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community

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Resident-Owned, Permanently Affordable Housing:
Why Frolic Uses the Co-op Model

At Frolic, our mission is to make homeownership more attainable for those traditionally excluded from it, which includes both current buyers as well as those in future generations. We believe in striking a balance: residents should be able to build wealth and security through ownership, without pricing out the neighbors who come next.

To achieve this, we support a model where residents can buy in affordably and sell at a modest, predictable return. This maintains long-term affordability while delivering the financial and social benefits of ownership.

Two common models for achieving this are Community Land Trusts (CLTs) and Limited Equity Housing Cooperatives (LECs, LEHCs, or simply "co-ops"). Both aim to preserve affordability and community control, but they work in very different ways.

Key Differences in Homeownership Models:

Feature	Community Land Trust (CLT)	Limited Equity Co-op (LEC)
What does a resident own?	A deeded building or unit, but not the land underneath it.	A share in the co-op, which collectively owns the building and land. The share comes with the right to occupy a unit.
Who owns the land?	The CLT, leased to the homeowner(s) via a 99-year ground lease.	The co-op corporation (a non-profit entity) which is collectively owned by all residents
Who owns the building?	The resident. This requires individual plats for each home, with each parcel paying a ground lease fee to the CLT.	The co-op corporation (a non-profit entity) which is collectively owned by all residents
How is development paid for?	• the CLT itself (often via grants or subsidy), and • the sum of initial sale prices of all homes on the CLT land.	• The sum of initial sale prices of all shares, plus • A mortgage on the co-op's land & improvements, plus • Subordinate debt underwritten by the co-op's income, plus • Subsidy & grants, if applicable Because the co-op can get its own

	Because of this, the home prices can be higher unless there is significant grant/subsidy capital deployed in the project.	mortgage and debt, share prices in the co-op can be much lower. Nobody can hold equity in an LEC other than the residents themselves, but the co-op can utilize other funding sources (e.g., loans or subsidy)
How is affordability maintained?	A maximum resale price formula determined by the CLT, often 1-5% annually	A maximum resale price formula determined by Bylaws and generally capped by the State's LEC laws (3% annual max in WA, 10% max in CA)
How is it governed?	CLT monitors affordability and controls resale, enforced via ground lease provisions. The CLT may involve residents in some decisions at its discretion.	The Co-op elects a Board for day-to-day decisions, house rules, and new resident intake and interviewing. Steward enforces affordability and resale controls, reviews budgets, and oversees compliance, and must approve any material changes to the bylaws.
How do residents build equity?	Capped appreciation (determined by CLT) + paid-off mortgage*	Capped appreciation (typically 3%/yr) + paid-off share loan
Resident Purchase Financing	Buyers can take out mortgages for home purchases*, but this is challenging due to the ground lease. ** Most institutions will not provide mortgages on multifamily typologies as they are not backed by Fannie Mae / Freddie Mac.*	Buyers can take out share loans, which are similar to a mortgage but backed by the buyer's share in the co-op itself. The co-op signs an agreement with the lender to allow the interest to transfer to the lender in the event of a buyer default.
Property Tax Abatements (State-specific)	In WA, residents are taxed but typically assessed at the lower resale-capped value, rather than a market assessment.	In WA, full exemption for <80% AMI units (pro-rated across co-op).
Typology	Usually detached single-family or duplex, including buildings across multiple lots. Condos are very difficult to develop or finance in a CLT due to the additional complexity of a condo plat, as residents own neither the building nor the land underneath it.	Any form; typically multifamily buildings or multiple detached homes on contiguous lots Because co-ops require a Board, Steward, and property management, they generally require a minimum of 6 units to function effectively.

Why We Use Co-ops

We love CLTs - they've been instrumental in expanding access to affordable homeownership, especially for single-family homes. They are a useful structure in lower-density or single-family contexts where a co-op format doesn't fit well. CLTs benefit from the ability for buyers to take out mortgages to purchase a home due to backing from Fannie and Freddie, but this is typically only available for detached homes and duplexes.

For multifamily developments and to reach deeper affordability without significant subsidies and grants, co-ops offer a simpler, more financeable structure:

- Less complexity: The co-op owns everything, so no need for layered ground leases or dual governance
- More accessible financing: Co-ops can take out a blanket mortgage secured by the land & improvements, reducing unit prices and the need for every buyer to qualify individually
- Share loan availability: Buyers can take out a "share loan" to finance their purchase. These are often backed by Fannie/Freddie and function like a mortgage.
- Lower public subsidy needs: LEC structure reduces upfront capital required per unit
- Resident-driven ownership: Members govern their building directly, supported by a long-term Steward
- Permanent affordability without bifurcated ownership: An LEC builds permanent affordability directly into its governing documents, so resale restrictions can't be removed without approval from both the Steward and the lenders. This delivers the same lasting protection as a CLT but avoids the separate ground lease or covenant that can complicate underwriting and make lenders hesitant.
- More flexibility for deeply affordable buyers: Lower share sizes, share loans, and/or sweat equity can make co-op entry more accessible than traditional mortgages

Why We Don't Recommend Combining CLT + Co-op

Some groups have experimented with putting co-ops on CLT-owned land, typically in order to address the issues CLTs run into with multifamily condo typologies and/or to reduce purchase prices via the co-op's ability to have blanket financing. We've found that this structure often creates more complexity than benefit:

- Overlapping affordability safeguards: LECs already include enforceable permanent resale restrictions, third-party stewardship, and democratic resident governance. These tools align closely with CLT goals and are sufficient to ensure lasting affordability in multifamily contexts.
- Financing challenges: Lenders are often wary of multi-layered ownership as it is unclear what they would own in a foreclosure or how to sell it. This uncertainty can limit access to construction loans, blanket mortgages, and share loans, key tools that make affordable projects feasible.
- Redundant governance: Because co-ops already enforce resale terms and affordability with their own Board and Steward, layering a CLT creates duplicative oversight.
- CLTs can still play a role: Where CLTs wish to stay involved, they can serve as the project Steward or co-Steward in a co-op, ensuring accountability without holding title. If desired, a CLT can retain a reversionary right to reacquire the land if the co-op dissolves or ceases to be affordable.

Everything a CLT + LEC combo aims to accomplish (long-term affordability, stewardship, limited equity, and community control) can be achieved with a well-structured co-op and the right Steward. Existing CLTs can even co-develop LECs and serve in the Steward role themselves (or co-Steward with Frolic), but we recommend the co-op hold the title and land itself for ease of financing and role clarity.