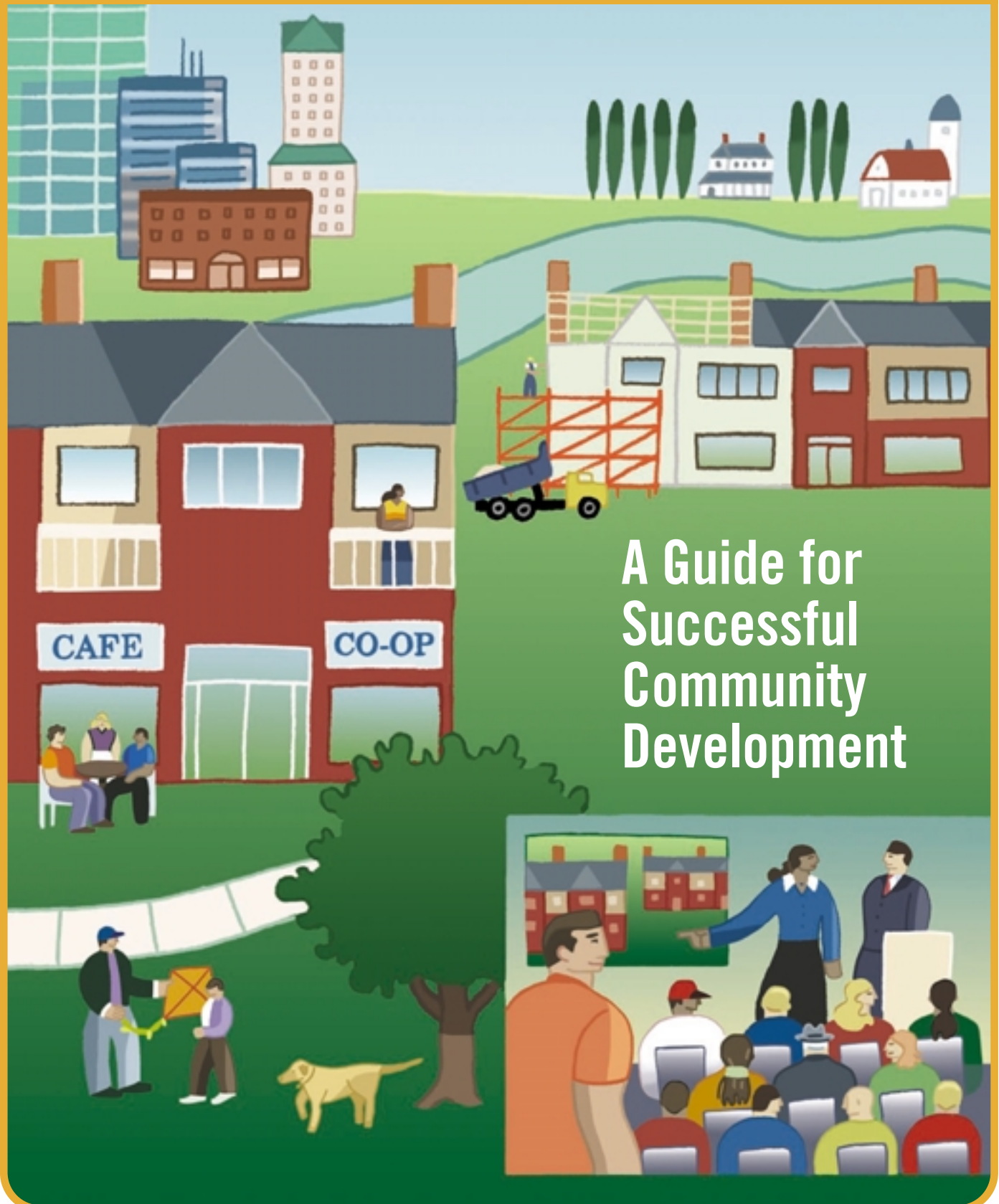


# COOPERATIVE HOUSING DEVELOPMENT TOOLBOX



## A Guide for Successful Community Development

COOPERATIVE HOUSING DEVELOPMENT TOOLBOX

# **A Guide for Successful Community Development**

**Published by Northcountry Cooperative Foundation  
in partnership with Northcountry Cooperative Development Fund**

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### **About the publisher**

Northcountry Cooperative Foundation (NCF) is the non-profit, educational affiliate of the Northcountry Cooperative Development Fund (NCDF). NCDF was founded in 1978 by a group of natural food cooperatives whose members wanted to invest their capital in business activities that supported their values. What began as a simple tool for self-preservation—a handful of co-ops lending money to each other because no one else would—soon grew into one of the first community-development loan funds in the country, and a model for community-based capital control.

Since its founding, NCDF has expanded its market beyond natural foods to include other cooperative sectors. NCDF has made millions of dollars in capital available to a range of small consumer, worker, housing and producer cooperatives and their members, playing an instrumental role in the success of these enterprises. From its beginning, serving a locally-based collaboration of small natural food cooperatives, NCDF has grown into a regional network of more than 100 community-based, democratically owned and governed enterprises.

NCF, as the non-profit arm of NCDF, was formed to more effectively carry out and expand the educational and technical assistance activities with which NCDF has long been involved.

Cover illustration by Michael Lechner

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Acknowledgements . . . . . ii

About the Publisher . . . . . ii

**INTRODUCTION** . . . . . 1

**Purpose of This Guide** . . . . . 1

**Is Cooperative Housing Right for Your Community?** . . . . . 1

**CO-OP BASICS** . . . . . 3

**What Is a Co-op?** . . . . . 3

    Joint Ownership . . . . . 3

    Democratic Control . . . . . 3

    Operations for the Benefit of Members . . . . . 3

    Guided by Cooperative Principles . . . . . 4

**What is a Housing Co-op?** . . . . . 5

    The Basics . . . . . 5

    Equity Models . . . . . 6

**BENEFITS OF HOUSING CO-OPS** . . . . . 8

**Individual Benefits** . . . . . 8

    Affordability . . . . . 8

    Accessible Home Ownership . . . . . 9

    Flexible Housing Model . . . . . 10

    Financial Advantages . . . . . 11

    The Home Ownership Stake . . . . . 12

    Supportive Community: Building Social Capital . . . . . 13

**Community Benefits** . . . . . 16

    Engine of Economic Growth . . . . . 16

    Stability . . . . . 16

**Summary: Why Cooperatives Are a Good Affordable Housing Choice** . . . . . 17

**HOUSING CO-OP DEVELOPMENT** . . . . . 19

**Identification of Project Objectives / Target Audience** . . . . . 19

**Identification of Project Team Members** . . . . . 20

    Co-Developer or Development Partner . . . . . 20

    Lenders and Funders . . . . . 20

    Market Analyst . . . . . 20

    Marketing Agent . . . . . 20

    Cooperative Attorney . . . . . 21

    Project Architect / Engineer . . . . . 21

    Contractor . . . . . 21

**Site Selection / Concept Development** . . . . . 21

**Site Control** . . . . . 22

**Development and Operating Pro Forma** . . . . . 23

**Financing Options** . . . . . 25

**Market Study** . . . . . 26

**Architectural / Engineering Work** . . . . . 27

**Marketing Process** . . . . . 27

**Preparation of Legal Documents** . . . . . 28

## TABLE OF CONTENTS

<b>Member Education and Training</b> .....	28
<b>Closing on Project Financing</b> .....	29
<b>Renovation or New Construction</b> .....	29
<b>First Annual Meeting</b> .....	29
<b>Ongoing Training and Support</b> .....	29
<b>Ways of Maintaining Affordability</b> .....	30
<b>BEST PRACTICES / WORST PRACTICES</b> .....	32
<b>PARTING WISDOM</b> .....	34
<b>APPENDICES</b> .....	35
<b>Frequently Asked Questions</b> .....	35
<b>Links to Co-op Housing Organizations</b> .....	38
<b>Literature Review</b> .....	40
<b>Differences Among Co-op, Condo, Rental and Single Family</b> .....	44

# INTRODUCTION

## PURPOSE OF THIS GUIDE

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**T**he shortage of affordable housing in the U.S. market has an enormous impact on the quality of life in cities, towns, and rural areas. As community leaders seek solutions to the affordable housing crisis, people continue to make difficult choices about where to live.

Cooperative housing offers an affordable housing solution. Although housing co-ops have been around since the mid-19th century, few people really understand how the cooperative housing model works. Even fewer people appreciate how effectively cooperative housing can serve as a viable affordable housing solution. As a result of work being done by organizations like Northcountry Cooperative Development Fund (NCDF), cooperative housing is gaining increased attention as a viable model for affordable housing.

This manual was created by NCDF to assist community leaders with choosing, planning and organizing co-op housing developments. One of the beauties of the housing co-op model is that it is adaptable to the specific characteristics and needs of almost any community. A housing co-op can be established in existing rental property, or in a manufactured home park, or even a town home arrangement. An existing building can be rehabilitated for co-op use, or the co-op can be housed in a newly constructed facility. A housing co-op can be developed for families, seniors, migrant workers, students, artists or anyone else with a common housing need. The options are limited only by the creativity and will of the developer and residents. NCDF is committed to sharing its skill and resources in the development of cooperative housing with any community that feels it can benefit from this unique housing option.

## IS COOPERATIVE HOUSING RIGHT FOR YOUR COMMUNITY?

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Housing cooperatives are more than just an interesting and unusual way to hold real estate. Housing cooperatives are communities of people who share a common interest. Fundamentally, this common interest can be, and often is, simply a shared interest in affordable housing and related services. As this guide explains, housing cooperatives are, by their nature, uniquely suited to deliver affordable housing for a variety of reasons:

- As a resident-controlled entity, co-ops operate at cost, returning to members any surplus after accounting for expenses and reserves
- Co-ops can be financed either collectively or individually or some combination of the two, offering residents a range of flexible financing options
- Co-ops can limit resale prices, creating a perpetual resource for affordable housing
- Transaction costs are typically lower for residents buying into a co-op as opposed to condos, townhouses, or single family homes
- Co-ops can take advantage of group purchasing opportunities

Co-ops have other non-financial advantages as well:

- Manufactured home park cooperatives, for example, provide security to their members by eliminating the risk of a park sale or closing.
- The cooperative member screening process means that co-op home owners are much less susceptible to predatory lenders.
- Housing cooperatives enable residents to make shared decisions about how their dwellings will be managed and operated, and the shared nature of decision-making provides a means

## INTRODUCTION

for neighbors to get to know each other on the basis of shared interests.

Housing cooperatives in both urban and rural communities across the country provide millions of households of modest means with home ownership, security, community and the opportunity for self-governance.

In addition to meeting a practical need for affordable housing, housing cooperatives can be designed to appeal to affinity groups who share other common interests or experiences. While they cannot discriminate, and must follow all applicable fair housing laws, co-ops can, and do, identify particular shared interests which can be used as member eligibility criteria. Senior housing cooperatives, for example, can lease space to a home health care provider who provides services to members at a discount. A housing cooperative can be developed to serve a group of university alumni, building community among people with a shared past. A student housing cooperative can bring together international students who have an interest in meeting persons from other cultures or nations. Artists' cooperatives can provide artists with an affordable place to live, with common studio space, and with gallery space in which to display their work. Co-ops with young families can provide for shared child care services.

In short, housing cooperatives provide a rich community life to over one and a half million resident-members across the nation. Any community in the United States can host a successful housing cooperative. This guide is designed to assist community leaders in determining whether a housing cooperative is right for their community.

# CO-OP BASICS

## WHAT IS A CO-OP?

**T**he International Cooperative Alliance defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.” A cooperative is, essentially, an enterprise formed by a group of people who join forces and work together to solve a common problem or reach a shared goal.

