the Lower East Side

The foundation of the cooperative movement on the Lower East Side rests on almost 50 buildings now in or approaching tenant ownership. Some of these buildings are in City programs (such as Tenant Interim Lease, Urban Homesteading, or Community Management), some were purchased by tenant associations from landlords (before the current wave of real estate speculation), and tenants in others are attempting to purchase their buildings from the City.

In the more than ten years of struggle to develop housing cooperatives in the community two principles have guided the efforts of tenants and homesteaders: first, the cooperative movement is for not-for-profit low and moderate income housing and, second, participants or tenant-members contribute their labor or "sweat equity" towards the rehabilitation, maintenance, and management of their building. In this way people with little or no money to invest can participate and the cost of operating such buildings are minimized.

These principles have always been understood as consistent with one another and with the goal of planning new housing for those in the community who remain underhoused as well as the many now faced with displacement by the current "gentrification crisis".

Gentrification, by displacing a lower income segment of the community with a higher income group, above all, signifies the dominance of money over people's needs. This phenomena, while attacking the fabric of the community from <u>without</u> has also served, ironically, to highlight the recent concern of "self gentrification" <u>within</u> the movement: that is, with the departure of the original tenant-members how can cooperatively-owned housing be kept affordable for low and moderate income people?

Legally, it might be pointed out, most of these buildings are restricted by incorporation or deed to serve low and moderate income persons. Membership shares are generally sold only through the corporation and not by individual members. Financially, however, a tenant-member's departure may pose a serious problem in regard to his right to receive back some portion of his sweat equity "investment" and rent applied towards a loan for his building's improvement.

Tenant-members (or shareholders), of course, may waive this right, but assuming they don't, we need to know the value of a tenant-member's share and what portion of that value should go to the tenant-member departing (the seller) and what portion, if any, to his building. We also need to know where the money to pay the seller will come from, since most buildings in our community need every penny they have for day-to-day operating expenses and building improvement costs.

Most buildings in attempting to resolve this last question look towards a purchaser or new shareholder to come up with the money to pay departing member's equity. Leaving aside for now an examination of how to formulate the value of this equity (a value that in most buildings increases every year) and therefore the cost of a new share, one thing is clear: whether the share is valued at $1,000 or $10,000, low and even moderate income people cannot afford the cost of a share, the first month's rent and a security deposit. And even assuming that a new shareholder could spread the payment of a share over a period of time (and the building has sufficient cash-flow to pay out equity), the cost may still be prohibitive given the number of people now out of work, receiving welfare, or living on social security.

The cooperative movement beyond its first generation of homesteaders and tenants is faced with a dilemma in which its guiding principles seem to present a contradiction: how can we collectively endure as a low and moderate income housing movement while being equitable to ourselves as individuals? The purchase and sales price question brings this dilemma into focus. Its resolution, if we are to endure, must move beyond a "zero-sum" solution in which someone(namely, the purchaser) must lose in order for someone else(the seller) to gain.

There is a need, then, to explore other solutions that recognize the uniqueness of the neighborhood cooperative movement on the Lower East Side. Since almost all of the buildings within the movement are confronted with what is essentially a cash-flow problem that transcends any one building, an alternative approach should suggest, it would seem, the cooperation of many buildings.

One such approach could be the development of an "equity insurance pool", employing the same principles of contribution and risk that insurance companies have developed, but on a not-for-profit basis to cover or insure tenant-owned buildings against the equity costs of departing tenant-members. Such a pool would operate through the contributions of member buildings who would pay a "fee" each year based on how much equity "coverage" they wish to have. In general, buildings that set the value of shareholder's equity at a low value would pay less than those that set shareholder's equity at a high value. The goal would be a pool of funds large enough so that the interest alone on these funds could cover the probable amounts to be paid out in a given year. Fees of member buildings might then be reclaimed if members decide to withdraw from the pool.

If sufficient numbers of buildings participated (it might be appropriate for the equity pool to be city-wide) and the funds were great enough it is even possible that an equity bank could be developed so that building improvement loans could be made to members or even new groups just getting underway. Most importantly, an equity pool or an equity bank would preserve each building's ability to adhere to its original purpose and therefore maintain our community's historic role as a home for low and moderate income people.

Howard Brandstein
310 East 4th Street
New York, NY 10009

February 22, 1983