Cooperative members come from all walks of life, are of all ages, and belong to all income groups. People form and join cooperatives to meet all sorts of needs, and buy and sell all kinds of products and services, ranging from childcare to groceries to agricultural products to financial services. There are cooperative day-care centers, and cooperative burial societies. There is probably a cooperative somewhere in the country to meet any kind of need you can imagine.

Cooperatives are differentiated from other business entities in three ways: member ownership, member control and member benefit.

### Joint Ownership

When you join a co-op, you invest some amount of money in the co-op. You're not only a customer or a user, you're also an owner. As a co-op owner, you're concerned not only about whether the enterprise is making money, but also whether the business is meeting the needs of its member-owners. In an investor-owned business, in contrast, investors are concerned mainly with making money.

### Democratic Control

Participation in the decision-making process is one of the primary ways business owners exercise their rights as owners. Co-ops operate on a one-member one-vote basis. As a member-owner of a consumer co-op, for example, you can cast one vote in any business decision, regardless of the amount of business you do with the co-op. In an investor-owned business, in contrast, an owner's control is directly proportionate to the number of shares the investor owns—that is, more money and more shares equals more votes and more control.

Co-ops are led by member-elected boards of directors. The directors are members who have agreed to serve the organization for a specific number of years. The co-op's manager (if there is one) reports directly to the board. In an investor-owned business, in contrast, the board of directors is typically composed of top company management plus some outsiders.

### Operations for the Benefit of Members

A housing co-op's main purpose is to provide affordable housing for its members, who are charged only for the actual cost of running the co-op. A co-op is in business to meet member needs but, like any business, it must make at least as much money as it spends. Housing co-ops generally operate at-cost or on a not-for-profit basis. Beyond everyday expenses, most housing co-ops reserve money for emergencies, vacancies, unexpected increases in operating costs, regular maintenance and planned property improvements.

An investor-owned housing development, in contrast, is in business to make money, not to benefit residents. Revenues (rents) are set at a rate that will not only cover expenses, but also provide a benefit to the property owner. Decisions related to property maintenance and



improvements are made by the owner, and may or may not be made with the best interests of residents in mind.

### **Guided by Cooperative Principles**

Equity. Equality. Self-help. Democracy. Solidarity.

These are the guiding values upon which the modern cooperative movement is founded and the basis for the organization of every cooperative enterprise in the world today.

The origins of the modern cooperative movement can be traced to the city of Rochdale, England, at the beginning of the industrial revolution. In 1844, a group of industrial workers, tired of poor quality and high-priced goods sold through the company store, set out to make things right. The Rochdale Society of Equitable Pioneers opened its first cooperative store on Toad Lane.

From the outset, the group's purpose was nobler than simply selling quality, affordable provisions and clothing. It also proposed the building of houses (in the words of the Rochdale pioneers) "in which those members desiring to assist each other improving their domestic and social conditions, may reside; the formation of worker cooperatives to help the unemployed; the purchase of land for common cultivation; and, the promotion of education and sobriety." While some of these early efforts were more successful than others, the clarity, consistency and breadth of the thinking of these early cooperative principles is striking. From the beginning, these co-op pioneers envisioned cooperatives as a way to give ordinary people greater control over their lives, improve their economic conditions, and protect them during hard times. These principles, developed more than 150 years ago, live on today in the thousands of cooperative institutions that exist throughout the United States and the world.

Any type of business can be a cooperative. In the United States, many of the largest co-ops are agricultural co-ops, rural utilities, mutual insurance companies and credit unions, but cooperative enterprises exist in virtually every sector of the economy. Co-ops also abound internationally. In Sweden, Canada, Italy, Japan and Costa Rica, cooperatives make up a significant portion of the national economy. In Oslo, Norway, for example, 40% of the housing units in the city are cooperatively owned. The Mondragon cooperatives in the Basque region of Spain have formed an entire cooperative economy in which factories, schools, businesses, professional organizations, and services are operated on a cooperative basis. Co-ops appeal to consumers because they offer members lower prices and better services. Co-ops appeal to farmers and independent business people because they provide a means to purchase and market goods. Co-ops appeal to workers because co-ops guarantee both a share in profits and a role in influencing key business decisions.

People have been initiating cooperative endeavors throughout the ages, but the most significant contribution of the Rochdale pioneers is that they established a written code of ethics that is still the root of cooperative philosophy today, known as the seven Cooperative Principles. The current articulation of these seven principles was approved by the International Cooperative Alliance (ICA) at a 1995 meeting that celebrated the 150th anniversary of the modern cooperative movement.

#### **1. Voluntary and open membership**

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political, or religious discrimination.

#### **2. Democratic member control**

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives, members have equal voting rights (one

member, one vote), and cooperatives at other levels are also organized in a democratic manner.

### **3. Member economic participation**

Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members allocate surpluses for any of the following purposes: developing their cooperative, possibly by setting up reserves, part of which would at least be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

### **4. Autonomy and independence**

Cooperatives are autonomous, self-help organizations controlled by their members. If cooperatives enter into agreements with other organizations, including governments, they do so on terms to ensure democratic control by their members and maintain their cooperative autonomy.

### **5. Education, training, and information**

Cooperatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of their cooperatives. They inform the general public—particularly young people and opinion leaders—about the nature and benefits of cooperation.

### **6. Cooperation among cooperatives**

Cooperatives service their members most effectively and strengthen the cooperative movement by working together through local, national and international structures.

### **7. Concern for community**

Cooperatives work for the sustainable development of their communities through policies approved by their members.

## **WHAT IS A HOUSING CO-OP?**

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### **The Basics**

The first recorded housing cooperative was created in New York City in 1857 to provide shared living, studio and gallery space for artists. The first fully residential housing cooperatives were purportedly begun by a group of Finnish immigrants, also in New York City, around 1916. The 1930s saw the expansion of cooperative enterprise in many different sectors of the cooperative movement, including housing co-ops, which added the first of the student housing cooperatives. The 1950s saw another burst of growth, as housing co-ops were formed across the country in response to the post-war housing boom. In the 1970s and 1980s, many new housing co-ops were formed with the help of various government programs, designed specifically to provide affordable housing for families.

More recently, housing cooperatives are being developed specifically for seniors, and residents in former family cooperatives also are using the co-op structure to help them age in place through the creation of naturally occurring retirement communities (NORCs). Today, more than 1 million units of cooperative housing are scattered throughout the United States, with large numbers located in major urban areas like New York City, Chicago and Washington, D.C. More than half this number is in metropolitan New York City.

A housing co-op is not unique because of the type of people who live in it or because of the type of building. A housing co-op is unique because of its ownership structure and its governance structure. A housing co-op is a corporation that exists primarily to provide housing and related services to its members, and its ownership and governance structure reflect this purpose.

In a housing cooperative, the cooperative corporation owns or leases the housing stock, which includes all land, dwelling units and common areas. Member-owners then purchase stock—some-

times called shares or membership certificates—in the cooperative corporation. Upon purchasing stock in the cooperative, the member-owner signs a perpetual lease, called a proprietary lease or occupancy agreement, giving the member-owner a legal and exclusive right to occupy a particular dwelling unit, on condition that all obligations to the cooperative are met.

As the legal owner of the property, the cooperative corporation is responsible for meeting its financial obligations, including mortgage payments, property taxes and management and maintenance costs. The cooperative passes these costs on to the member-owners according to some equitable formula, generally based on a variable such as unit size. In turn, members pay a single monthly “assessment” or “carrying charge” to the cooperative, covering all fixed and operating expenses, including taxes, insurance, maintenance and replacement reserves, and the member’s pro-rata portion of any overall debt.

Housing co-ops differ from condominiums in that residents do not own or hold title to their individual dwelling units. Instead, the cooperative corporation holds title to the property, and residents own share(s) in the cooperative. See “Differences Among Co-op, Condo, Rental, and Single Family” in the Appendix for a comparison of condominium, cooperative, single family and rental housing features and benefits.

### Equity Models

Cooperative law is particularly flexible, allowing for development of many different types of cooperatives, each structured to meet the needs of a particular group of members. There are three basic types of housing co-ops, each identified by the method in which members can accumulate home equity: leasehold, limited equity, and market equity.

#### LEASEHOLD

Of all types of housing co-ops, a leasehold co-op requires the least amount of member investment in the corporation. A leasehold co-op leases property from a landlord or non-profit organization, and operates the building collectively as a cooperative. Leasehold co-ops are a unique hybrid of rental and cooperative. Unlike other housing co-ops—where members generally have a considerable ownership stake in the property—members do not have any ownership in a leasehold co-op. However, the leasehold arrangement often gives residents access to inexpensive buildings owned or controlled by non-profit organizations and to outside assistance in the form of management help and oversight. Under this arrangement, residents can benefit from reductions in operating costs that their stewardship has created.

Leasehold cooperatives are most commonly used in situations where the non-profit partner wants to maintain some kind of control over the on-going use and occupancy of the building; where the housing is intended to serve a population that is temporary or transitional (such as student co-ops); or to take advantage of specific types of financing that do not permit actual resident ownership, such as low-income housing tax credits. Leasehold co-ops can become ownership co-ops at the end of the restricted period if the contract that creates the co-op is structured properly and if arrangements have been made to finance the future purchase—if, for example, the future purchase price has been set in advance and a sinking fund established to save the necessary funds.

#### LIMITED EQUITY

One of the unique aspects of a cooperative corporation is that the co-op can adopt bylaw provisions that limit the maximum resale prices of co-op units. Typically, this strategy is employed in order to maintain long-term co-op housing affordability and retain the value of any public subsidy that may have been used in financing the creation of the co-op. Since this type of co-op limits each unit’s equity appreciation, it is called a “limited equity” co-op. Because of their potential for offering long-term affordable housing, limited equity co-ops are attractive recipients for government and non-

profit grants and loans.

When a member-owner sells his/her share in a limited equity co-op, any return on the sale is limited by a pre-determined formula. Each limited-equity co-op has its own formula, contained in the co-op's bylaws. Examples of limited equity formulas are listed below:

**Zero or no equity**—The member's initial equity to buy in to the co-op does not appreciate and is simply returned on departure, less any debt owed to the co-op.

**Constant dollar**—The value of a member's share increases only by a standard inflation index, such as the consumer price index.

**Limited percentage**—The maximum resale price is allowed to increase by a certain percentage per year to reflect some degree of market appreciation.

**Limited resale**—Maximum resale price is increased by a set amount per year, typically based upon the underlying mortgage. For example, under a 30-year mortgage, members might be credited with an annual increase in equity equal to 1/30th of the "value" (cost to develop) their unit.

**Shared equity**—A non-profit or other such organization may own a unit in partnership with a resident, allowing the resident to reside in a more costly unit than would otherwise be possible. When the unit is sold, profit is split equitably between the resident and the non-profit partner.

**Credit for amortization without appreciation**—Members' equity accounts are credited with their initial down payment, plus a proportionate share of the principle on the blanket debt that has been paid down by the members' monthly payments.

**Hybrid**—In one housing co-op developed by NCDF, bylaws were written so that a member's equity appreciation was structured in two stages. For the first five years, equity growth was limited, equaling the sum of one percent (1%) per year inflation allowance and the member's contributed share of mortgage principal payments. On the first day of the sixth year of residence, the member will be allowed to sell his/her share at market value. This formula was designed to encourage and reward long-term ownership of units.

## MARKET EQUITY

In a market equity co-op, units are bought and sold at market value, similar to family homes and condominiums. In practice, a market rate co-op is operated in a manner similar to a condominium. The major difference is that, as in all co-ops, residents do not own a specific piece of property, but instead own a share of the cooperative corporation that owns the building. Residents have a binding long-term lease to occupy a specific unit in the building. Unlike condominium associations, co-op member-owners also control who is eligible to purchase a co-op share, so new members must be approved by the board of directors. Additionally, co-ops own real estate that can be borrowed against for property improvements. Condominium associations only own the common elements of a community, not the real estate itself, often limiting the condominium members' ability to obtain loans to upgrade the community infrastructure.

# BENEFITS OF HOUSING CO-OPS

**C**ooperative housing offers tangible benefits for individuals, including access to affordable housing, flexibility, financial and social return, and stability. Co-op housing also often has a ripple effect on a community, and leverages broader community benefits such as an enhanced level of trust among neighbors, and increased civic participation. All these benefits translate into the development of an economically stronger and more socially engaged community.

## INDIVIDUAL BENEFITS

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### **Affordability**

#### **Low transaction costs**

Cooperative housing provides an affordable home ownership opportunity for people at all income levels. Buying a share in a co-op is usually less expensive than purchasing a single-family home or condo. In addition, because no actual real estate is changing hands in a co-op purchase (only shares of stock in a corporation that owns the real estate), title work and other closing costs are typically much lower with co-ops. Depending on how the co-op is financed, down payments can also be substantially lower than with a conventional home purchase.

#### **Operation at cost**

Because the co-op is owned by the residents, it operates at cost; there is no third party profit motive. Members have no reason to substantially increase monthly charges unless taxes or actual operating costs increase. The operating budget covers only what is required to manage and maintain the cooperative (including reserves for maintenance and long term improvements), significantly reducing costs to residents. In addition, because co-op members control the budget, they can affect cost savings through higher levels of self-management.

#### **Dependable financing costs**

Cooperative financing can be more economical than a single-family mortgage because the cooperative housing corporation can access several different federal government programs to secure long-term, fixed-rate mortgage financing on behalf of its members. The portion of members' monthly expense that pays principal and interest remains fixed over the term of the loan, no matter how often units change hands. Consequently, over time, monthly expenses remain stable, and generally lag behind prevailing rental rates. In addition, because the co-op sets aside monthly reserve amounts for planned maintenance and improvements, co-ops members are not subject to sudden large expenses when something unexpected goes wrong with the roof, boiler, or other equipment.



**Viola Dale, 89, is a resident of 7500 York, a senior housing co-op in Edina, Minnesota. Viola believes that the co-op is the “most affordable place” in which she can live. There were no other such housing opportunities for her when she sold her single-family home nineteen years ago. The housing co-op offered her a way to continue owning an affordable home, participate in the fellowship of a senior community, and have access to a wide array of services and amenities. Many services are provided right in the building, such as nursing care and cleaning services for residents. Viola also enjoys the benefits of predictable housing costs and, as a member of the finance committee, has some influence on the co-op's budget. In fact, she participates on several of the co-op's 26 committees, which she says helps her stay active and healthy. Like many seniors on a fixed income, Viola values the low cost of co-op living, and the opportunity to weigh in on budget priorities, all of which increase the odds that she can continue to live in her home.**

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### Group purchasing

A co-op can benefit from working with other co-ops to achieve economies of scale related to purchase of goods and services. Some co-ops, for example, have collaborated in joint purchasing of accounting and insurance services, and other co-ops have jointly arranged shared babysitting services and visiting nurses. As an example of the value of shared services, Penn South Cooperative, a limited equity housing cooperative in New York City, was a lone bright spot in Manhattan during the 2003 summer blackout, because the co-op had previously purchased a generator to generate its own electricity. These kinds of collaborations can significantly reduce costs, and generally increase the value of cooperative living for individual co-op members.

## Accessible Home Ownership

### Sample Costs of purchasing a co-op housing share (based on \$110,000 purchase cost)

- Appraisal fee \*
- Closing fee
- Filing fee (\$100), which includes credit report and UCC filing
- Loan origination fee
- Prepaid interest
- Realtor's fee \*

**Total transaction costs: \$2,913.00**

*\* Appraisals are generally unnecessary in limited equity cooperatives, and many of these units sell without realtors as well, so closing costs are even lower for these kinds of cooperatives.*

### Sample Costs of purchasing a single family home (based on \$130,000 purchase cost)

- Appraisal fee
- Closing fee
- Filing fee (\$100): includes credit report, UCC filing, etc.
- Loan origination fee
- Prepaid interest
- Realtor's fee
- + Title search
- + Title insurance
- + Mortgage filing fee
- + Tax escrow account
- + Miscellaneous transaction costs

**Total transaction costs: \$4,695.00**

*Source: Northcountry Cooperative Development Fund*

Cooperative home ownership is particularly accessible to low-income or first-time buyers because it often eliminates the need for an individual to qualify for a mortgage. Historically, mortgage qualification has been problematic for low-income homebuyers who are more likely to have a limited or incomplete credit history. Cooperative homeownership can eliminate this problem. A co-op is most often financed through a blanket mortgage, for which the cooperative corporation is liable. Consequently, no single resident is liable, and individual residents do not need to qualify for outside financing.



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Monterey Cohousing originally could easily have been developed as a condominium complex. In 1992, financing for co-op housing in the Twin Cities was hard to find, and financing for a condo project would have been much easier to obtain. However, after a prospective resident brainstorming session, it became obvious to the group that they wanted to create their community as a co-op. The cooperative philosophy was a good match for the group, and fit better with the concept of co-housing than the individual-oriented nature of a condo association. In addition, a housing co-op offered the flexibility to build a mixed-income community, which would have been prohibitive in a condominium project.

Joelyn Malone, an original member, explains that the “blanket financing” available to the cooperative was key to ensuring that everyone in the co-housing community could afford to live at Monterey. Individuals did not have to qualify for a mortgage. Instead, the cooperative corporation itself qualified for the mortgage. Because of this flexibility, each member was able to negotiate the size of their down payment. Joelyn said, “The co-op allowed us to vet our own trust levels within the group. Because the cooperative was approved for the blanket mortgage, each of us contributed to the down payment based upon our individual capacity. Our flexible arrangement allowed lower-income people to join the co-op.”

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## Flexible Housing Model

### Variety of building types and populations

Co-ops can be located in converted apartment buildings, adapted industrial buildings, manufactured home parks, land co-ops, townhomes, and even single family homes. Cooperatives are a great option for adaptive reuse of old schools, nursing homes and factories. Any population can take advantage of the co-op model, including seniors, students, families, artists, recent immigrants, or anyone interested in a community-based approach to living.

### Intergenerational living

Because changing units in a housing cooperative is as easy as simply swapping leases—rather than going through a real estate transaction—cooperatives are uniquely suited for intergenerational living. Households can move among different units within the cooperative as their family size and space needs grow and change, all while staying in the same community, and without paying prohibitive transaction costs with each move.

### Who lives in housing co-ops?

Cooperatives can serve any population. However, cooperatives are particularly well suited to groups who possess some shared affinity. The affinity may relate to age, cultural background, artistic expression, professional affiliation, or academic endeavor.

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The International Ladies’ Garment Workers Union joined with the Amalgamated Textile and Garment Workers Union (now merged as UNITE) to found Penn South Cooperative in New York City at a time when workers employed in garment factories on the Lower East Side were being priced out of the local housing market. The co-op provided an affordable place for workers to live close to their work and families. More than 40 years later, this co-op continues to operate as a limited equity cooperative in the heart of New York City, providing some of the only affordable housing left in what is now the desirable Chelsea neighborhood. A youth recreation room, a toddler playroom, and two playgrounds are important amenities of this cooperative community. Cooperative-based clubs and community room activities offer residents access to pottery and woodworking studios, an exercise room, and classes in Yoga, Tai Chi, meditation, and martial arts, to name a few.

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Because co-op members control membership and residence in the co-op, whole families often live in the same co-op. Many families find that this housing situation strikes a balance between living independently and proximity of a supportive family network.

### Naturally occurring retirement communities (NORCs)

Cooperatives are also particularly well-suited to nurture the development of naturally occurring retirement communities (NORCs). NORCs develop where a population in a building or neighborhood ages in place, and the area becomes home for a significant number of seniors. Co-ops can serve this population particularly well because members are accustomed to working together. In their cooperative capacity, members work together to deliver needed services, such as cleaning staff and nursing care, sometimes leveraging lower prices because of economies of scale. Penn South Social Services (PSSS), based in the Penn South Co-op, sponsors several programs, one of which is the Penn South Program for Seniors (PSPS). PSPS was established in 1986 as a NORC supportive services program, and was the first of its kind in the nation. PSPS has now become the model for over 50 similar programs throughout New York City and state, and in several other cities and states around the country.

The PSPS program's major objective is to enable seniors to remain in their own homes among family, friends and neighbors. PSPS serves upwards of 1,500 seniors annually, and has almost 200 professionals and volunteers on its staff.



“Bernice” is a Penn South resident who lives alone and receives 24-hour home care from the Penn South Program for Seniors (PSPS). PSPS provides a focus for Bernice’s day. Three days a week, from 10 a.m. to 3 p.m., she meets with recreational therapists, a social worker, program aides and volunteers to share stories, laughter, lunch and friendship.

Bernice’s family members and home companion said she looks forward to getting up in the morning, knowing she has somewhere to go. She loves to sing, and most of the staff counts on her to know the words to old favorites when others don’t remember them.

The Social Day Center, as the program is known, has been in existence since 1996. Its primary purpose is to provide individuals diagnosed with Alzheimer’s disease or dementia with a quality social experience in a safe and accepting environment. Through the use of activities such as art, music, exercise and storytelling, program participants are provided with the opportunity to socialize, and to find a way to fend off feelings of isolation and depression.

For family members, the Social Day Center provides a welcome respite to those who devote their time to caring for a spouse, a parent or some other loved one. Caring and trained professionals ensure that participants in the program are safe and enjoy a variety of stimulating activities.

—Taken from Penn South Community Newsletter, Fall/Winter 2003, Vol. 6, No. 4

### Community-specific cooperatives

Co-ops can be developed to accommodate populations with specific cultural needs. For example, a co-op could establish gender-specific community gathering spaces, as well as worship spaces. A family-centered co-op could provide a community room that facilitates spontaneous meetings, and also provide the community space that an extended family might require.

## Financial Advantages

### Beneficial tax treatment

Co-op members enjoy all the benefits of conventional home ownership, including mortgage interest deduction, favorable property tax treatment and homestead tax classification.

### A financial stepping stone

Depending on the bylaws of the cooperative, co-op members can also accumulate equity in the same way a traditional homeowner does. Even co-op members in limited equity co-ops cite low housing costs as a tool that allows them to save money for professional uses, or for future purchase of a single family home.





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Betsy Sohn of Park Co-op Apartments in Minneapolis, Minnesota found that co-op living provided her with the security to take professional risks. She has lived in Park Co-op for 12 years. Betsy joined the co-op when she was a carpenter for a small remodeling firm. She wasn't making much money at the time, and the co-op provided her with affordable housing. Her housing costs were kept even more affordable because she worked as the co-op's steward (caretaker).

Eventually, Betsy felt she need to change her career direction, but wasn't sure how. She decided to take a summer off ("My summer on the back porch," she said) and concentrate her energy on a new career path. It was expressly because of her low housing costs, as well as a car loan deferment from her credit union (another cooperative institution), that allowed her to use the summer for career exploration. As a result of the flexibility offered by her housing co-op and credit union, she decided to start her own business as a free lance construction project manager.

For Betsy, the benefits of co-op living have been largely economic. However, those economic benefits easily provide social returns that are hard to quantify. Although the low cost of living at the co-op provided her with financial flexibility, she also felt that support from co-op members was an important factor in her success in navigating a career change.

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### **Obstacle to predatory lending**

Cooperatives provide a natural barrier to predatory lending practices. Loans to housing co-op residents are a specialized product, offered by only a few lenders, thus making the loans unattractive candidates for predatory practices such as "flipping" (where a purchaser buys low and immediately sells the property at an inflated price). In addition, co-ops typically allow only owner-occupied housing, requiring that new members be screened and approved by the board of directors.

### **Lower operating costs means more affordable housing**

Cooperative housing has been shown to operate at a lower cost than other forms of publicly and privately developed affordable housing. Researchers believe that the lower operating costs are a function of residents' ownership interest. Residents save money by both eliminating the need for high management fees, and by investing in and maintaining co-op property.

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Shawn Pearson, board president and member of Clearview Co-op in Minneapolis, Minnesota has seen his monthly charges increase only \$70 over a period of 16 years. Because his housing costs are so stable, he doesn't worry much about the ramifications of losing his job. He's actually taken pay cuts in order to pursue other interests, including travel. Over the past 16 years, Shawn has traveled to Guatemala, Belize, Iceland, Vancouver, British Columbia, and around the United States.

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## **The Home Ownership Stake**

One of the most tangible benefits of cooperative living is the sense of ownership that residents gain from living in a housing co-op.

### **Economic security**

This ownership "stake" extends beyond the pride that comes from simply possessing a share in the co-op. Co-op members often talk about the increased feeling of security that results from low housing costs, affording them opportunities to build equity or personal savings. In addition, a 1998 survey of housing co-op residents reported a higher level of security resulting from the co-op's ability to temporarily "carry" elderly or ill residents if an emergency arose (Saegert & Winkel, 1998).

While the co-op depends on everyone making their monthly payments and cannot tolerate "free riders," residents suffering from job loss, marital breakups or personal setbacks often have the flexibility to negotiate different methods of payment with the cooperative board. Co-op residents have also reported higher levels of personal satisfaction with their housing due to their ability to influence decisions in the co-op (Leavitt & Saegert, 1990).

### Civic participation

The economic security that many households find in a housing co-op often leads to an increased level of engagement, not only in the cooperative but also in the community at large. The commitment that a household makes when they purchase a co-op share translates into a much broader community investment. In her 2002 study, Susan Saegert documented that co-op residents in New York City are more likely to become leaders in the broader community, whether it be through a neighborhood organization, block association or community board. In addition, of New York City co-op residents surveyed in 2002, 85% were registered voters, of whom 85% had voted within the last year—a much higher proportion than the city at large. Logan Square Cooperative in Chicago, for example, regularly hosts neighborhood coffee klatches with their alderman, who sees the co-op's members as an engaged and desirable voting block.



Three Winchester, New Hampshire manufactured (mobile) home cooperatives recently got involved in a local election and jointly ousted a long-time, anti-park selectman (a town council member in New Hampshire), replacing him with a cooperative leader from one of the co-op parks. It was the first time a manufactured home park resident had run for office. Leaders from all three parks now have a special monthly meeting with the selectman to deal with park issues. Rarely has a group of low-income people in New Hampshire so dramatically affected the political decision-making of a town.

—Reprinted from *“An Enterprising Solution to the Complex Problems of Owning a Home on Rented Land,”*  
by Paul Bradley, 2000 Cooperative Housing Journal.

### Skill development

Many cooperative residents cite the skills they've learned from being on the co-op board as giving them valuable professional skills. Shawn Pearson, board president at Clearview Co-op in Minneapolis, Minnesota says that every interviewer that's asked him about his experience as board president has offered him a position. Shawn attributes this phenomenon to the fact that the interviewers recognize that Shawn is someone who's willing to take a leadership role to get things done.

Marla Gamble, a resident-owner of Lowertown Lofts, a limited equity cooperative in St. Paul, Minnesota, said that cooperative living is a natural incubator for artists' professional collaboration. “If you embrace the cooperative housing model, the idea of working collaboratively is the next logical step,” she said. “One is incumbent upon the other.” Marla emphasizes the importance of the financial education that artists receive through living and managing the cooperative, which serves them as they seek a career in the arts.

Lowertown Lofts illustrates that residents are attracted by more than just the opportunity to live and work with other artists. The low cost of housing allows many artists to explore their work in a way that would not be possible with higher housing costs. In addition, the co-op serves as a springboard to financial health. By saving the money they would otherwise spend on housing costs, artists invest in their work, other artistic ventures or, in some cases, a down payment on a single-family home.

### Supportive Community: Building Social Capital

While co-ops are often looked at primarily in terms of their financial advantages, the social benefits of co-op living are often cited by co-op residents as the most valuable aspect of living in a housing co-op. By working together as a community, the cooperative structure provides numerous opportunities for neighbors to know and support each other, building “social capital” while enhancing the quality of life for co-op residents.



### THE CONCEPT OF SOCIAL CAPITAL

Professor Robert Putnam is well-known for expanding the notion of social capital in his books *Making Democracies Work* (1993) and *Bowling Alone* (2000). The shared understandings, tacit rules, agreed procedures, and social trust generated by personal contact and the bonds of friendship are believed to make it easier for people to work together in future for mutual benefit. Rolodex networks can therefore be regarded as a form of investment, like financial or human capital, since social connections create further value, for both the individual and the group. Organizations in civic society like unions, churches and community groups, Putnam suggests, play a vital role in the production of social capital by bridging divisive social cleavages, integrating people from diverse backgrounds and values, promoting ‘habits of the heart’ such as tolerance, cooperation and reciprocity, thereby contributing towards a dense, rich and vibrant social infrastructure. His book *Making Democracies Work* specifically sites the role of cooperatives in building social capital.

—Pippa Norris, 2002, *Making Democracies Work: Social Capital and Civic Engagement in 47 Societies*, Kennedy School of Government Faculty Research Working Paper Series

Susan Saegert and Gary Winkel wrote in *Cooperative Housing, Social Capital, and Crime Prevention*: “Social capital refers to aspects of social relationships that make them useful for achieving individual and collective goals. James Coleman talks about tenant associations as one kind of organization that can increase social capital. For example, he notes, a tenant association formed to get the landlord to make repairs may succeed in getting the problem fixed. At the same time, the relationships formed in the association may have other benefits, like making it easier to get a babysitter. The activities involved in developing and operating a housing cooperative reinforce the kind of relationships that lead to the accumulation of social capital.”

### Personal safety

Personal safety is often reported as one of the most important benefits of cooperative living. Because residents tend to know their neighbors in the co-op, personal security is enhanced. In a recent NCDF survey, 68% of respondents reported feeling safe in their co-op “all the time.” Only 39% of the same pool of respondents reported feeling safe “all the time” in their previous (non-co-op) housing environment.

Residents of senior co-ops are particularly appreciative of the higher level of safety. In addition to hired security personnel, other building staff such as nurses and cleaning staff, as well as other residents, provide several layers of informal security.

### Knowing your neighbors

Co-op members appreciate the control they have in determining who gains membership to and residence in the co-op. Co-op members feel that they know their neighbors better than they would in an apartment or single-family home. In a 2004 NCDF survey, co-op residents reported exchanging goods or services with their co-op neighbors 40% more often than they did in their previous non-co-op housing situation. In addition, 61% of respondents reported they could trust their co-op neighbors “all the time,” which reflects a 35% increase over how they felt about their neighbors in their previous non-coop housing



The informal network that is implicit in a housing cooperative community makes it easier to combat safety issues. Co-op neighbors keep an eye out for unusual activity and provide each other with added security. Such a network was invaluable to members of Clearview Co-op in Minneapolis, helping them realize that one of the residents was using their unit as a base for prostitution and drug trafficking. Residents confronted the resident (whose mother owned the unit), and coordinated a meeting with police. At the meeting, the co-op’s board president distributed blank police reports, so residents would have access to forms when they needed them. As a result of the co-op’s involvement, the dealer’s patrons refused to visit him. The co-op also foreclosed on the unit and offered to help the seller find a buyer. This incident, while unfortunate, illustrates how co-op

members, working together, have the discretion and power to deal with issues of safety in their cooperative.

Park Cooperative residents in Minneapolis were among the first to activate their neighborhood watch when issues of drugs or prostitution arose in the neighborhood. The co-op worked closely with police and other neighborhood residents to confront problems before they got out of control. Because co-op residents were among some of the most stable neighborhood residents, co-op members and the board as a whole would often take a leadership role in the community. The role of Park Cooperative residents is not unique. In a 1998 survey of residents of five different affordable housing programs in New York City, co-op members reported better building security and lower levels of crime than residents housed in the four non-co-op programs.

### A broad social network

The social network that forms within many cooperatives not only supports lower levels of crime, but also encourages strong intra-cooperative relationships. Co-op residents often look after their elderly or ill co-op neighbors, and co-op living has been shown to prolong the time that seniors can live independently. In a 2001 U.S. Department of Agriculture survey of senior co-op residents, 84% of respondents said that cooperative living had positively affected their ability to live independently.

Some co-ops take intergenerational living very seriously. At New York City's Penn South Co-op, Jeff Dullea created a children's garden. In a concerted move to create opportunities for co-op residents to make new relationships, the co-op required that if a child at the co-op wanted to tend a plot (actually called a "patch" in the garden because elderly residents didn't want to think too much about "plots"), they had to find someone 60 years of age or older, who wasn't a family member, to partner with them. Using this method, they created a huge new network of relationships at the co-op. Each garden patch became a hub of activity as senior residents' adult children became involved, as well as each child's parents and siblings.



**Becky Berdahl of 2615 Park Avenue Associates in Minneapolis, Minnesota was in the middle of getting ready to do her laundry when she twisted her ankle. The pain was bad enough that she called a neighbor, Marvin, to come over and help. Not only did Marvin drive her to the emergency room and pick her up from surgery the next day, but he also finished doing her laundry while she was gone. It is this nurturing sense of community that Becky likes best about her cooperative. She comments, "I can't count the number of people who brought food, flowers and cards to me. And then everyone kept asking, 'Now Becky, are you taking care of that ankle?'" It's these experiences that prompted Becky to say, "I've just enjoyed living here so much."**

**At Park Co-op Apartments, residents worked together to check on a resident who'd recently returned from the hospital after a risky surgery. He had a "support team" of co-op residents that made sure he was cared for, including cooking meals, checking in, and being on call at all hours of the day or night should the need arise. When the resident called a neighbor at 4:00 a.m. to report that his heart was racing, the neighbor was there to drive him to the hospital.**

### Depending on the co-op

For many co-op members, "neighborliness" doesn't simply mean lending cups of sugar to a neighbor or checking on their apartment when they are out of town. Parents find that co-op living provides children with greater safety and flexibility. In a Minneapolis co-op, one single mom could always count on one of several neighbors to keep an eye on her two children when they came home from school, and her daughters knew that there was always someone they could go to if they needed help.

Survey work has shown that seniors in particular benefit from cooperative living. Senior residents prefer cooperative living because they enjoy the camaraderie of their peers, the opportunity for low-maintenance homeownership and the ability to live independently (Eversole-Nolan, 26). Some have speculated that co-op ownership may prolong seniors' life expectancy. Gerald Glaser, a

gerontologist testifying before the President's Housing commission in 1981, explained that a senior co-op structure "fosters self reliance, self control and determination, interdependence and cooperation among the resident members, even among those with severe chronic conditions. As gerontologists we know that these factors contribute directly to continued independent living, successful aging and the enhancement of longer life." ([www.seniorco-opnet.org](http://www.seniorco-opnet.org), 4/30/04)

## COMMUNITY BENEFITS

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Many of the benefits that accrue for individuals in a co-op housing environment also positively benefit the larger community. Affordability, accessibility, flexibility and high financial and social return all translate into a financially healthy, active and committed community. In addition, cooperative housing is a useful community development tool.

### Engine of Economic Growth

Cooperatives provide economic security to individuals and an engine of growth to communities. Take Lowertown Lofts in St. Paul, Minnesota for example. The City of St. Paul played an important role in the co-op's creation, helping to ensure that the property could be affordably developed as live/work space for artists. In 1985, as a show of gratitude to the city, Lowertown Lofts residents hosted an "art crawl" in the newly created cooperative, opening up studios and galleries to the general public for a weekend of performances and exhibitions. The art crawl was so successful that it became an annual event. Six years later, another building in the neighborhood converted to a cooperative, and then a third. The art crawl grew exponentially as more artists' co-ops and groups participated. Today, the St. Paul Art Crawl is a semiannual self-guided tour of about 200 studios and galleries in downtown St. Paul. The Saint Paul Art Collective, a non profit arts organization, grew out of the local artists' co-ops. As a new artists' community formed, galleries and support organizations, such as Springboard for the Arts and the Minnesota Arts Foundation, decided to relocate to this arts-friendly neighborhood, adding to revitalization of the whole area. More housing was created, and cafes, galleries and other businesses have made this once desolate area of downtown St. Paul a thriving downtown neighborhood.

### Stability

#### Stabilizing changing neighborhoods

Co-ops have been used in Chicago, New York City and San Francisco to stabilize gentrifying neighborhoods and create a permanent supply of affordable housing. In rapidly gentrifying areas, where lower income households are being displaced, cooperatives can provide families with an opportunity to stabilize housing costs, participate in home ownership, and remain in their home neighborhood. In a study of limited equity cooperatives in the Clinton neighborhood of New York City (an area that generates some of the highest rent per square foot in the city), monthly charges in 52 co-ops were significantly below area median rents. Residents credit the co-ops directly with allowing them to continue living affordably in New York City.



Twenty years ago, Logan Square, located on Chicago's North Side, was a haven for gang activity. Eventually, it developed into a racially diverse community of mostly low- and moderate-income families. The problem was, the neighborhood began drawing substantial high-end development. Judy Kinch, Deborah McCoy, and their neighbors looked on in frustration as surrounding apartment buildings were rehabilitated as trendy, expensive condominiums. Some rents in the desirable neighborhood jumped \$350.00 in a single month. In an effort to preserve some much-needed affordable housing, Kinch, McCoy and their group decided to form a limited equity housing cooperative in the neighborhood. Less than a year and half after their initial meetings, the group incorporated as the Logan Square Cooperative. In October 2001, the cooperative purchased an eight-unit apartment building. The Logan Square

Co-op is now a thriving owner-occupied limited-equity housing co-op. It's a shining example of how a resident-owned co-op in an inner city neighborhood can stabilize a community and foster urban revitalization. Due in part to their stabilization efforts, the Logan Square neighborhood remains a racially diverse community of mostly low- and moderate-income families.

For Kinch, the co-op not only provides a sense of community, but perhaps her only chance at home ownership. She notes that she could probably have afforded to buy a home, but only if she'd moved into an outlying suburban area, far away from friends, family and work. In the co-op, she is an owner, lives in the community where she feels at home, and has the comfort of knowing that she and her neighbors created an affordable and lasting home ownership option.

**Stabilizing out-migration in rural areas: retaining an important asset base**

Cooperative housing facilitates economic stabilization in rural communities as well. Rural areas face migration issues as seniors are forced to move away from rural areas to find affordable, accessible housing. Increasingly, local communities are looking for new ways to keep the aging rural population from leaving town. The majority of these seniors would much prefer to stay in their home communities as well. In a 2001 U.S. Department of Agriculture report, 66% of surveyed rural senior co-op residents reported that “staying in the community” was an influencing factor in moving to the cooperative. Providing cooperative housing can stabilize an outward migration pattern, allowing seniors, with their rich asset base, to stay in rural communities. Finally, senior co-ops not only benefit seniors, but also free up the seniors’ former houses for younger families.

**Growing popularity ensures financial health**

Co-ops are rapidly becoming a desirable means to home ownership. In the past few years, many limited equity co-ops and senior co-ops have seen their waiting lists grow as word of this affordable housing opportunity spreads. This kind of growing demand for co-op housing insures each co-op’s financial health by providing a ready supply of potential shareholders.

**SUMMARY:  
WHY COOPERATIVES ARE A GOOD AFFORDABLE HOUSING CHOICE**

Co-ops offer affordable home ownership, critical financial benefits such as equity accumulation, and a more stable and vibrant community. In summary, co-ops offer:

- Stable and affordable housing costs
- Member ownership, removing the third party profit motive
- Transaction costs that are lower than those for a conventional mortgage
- Member control, motivating members to be better stewards of the co-op’s assets
- Development of resident leadership skills

The co-op housing model also provides low-income households with a way to accumulate personal wealth, through equity accumulation, mortgage interest deductions, favorable property tax treatment, and homestead tax classification. Money normally spent on higher-cost housing can instead be redirected to opening of a small business, a return to school, or future purchase of a single family home.

Co-op members realize intangible benefits of home ownership as well. They come to depend on stable housing costs, benefit from participating in control of the co-op, and reap the social capital that comes from having a broad network of neighbors to work with and depend on. Finally, the community at-large benefits from co-op members’ increased civic participation and leadership development.

The benefits of cooperative housing aren’t limited to the co-op residents themselves. Limited equity cooperatives have been shown to be a more economical form of affordable housing develop-

## BENEFITS OF HOUSING CO-OPS

ment for local governments, non-profits and other community partners that choose to fund co-op development. In a 1998 study of low-income housing projects, researchers found that cooperative ownership reduced housing operating costs because cooperative residents both participate in governance and directly realize the benefits of controlling costs. In addition, a 1993 Urban Institute study compared the performance of HUD multi-family insured mortgage programs, which included cooperatives and non-profit, limited-dividend and profit-motivated owners. Researchers found that cooperatives represent a low-risk investment. Indeed, cooperatives had the lowest borrower default rate among all models in the Section 221(d)3 program.

Communities also reap many benefits from the cooperative model. These range from enhanced resident safety to entry-level home ownership opportunities. Communities can use the co-op structure to keep seniors in the community. Finally, co-ops are a unique way for communities to support economic development without displacing low-income residents.

# HOUSING CO-OP DEVELOPMENT

**H**ousing cooperative development requires many of the same professionals that are key to any complex real estate development project. In addition, cooperative housing development requires specialists that are knowledgeable about the unique aspects of co-op home ownership. Any project begins with a committed sponsor organization, such as a local non-profit, prepared to risk significant time and resources to bring a project to fruition. To complete the project, the sponsor may employ or contract with skilled practitioners in architecture, construction, construction management, engineering, legal, financing, marketing, member education and training. Housing cooperative development can happen either by converting existing tenants into cooperative homeowners, adaptive reuse of an existing building, or through new construction.

Housing cooperative development involves both a physical process of development or redevelopment, and a social process of assembling a new community. As part of the social process, persons who choose to join a co-op community must be prepared to govern an organization and oversee property maintenance, management, and operations. A successful cooperative developer will attend to both the physical and social aspects of the cooperative development process.

The sequence of events in the cooperative development process varies by project, and depends largely on whether the cooperative will be created from a new or existing group of residents. The following is a typical set of tasks involved in a housing cooperative development:

- Identification of Project Objectives / Target Audience
- Identification of Project Team Members
- Site Selection / Concept Development
- Site Control
- Development and Operating Pro Forma
- Financing Options
- Market Study
- Architectural / Engineering Work
- Marketing Process
- Preparation of Legal Documents
- Member Education and Training
- Closing on Project Financing
- Renovation or New Construction
- Final Closing
- First Annual Meeting
- Ongoing Training and Support

## **IDENTIFICATION OF PROJECT OBJECTIVES / TARGET AUDIENCE**

As a developer, one of your first steps is to identify the key objectives and target audience for the project. Good questions to ask include:

- What is the target income range for buyers?
- How much money will the buyers be able to bring to the cooperative?
- If the project is a cooperative conversion, what level of interest do current tenants have in conversion? How many tenants are likely to buy into the cooperative?
- Is the cooperative meant to serve a particular affinity group (such as seniors or artists) or a



target audience (such as young professionals, young families, or recent immigrants)

Answers to these questions will help you identify appropriate approaches to designing, financing, and marketing the project.

## **IDENTIFICATION OF PROJECT TEAM MEMBERS**

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A cooperative development team usually involves collaboration among a range of specialists. In most respects, the development team assembled for a co-op housing project is no different than the team for a conventional housing project. However, because the end result is different, it's helpful to know where special considerations should be given. The list below explains how each team member plays a unique role in a co-op project as compared to a conventional project.

### **Co-Developer or Development Partner**

- Development partners should evaluate each other in terms of what each brings to the project, with a particular eye to cooperative experience, including: access to predevelopment money; arranging financing; sharing risk; project marketing; and member training. Though this vetting process is important in any real estate project, the idiosyncrasies of cooperative development may require a more rigorous review.
- If the target audience involves low asset bases or low incomes, a useful development partner may bring expertise and experience in submitting successful project grant applications, or relationships with funders that can provide soft debt (that is, debt at below-market-rate terms).
- Housing cooperative development organizations often can bring regional or national expertise to bear on project success. Local organizations draw upon this experience to their benefit and that of the project.
- In turn, housing cooperative development organizations often rely on local partners to usher a project through city approvals, undertake marketing efforts, lead contacts with buyers, and organize regular update meetings throughout the development process.

### **Lenders and Funders**

- Confirm rates, terms, and timelines for your lender early in the process. Compare information with other co-op developers if possible.
- Confirm rates, terms and timelines for funders or others who may invest grant or low-interest money in your project.
- If the scope of your project changes significantly, be sure to promptly manage expectations of lenders, funders, and buyers.
- Be prepared to consider alternative financing scenarios and options early if you encounter obstacles early in the processing or approval process.

### **Market Analyst**

- Subject to lender requirements, seek a market analyst who knows how your project fits into the housing market for your target audience. Your analysts should know or learn how homeowner-ship cooperatives are distinctive from rental apartments or condominiums, and why and to whom your project will be appealing.
- The market study firm should have a strong grasp of the full range of housing options available to your target audience, because these options are competing with your cooperative project.

### **Marketing Agent**

- Individuals responsible for marketing the cooperative should be prepared to answer frequently

asked questions about cooperatives, as well as many specific questions about the real estate itself. Marketing and sales agents can do this alone or with the support of other project team members.

- With many questions on the technical aspects of cooperatives, credible marketing of the project demands strong understanding of cooperatives together with excellent communication skills. For efficiency and clarity, it is often useful to organize a series of information meetings to address buyers' questions en masse.
- If there is no existing tenant base and all members to the co-op are new, cooperative developers often offer prospective buyers the opportunity to reserve a unit with a deposit. These prospective members then can attend regular update meetings, learn more about the cooperative concept and specifics about their future home, and meet their future neighbors. Follow-up letters to this audience can reinforce content provided at information meetings, and ensure that individuals come to a uniform understanding about how the cooperative and the project will work.

### **Cooperative Attorney**

- Well-prepared legal documents are a key ingredient for project and long-term success. Clear contracts, rules, procedures, and processes articulate members' obligations to the cooperative, the powers of and limitations on the board of directors, committees' responsibilities to the board, and the responsibility of all contractors to the cooperative.
- Legal correspondence and documents themselves should be sensibly organized and clearly written to allow quick reference and ready understanding by residents.
- Counsel should have a strong command of any relevant state statutes, federal rules and IRS requirements for cooperatives seeking preferential tax treatment (for example, deductibility of mortgage interest, property taxes, and any local homestead tax treatment).

### **Project Architect / Engineer**

- Architects should reflect the right mix of technical expertise and creativity in the kind of building the cooperative will ultimately occupy.
- If prospective cooperative members will play a role in shaping the design of the building, the design firm ideally would have had good experience with participatory design processes.
- It is important to remember that cooperatives need more shared space than is typical in an apartment or condo development. A meeting room large enough for the entire membership to gather is a must. Many co-ops add other shared spaces including gardens, exercise rooms and sometimes a guest suite for visitors.

### **Contractor**

- If the project will allow significant customization by buyers, the contractor should have strong custom home or other experience tailoring units to buyers' individual demands. These changes and the additional complications they introduce can be difficult to manage in the context of a large project.

## **SITE SELECTION / CONCEPT DEVELOPMENT**

There are several ways that a housing co-op can be developed. A group of people may come together, decide that they would like to work together to form a housing cooperative, and begin identifying sites or resources to bring that dream into reality. Tenants already in place may come together and decide that they would be better served by banding together, buying their building or manufactured home park, and converting it to a resident-owned cooperative. In either case, residents often bring their own resources, ideas, and objectives into the cooperative development process.

In a resident-driven process, a cooperative developer may play an early role as a facilitator of the

## HOUSING CO-OP DEVELOPMENT

group's conversation, serving to cull out and highlight key aspects of the group's vision. The vision or concept will help define which practical issues and feasibility questions need to be resolved along the way; it will also lead to next steps to help the group translate their now coherent vision of a housing cooperative into reality. This early "visioning" process is an important ingredient to the cooperative development process. Whether the idea for the project begins with a resident group or with the cooperative developer, a clear project concept and target audience will help the developer and the charter members make decisions that affect development of the new cooperative.

When developing the concept for co-op housing, the type of investment that residents will be required to make in the cooperative should be an important consideration. If the co-op only offers residents "a good deal" or "cheap housing" with minimal significant investment, residents may not be vested in the co-op's decision-making process. In addition, a low resident investment requirement may result in a resident deciding to walk away from their shares in the cooperative rather than work through the special demands and conflicts that are inherent in a community-centered living arrangement.

In situations where residents are coming from living situations in which they have little control—for example, rental housing or manufactured home parks—residents' interest and stake in the cooperative may not come in the form of a significant monetary investment, but instead in the security and protection from displacement that the cooperative offers. Moreover, if residents already have strong working relationships among themselves, have a history of organizing to meet with current owners and managers, or demonstrated initiative in exploring a cooperative purchase, residents' investment and stake in the success of the cooperative may already be clear.

In any conversion, federal, state and local requirements—particularly minimum notice requirements—should be factored into the development planning and budgeting early in the process. For example, existing rental buildings may have affordability requirements incorporated into regulatory agreements, restrictive covenants, partnership agreements, or contracts.

In new construction situations, site location and building concept should appeal to the target market. For example, a senior cooperative building should incorporate open accessibility elements, such as short distances between apartment unit entrances and elevators.

## SITE CONTROL

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The ideal situation for a cooperative developer would run as follows:

- Site control is maintained for several months with minimal holding costs while residents learn about the cooperative model, and a core group of residents develops interest and assists in the early feasibility determination process
- The property is evaluated with due diligence
- Needed improvements are planned
- The cooperative is incorporated with a full array of legal documents
- Residents buy their shares in the cooperative
- Project financing is approved and ownership passes to co-op residents

In reality, one of the greatest challenges to cooperative development is finding a patient seller, both for new construction and rehabilitation projects. In practice, the typical cooperative developer seeks, at minimum, to make the purchase agreement contingent upon pre-sales requirements, in addition to other standard contingencies (for example, Phase I environmental review, appraisal, or title work). If the proposed project reaches this pre-sales target, the financing is triggered, which also enables the cooperative developer to purchase the land and commence work (new construction or rehabilitation). Often, the cooperative developer may wind up as an interim owner, carrying the property until final work is complete and property ownership can formally pass to the residents.

## DEVELOPMENT AND OPERATING PRO FORMA

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The pro forma for a co-op housing project should include a replacement reserve, operating reserve, and prefunded training reserve.

A replacement reserve is an account from which funds can be drawn for capital improvements such as boiler replacement, window replacement, roof repair, and water or sewer infrastructure repairs (in a manufactured home park). An operating reserve protects the cooperative and its members from unanticipated increases in operating expenses, such as property tax hikes and utility rate increases. A training reserve sets aside money up front to pay for board and member training, including attendance at workshops, conferences, or bringing consultants directly to the cooperative.

In conversion projects, the development budget will likely reflect the insights of a physical capital needs assessment commissioned by the cooperative developer. This assessment serves to set priorities for repair items (which may relate to health, safety, well-being or legal requirements) as well as items that can be addressed later or as part of a long-term capital improvements plan. Ideally, the development budget also includes capital improvement monies that are discretionary. A cooperative developer should use a well-designed participatory process that enables residents to register their interests in how such discretionary monies should be used to enhance residents' quality of life.

On the operating side, in conversion projects, it is important and useful for the cooperative developer to look carefully at the three-year operating history of the property and evaluate its accuracy. In the case of a property that is owned and managed by the same organization or one that owns several properties, specific line items may be higher than they should be upon conversion to resident-owned cooperative use. A steering committee of resident volunteers can often assist in preparing the cooperative's operating budget. Volunteers can research current tax bills, utility expenses, look into any new tax advantages of state homestead tax treatment, mortgage interest, or tax deductibility that come with conversion to resident ownership. They might also solicit quotes on items like insurance or garbage service. In carrying out these activities, residents start to appreciate how budgets are put together, and how to gauge past and estimate future operating expenses.

### Sample project pro forma

A sample development and operating pro forma for conversion of a 47-unit manufactured home park into a resident-owned cooperative is provided below. In a manufactured home park cooperative, residents own shares in the cooperative, which entitles each resident to exclusive right of occupancy to a particular lot within the manufactured home park. In addition to becoming cooperative shareowners, residents already own, and will continue to own their homes within the park.

The development budget includes a range of traditional real estate-related items as well as line items specific to cooperative development. In addition to the normal costs associated with a real estate transaction, items specific to a cooperative include: a prefunded replacement reserve for future capital improvements; a working capital reserve to cover expenses such as unexpected vacancies; and legal expenses for cooperative formation.

An equity down payment fund is also included, which will provide replacement equity for half the households who may choose not to join the cooperative. Members will pay \$500 as their equity investment to join the cooperative. Since member equity is included in the budget as a source of capital, there must be an allowance for residents who choose not to become members.

The infrastructure assessment ensures that the park's infrastructure is in good shape, and identifies priority repairs and long-term capital needs for the new cooperative. Park site improvements will include new signage, storm shelter enhancements, and a new bus stop.

The operating budget reflects a 30% increase over the park's current operating budget. The current park owner is able to make in-kind contributions to the park's operations (because of an additional business he owns), and so the true costs of managing and operating the park are partially hidden. With

## HOUSING CO-OP DEVELOPMENT

conversion to a cooperative, the new resident group will outsource and pay for certain functions on an a la carte basis, including services like accounts receivable and payable, legal enforcement (in event of nonpayment), and collection of carrying charges. It is also important to note that because of the lender requirement of a certain debt service coverage ratio, more money will be collected from residents than is anticipated necessary for management and operations of the park.

Thus, residents in the new cooperative will sign occupancy agreements reflecting a \$320/lot monthly carrying charge. If the cooperative can operate the park within this budget, the \$11,043 of excess revenue may be returned to park residents in patronage dividend checks, may be used for additional common amenities, or may be saved to reduce future carrying charges.

### Manufactured Home Park Conversion—Development and Operating Pro Forma

Your project, your community. Number of units: 47, Members' equity: 500

#### DEVELOPMENT PRO FORMA

##### SOURCES

Lender (7.60% for 30 years)	\$ 1,176,038
Residents equity \$500	23,500
<b>Total</b>	<b><u>\$ 1,199,538</u></b>

##### USES

Selling price	\$ 950,000
Replacement reserve	20,000
Working capital reserve	20,000
Legal	15,000
Supplies/equipment	6,000
Title insurance/recording	10,000
Equity down payment fund	10,000
Infrastructure assessment	10,000
Soft cost contingency	8,000
Park site improvements	50,000
Developer fee	76,000
Prepaid training reserve	10,000
Financing costs	14,538
<b>Total Financing Needed</b>	<b><u>\$ 1,199,538</u></b>

#### OPERATING PRO FORMA

##### INCOME

Number of units	47
Lot charges (Including water and sewer)	\$ 320
Gross potential income	180,480
Vacancy allowance (5%)	(9,024)
Effective income	\$ 171,456

##### EXPENSES

	Historical Expenses	Estimated Expenses
Real estate taxes	\$ 9,456	\$ 12,000
Trash removal	615	0
Sewer and water	14,237	16,500
Electric	1,555	1,800
Insurance (license/bond)	2,076	3,000
Licenses/permits	289	370
Snow removal/lawn mowing	1,880	2,200
Building repairs	8,409	5,000
Equipment repairs	514	200
Office supplies/marketing	434	800
Professional services (legal/audit)	0	3,000
Financial services contract (A/R, A/P, financial reporting)		3,000
Miscellaneous	0	700
Postage	186	260
Operating reserve	0	3,000

##### Total Annual Operating Expenses

**\$ 39,651**

**\$ 51,830\***

\*31% increase over historical expense

##### Annual Cash Flow Analysis

Annual revenue	\$ 171,456
Less operating expenses	51,830
Less debt service	108,583
Debt coverage ratio	1.10
Debt coverage/surplus	11,043
Effective monthly carrying charge if co-op stays within this budget	\$ 300

## FINANCING OPTIONS

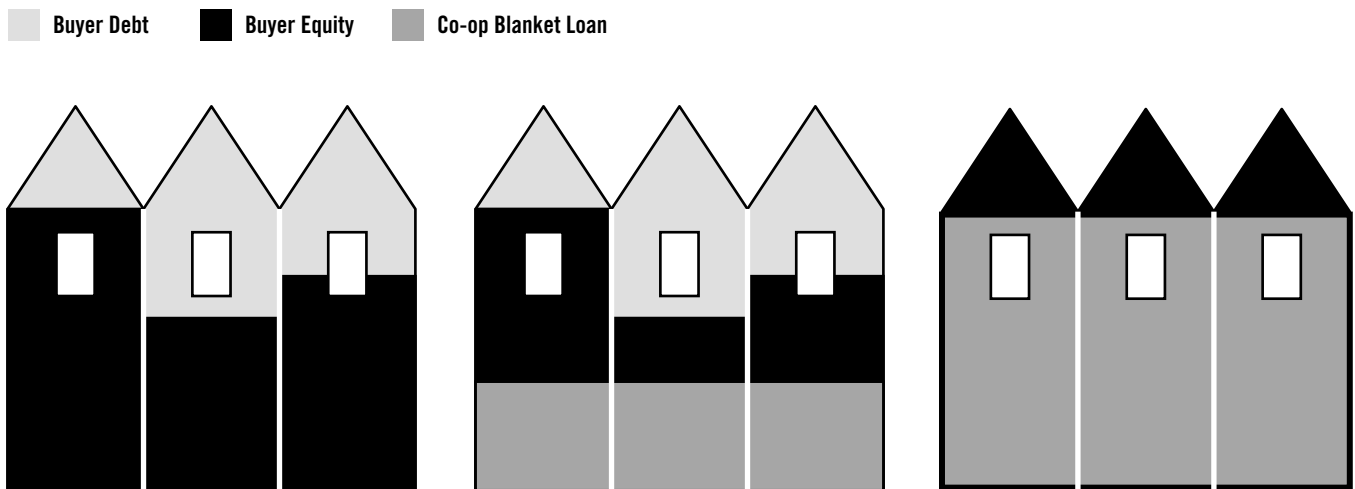
Housing cooperatives can be financed through any mix of three sources: individuals' equity, share loans to individual buyers, or blanket loans to the cooperative. One of the most critical decisions you make as a cooperative developer is about the right mix of financing for the project. Your decision will determine whom the project will serve and the project development timeline.

Equity is the down payment invested by members. Depending on the project, you may ask a buyer for a down payment that ranges from a minimal amount (as in a manufactured home park) to the full amount of the down payment (as in some senior housing cooperatives).

A buyer can sometimes supplement their down payment with a loan from a lender that serves the housing cooperative market. These loans—sometimes called “share loans”—are loans made to individual buyers that are secured by the member's share in the co-op. As with conventional mortgages, share loans are evaluated and underwritten on the creditworthiness of the individual borrower.

Blanket loans or master mortgages to the cooperative corporation itself can also be used to cover most project development costs. Blanket loans are secured by the property that is owned by the cooperative. Members of the cooperative each pay their individual share of this blanket debt as part of their monthly carrying charges. Ongoing responsibility for payment of the blanket debt attaches to an individual's share(s) in the cooperative, and continues to be one of the monthly fee obligations for future shareowners.

The following diagrams illustrate the three methods that are used to finance cooperative housing.



### Buyer Equity and Share Loan Financing

In this scenario, each individual buyer is able to invest any level of equity (down payment dollars).

Any remaining gap between the individual's down payment and actual share price can be bridged with a share loan. In this model, the cooperative does not take out any blanket mortgage.

### Cooperative Blanket, Buyer Equity and Share Loan Financing

In this scenario, the cooperative secures a blanket loan (master mortgage) to finance a percentage of project development costs. Individual buyers can cover any gap between share price and this master mortgage with any mix of equity and share loans.

### Co-op Blanket and Buyer Equity

In this scenario, the cooperative secures a master mortgage to finance almost all of project development costs. Individual buyers invest a small amount of equity to purchase their share in the cooperative.

## HOUSING CO-OP DEVELOPMENT

Share loans are available from some community development loan funds and banks, and from the National Cooperative Bank, FSB. Northcountry Cooperative Development Fund is a community development loan fund that provides share loans to individuals across an eleven-state service area in the upper Midwest.

Blanket loans can be secured from several sources. These include: (a) member banks of the Federal Home Loan Bank system; (b) community development financial institutions or community development loan funds; (c) mortgage banking companies, particularly those specializing in HUD mortgage insurance programs and better yet, HUD programs designed specifically for cooperative blanket financing like Section 213 and Section 213(i); and, (d) conventional lending institutions.

### **Member banks of the Federal Home Loan Bank (FHLB)**

These loans are made as part of the Community Investment Program (CIP). A majority of households in such projects must have incomes below 80% or 115% Area Median Income, depending upon the location of the project. Under CIP, the FHLB member bank has access to lower interest rates. Specific terms, including interest rates, amortization schedule, and loan-to-value ratios, are all subject to the member bank's underwriting criteria. Generally, the cooperative is able to access lower interest rates than would be normally available in a conventional commercial loan. Details are available on the Federal Home Loan Bank website ([www.fhlbanks.com](http://www.fhlbanks.com)). If all due diligence work has been performed or is in place, processing for these kinds of loans follow a relatively short timeframe, sometimes no more than a month.

### **CDFIs or community development loan funds**

These entities recognize the value of investing in home ownership cooperatives, especially in co-ops that are structured as limited-equity cooperatives, which ensure long-term affordability in communities with a shortage of affordable housing. NCDF is an example of such a loan fund, providing primary blanket financing and secondary mortgages to housing cooperatives across its service area.

### **HUD-related programs**

A mortgage insured by the U.S. Department of Housing and Urban Development (HUD) under one of the variants of its Section 213 program has become a popular means of financing housing cooperative development. Backed by HUD's rigorous review process, and ongoing HUD involvement in overseeing the project over the term of the mortgage, the cooperative can secure a 40-year fixed-rate mortgage at a competitive rate. The program offers a means by which the cost of most projects can be almost entirely financed. Insurable mortgages are subject to a 98% project cost maximum and several other statutory mortgage limits.

In the HUD process, with the help of a HUD-approved lender, the developer prepares a pre-application, providing preliminary information about the project to the local HUD office. Pre-applications include a project description and market study, and preliminary indications of site control and permissive zoning. If HUD approves the contents of the pre-application, it invites an application for a mortgage insurance commitment. If the application is successful, HUD issues a conditional commitment, which usually includes a minimum pre-sale requirement before the initial closing can be secured. The program provides for construction and permanent financing at the same interest rate.

## **MARKET STUDY**

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Especially in new construction projects, lenders often require market studies. These studies supplement pre-sales requirements in verifying local demand for the kind of cooperative being proposed.

In conversion situations, if residents are already in place, monthly carrying charges will approxi-

mate current rents, and market studies may not be needed. This is particularly true in tight real estate markets where the housing in question represents one of the primary affordable housing assets in the community.

## **ARCHITECTURAL / ENGINEERING WORK**

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Many of the considerations for architectural/engineering work in a cooperative project are identical to those in conventional new construction or renovation projects. In the case of conversion or rehabilitation projects, prospective cooperative members will need to be updated on changes in plans and the results of infrastructure reports. For conversions, residents may participate in the process of deciding how discretionary monies in the development budget can best be spent to enhance residents' quality of life.

In a renovation /conversion, the development pro forma needs to reflect real estimates of costs for remedial rehabilitation and needed capital improvements. The operating pro forma may reflect some savings in repairs and maintenance line items after significant capital work is complete. An engineering firm is typically retained to carry out a physical capital needs assessment, which identifies priority repairs, future improvements, and may provide long-term recommendations for replacement reserve funding. The report typically precedes finalization of development and operating budgets and thus presentation of share prices and monthly fees to tenants interested in becoming owners.

In a renovation / new construction project, schematic drawings and preliminary architectural work is important to the pre-sales process as it gives prospective buyers the most tangible idea of their potential living environment. Without drawings and architectural renderings, buyers see only a building needing work or an empty site awaiting a building.

## **MARKETING PROCESS**

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Most prospective buyers will have little or no knowledge of the cooperative model, and will likely have even less understanding of the co-op housing concept. Consequently, buyers will have many questions about the mechanics of cooperative living. Marketing staff need to be well prepared to answer co-op questions like those below:

- (For limited equity cooperatives) What is the formula used to calculate equity appreciation on members' initial investment? Is the formula subject to change and if so, how?
- Will the cooperative allow subletting and if so, under what conditions?
- What was the basis for allocating development costs and establishing prices of individual units?
- What are my financing options for this project? Can I make a greater down payment to reduce my monthly carrying charges? If so, by how much, and how much savings can I expect in my monthly charges?
- What happens if a cooperative member fails to make their required monthly payments?
- What happens if the cooperative goes into default?
- Where can individual buyers get access to share financing?
- What is the process by which interested buyers may reserve particular units and later purchase them?
- Who takes care of the day-to-day operations of the co-op? Who pays the bills?
- What type of insurance will I need?
- What happens when I want to sell my share in the co-op?



## PREPARATION OF LEGAL DOCUMENTS

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Legal documents incorporate the cooperative, describe members' obligations to the cooperative, outline makeup, election, and duties of the board of directors, describe the relationship of a management company to the cooperative, describe the process by which shares will change hands, and explain the use of any formulas used in calculating limitations on equity growth. When organizing a cooperative, it is important to seek legal counsel familiar with cooperative law in order to ensure a well-functioning enterprise.

### Typical Cooperative Legal Documents:

Legal Document	Role
Articles of Incorporation	Articles constitute the legal document that establishes the co-op as a business entity, subject to the laws of the state in which the co-op is chartered. The articles are the backbone of the co-op, and can be difficult to amend.
Bylaws	Bylaws state how the corporation will operate, how meetings will be held, how many directors serve on the board, the structure of member meetings, and other rules of the co-op. Bylaws can generally be amended by a majority vote of the membership.
House Rules	House rules define the expected behavior of members, and govern the everyday operations of the co-op. These rules are ultimately enforceable through occupancy termination.
Management Agreement	Outlines terms and responsibilities of the management agent (if one is used).
Occupancy Agreement	Serves as a proprietary lease between the co-op and the member. The agreement is a comprehensive document, stating what the co-op expects from its members, and what the members can expect from the co-op.
Subscription Agreement	Generally used only when a new co-op is developed, this agreement is the first document that a prospective member signs, indicating a commitment to purchase a share in the co-op, and abide by provisions of other legal documents.

## MEMBER EDUCATION AND TRAINING

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Member education begins with the first encounter a prospective buyer has with the person who is selling a share in the co-op. It continues as members of the development team explain the sales process, introduce legal documents, describe duties of the board of directors and committees, and describe the mutual relationship and responsibilities of cooperative members. After a person becomes a member, education continues as members, committees, and the board make decisions about all aspects of the co-op's operations, finance, and governance.

Any co-op developer should include an allowance for member education and training in the operating pro forma. Successful co-ops place a high emphasis on continuing education of both board and members. The new co-op should have access to consultants or trainers who can advise it on aspects of real estate, property management, board governance, committee structure, and member relations. The Cooperative Housing Toolbox: A Practical Guide for Cooperative Success, published by NCDF, is a useful "best practices" reference tool.

*See also Links to Co-op Housing Organizations in the Appendix.*

## **CLOSING ON PROJECT FINANCING**

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Obtaining project financing for a cooperative project is often tied to the sale of a specific number of shares in the cooperative. Financing often enables property acquisition, commencement of construction or renovations.

## **RENOVATION OR NEW CONSTRUCTION**

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The cooperative construction and renovations process is the same as for a conventional project. Regular updates to charter cooperative members will need to continue for the duration of the process.

State law, lender requirements and, if applicable, HUD mortgage insurance requirements typically require escrows or other forms of construction-related guarantees by the developer. The development team should include experienced construction management and oversight to ensure the best possible end result for the new cooperative.

## **FIRST ANNUAL MEETING**

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About a month after the certificate of occupancy has been issued and members have settled into their new or newly renovated building(s), the cooperative will convene its first annual meeting. At this meeting, the cooperative formally elects its first board of directors, chooses its committee members, and formally takes the reins of control and decision-making from the developer. Though the developer typically retains ongoing liability for construction-related defects, appliances, and other aspects of the development process, the cooperative formally and legally takes on chief responsibilities for oversight and management of the property at the annual meeting.

## **ONGOING TRAINING AND SUPPORT**

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Education is such an important component of the cooperative model that the sixth international cooperative principle states:

“All cooperative societies should make provision for the education of their members, officers and employees and members of the general public in the principles and techniques of co-operation, both economic and democratic.”

Education—in the form of ongoing education and support—is important because the cooperative form of ownership is different from other forms of business ownership. In most businesses, ownership is separate from participation in the business; control is not democratic, but based on the amount of invested, at-risk capital; and the financial return, like the control, goes to the owner of capital.

Capitalization is not the only critical area of distinction. Co-ops frequently hire as managers, or elect to their board of directors, people with good business training but no co-op experience. Because someone is successful in business, however, does not mean those same principles can be applied successfully to running a cooperative.

Another reason that co-op education is important is that co-ops are democratic organizations. If members understand how the co-op works, its underlying philosophy, and where it's going, then the members can provide the appropriate leadership to run the co-op well. If only a few members are knowledgeable, there's always the danger that those few members can assume and abuse positions of power within the co-op.

The important thing to remember is that developing a housing cooperative is as much about

training and supporting the member residents as it is about making the deal. Equal attention must be paid to investing in the “human capital” side of the business. In addition, any education and support plan should not end when the deal is done, but should be ongoing. Because there will always be turnover in members, in committees, and on the board, the need for training and support will never end.

## **WAYS OF MAINTAINING AFFORDABILITY**

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Many non-profit developers and public sector partners want assurance that the affordable housing they help create remains affordable for the foreseeable future. Cooperatives are eminently flexible in this regard and can be structured to remain affordable in perpetuity, making them an especially effective tool for the stewardship of public and philanthropic resources. Some of the most affordable housing co-op units in New York City have been in place since the 1920's. There are a number of different methods that co-op developers can use to maintain the co-op as an affordable housing resource. These include:

### **Lender covenants**

Lenders may require that cooperatives retain their limited equity status for the duration of the loan as a condition of financing. In most instances, such a covenant assures affordability for 30 or even 40 years. The loan's low initial interest rates, coupled with prepayment penalties, can limit any temptation for the co-op to refinance—thus avoiding the restrictions—or deter the co-op from converting to a market equity co-op. In some cases, the pressure of rising property values and the promise of personal gain are too tempting, and the co-op board votes to pre-pay the mortgage to rid themselves of its restrictions, thereby converting the co-op into market rate housing.

### **Bylaw restrictions**

Most limited equity cooperatives define their particular resale formula in the organization's bylaws. This effectively makes affordability an organizational tenet of the enterprise, and will act to establish the cooperative as an affordable housing option in perpetuity. Bylaws can be altered, however, so most cooperative housing developers require a very high majority of members to approve any such bylaw change, thus ensuring that an affordable housing asset is not lost due to the efforts of a few members organizing for personal gain.

### **Deed and property restrictions**

In some cases, property deed restrictions have been used to maintain the perpetual affordability of a project. Similarly, a system where the actual property is owned by another organization such as a land trust (with the co-op having a perpetual lease to the buildings on the property) has been used to ensure long term affordability. These type of controls are complex, however, and require expert legal assistance. In the case of a land trust, it also requires the agreement (or the creation) of an additional separate organization, adding complexity and removing key decision-making powers from residents.

### **Preferential property tax treatment**

Several limited equity co-ops in widely different jurisdictions have successfully negotiated with their local taxing authority to significantly limit their tax bill because of the limited resale prices of the cooperative units. As well as benefiting current residents, this system acts as a carrot rather than a stick when it comes to maintaining the limited equity status of a co-op. In high tax jurisdictions, residents know that their property taxes would increase dramatically if they were ever to alter their limited equity status, and a preferential tax status thus acts as a disincentive to make such a change.

**Minnesota cooperative statute 308(b)**

Minnesota cooperative statute 308(b) was created to allow for a class of “investor members” in a co-op, besides the traditional class of “user members.” While originally intended to help agricultural cooperatives attract outside investment, this statute could theoretically allow the co-op developer to own an investment share in the co-op, thus keeping a limited equity co-op affordable in perpetuity. While the developer would have no role in the everyday operations of the co-op, major decisions (such as conversion from a limited equity to a market rate cooperative) would presumably require the consent of the investor owner. Since the statute is so new, few co-ops (and no housing co-ops) have yet to be organized under the statute, but NCDF is currently investigating its use for affordable housing.

**Member education**

Member education can be the greatest deterrent to the threat of converting a cooperative from limited equity to market rate. At Penn South in New York City, for example, repeated attempts by a few co-op members to cash in on the growing desirability of the Chelsea neighborhood, and turn the co-op market rate, have been resoundingly voted down by their peers. Residents of the co-op value their neighbors, the community they have built, the relationships they have forged, and in particular recognize and value the sacrifices that were made by a previous generation so that they could enjoy safe and affordable housing. At 7500 York, a limited equity co-op in a generally affluent suburb of Minneapolis, residents recently took the unusual step of amending their equity formula to more closely conform to current tax assessed value, but soundly rejected a conversion to market rate to take advantage of the property’s significantly higher market value. Residents recognized the real advantages that their co-op’s limited equity status had brought to the community over the years, and were reluctant to cash in on those benefits.

# BEST AND WORST PRACTICES

**S**ome of the best things in life take a little bit of extra effort, and cooperatives are no exception. With their uncommon legal structure, arcane financing, and the vagaries of democratic member participation, cooperatives are far from the easiest kind of housing project to develop. When done right, however, housing co-ops can yield benefits to residents and communities far in excess of benefits offered by conventional single family home ownership or affordable rental programs. Based on years of experience in the field of cooperative development and cooperative housing, we offer the following advice to help make your cooperative project a success.

## **Membership must be meaningful**

Residents are sold on the cooperative model because it offers them home ownership and control of their housing. A good co-op project must deliver ownership and control, providing recognition and reward in exchange for resident-member responsibility. Decades of cooperative experience around the world has shown that with the appropriate structure and guidance, almost any group of people with a common interest can form a cooperative enterprise and make good decisions for themselves and their communities. A co-op developer must balance the interests of outside parties (lenders wanting maximum security, for example, or a non-profit partner wanting maximum affordability) with the needs of co-op members who expect a home ownership experience worthy of their investment of time and energy.

## **Management company's role is different than in rental housing**

Cooperatives are a home ownership vehicle, not a rental program. A management company that treats cooperative home owners like renters will not be successful. It is vital that any management company used in a co-op project be selected by the co-op residents themselves (perhaps from a group of three to five companies pre-approved by the sponsor or developer), that the management company takes its direction from the co-op board, and that the co-op have the option to switch management companies. The board of the co-op will necessarily be intimately involved in such tasks as setting the annual budget, and the management company must understand that management's role is to support the board in such governance functions, not supercede it.

## **Ongoing technical assistance is critical**

Few of us, no matter what our education level, grows up learning how to function effectively on a democratically elected board of our peers. New co-op members need an effective orientation to the rights and responsibilities of cooperative ownership, and co-op board members need regular advice and support in such things as running a meeting and group decision-making. In a recent survey of NCDF borrowers, 80% of board members who hadn't had training indicated a desire for it, while 100% of those who had had board training found it useful. Technical assistance may be heaviest during the start-up phase, but since a healthy board has regular turnover, the need for technical assistance and education will be on-going.

## **Create, maintain, and follow policies**

Just as "good fences make good neighbors," so "good policies make good cooperatives." A cooperative depends for its success on the willingness of members to make decisions for the common good. The decisions made by the co-op's board must be consistent, balanced and fair. Setting sound policies in advance helps foster equitable decision-making by forcing the board to consider the broader implications of their actions (not just the immediate one at hand), and communicate this thinking to the membership at large in a clear and logical fashion.

**Develop and nurture the vision**

Housing co-ops can deliver more to residents in terms of social contact, skills development, and security than other housing models, but co-ops also require more of residents in terms of time, energy and commitment. Developing and nurturing a common vision of what the cooperative can be, celebrating successes together, and accentuating the positive all contribute to making co-op living a satisfying and rewarding experience.

# PARTING WISDOM

If, after reading this manual, you are ready to embark on a co-op housing project, here are a few words of advice before you begin:

## **Start with a stable resident base**

In our experience, resident stability rather than resident income is the key predictor of success for a housing cooperative. Co-ops are a long-term housing strategy, and to be most successful, require a resident base with a long-term vision.

## **Start with a stable financial base**

Housing co-ops provide predictability to residents' monthly housing expenses, but both the co-op and the residents need to start off with a stable financial base. Generous reserve funds, prudent operating budgets and fixed-rate financing all work to set the stage for the long-term success of the co-op.

## **Manage expectations**

Cooperatives are a unique vehicle for the democratic ownership and governance of common property and the pursuit of common objectives. Under the right circumstances, co-ops can deliver a wide range of opportunities—for wealth creation, skills development, and community building—better than most other housing models. Co-ops are not, however, a solution for all social ills.

Moreover, co-ops are not going to appeal to everyone. Understanding what co-ops can and cannot deliver is crucial to the success of any co-op.

# APPENDICES

## FREQUENTLY ASKED QUESTIONS

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### **Who owns a housing cooperative?**

Cooperative members each own an interest in the cooperative. Together, the members own 100% of the cooperative, while the cooperative owns 100% of the building, land, and any common areas. The right to reside in each dwelling unit is allocated to a specific cooperative member and governed by that member's proprietary lease or occupancy agreement.

### **Who governs the cooperative?**

The members, as a group, are democratically responsible for overall cooperative governance, including electing the board of directors, amending the bylaws, and making decisions about the sale of the cooperative's property or dissolving the cooperative corporation. The members elect a board of directors, which is responsible for the operation of the cooperative. The board hires and oversees management, sets policies, approves operating budgets, and approves candidates for cooperative membership.

### **What do you own as a member of a housing co-op?**

The main distinction between a housing co-op and other forms of home ownership is that in a housing co-op, residents don't directly own real estate. Instead, they buy shares or a membership in a cooperative housing corporation. The corporation owns or leases all real estate. Each member owns a cooperative interest. Each cooperative interest is the combination of two things:

- The member's ownership interest in the cooperative corporation (represented by a certificate of membership or corporate shares), plus
- An exclusive right to occupy a particular dwelling unit that is owned by the cooperative corporation (represented by an occupancy agreement or proprietary lease).

Each ownership interest gives the member a pro-rata share in the ownership of the cooperative's property as a whole. The right to occupy a specific dwelling unit continues so long as the individual is both a member of the cooperative and abides by the occupancy agreement.

### **Why is being a cooperative member better than renting?**

Seven advantages make cooperative membership more attractive than renting.

#### **• Ownership**

The members own the cooperative. A landlord owns rental housing.

#### **• Control**

The residents govern the cooperative. A landlord governs rental housing.

#### **• Operating at Cost**

In a cooperative, occupancy charges are equal to the actual cost of owning and operating the property. In rental property, rents go up far faster than actual costs because the landlord is in business to make a profit. Cooperative members keep the profit that a landlord would pocket.

#### **• Individuality**

The cooperative allows members to customize their dwelling units. The landlord controls everything in rental housing.

#### **• Homeowner Tax Advantages**

The cooperative passes income tax deductions through to its members. All of the income tax



benefits of rental properties go to the landlord.

- **Equity Growth Potential**

The cooperative (depending on its bylaws) passes equity growth potential to its members. A rental property passes equity growth to the landlord.

- **Overall Value**

A cooperative maximizes benefits to its members. A rental property maximizes profits to the landlord.

### **What monthly payments does a cooperative member make?**

The occupancy agreement requires each member to pay only his pro-rata share of the budgeted costs of the cooperative. There are no profits going to an absentee landlord. The cooperative's board of directors prepares an annual operating budget to cover the cost of operations, reserves, principle and interest on blanket mortgages, property insurance, and property taxes. In some cooperatives, all utility costs are included as part of the budget.

If an individual member has taken out a share loan to purchase his or her “share” in the cooperative, he or she must make the principle and interest payments directly to the share lender. Where utility costs are not part of the cooperative budget, the member must pay them directly to the utility companies.

### **How does a member acquire equity?**

It depends on how the bylaws of the cooperative are written. There are three different types of housing cooperatives as far as equity is concerned.

- **Market-rate housing cooperatives**

In a market-rate cooperative, members buy or sell memberships or shares at whatever price the market will bear. Purchase prices and equity accumulation are very similar to condominium or single-family ownership.

- **Limited-equity housing cooperatives**

In a limited-equity housing cooperative, there are restrictions on what outgoing members can receive from sale of their shares. The restrictions are imposed in order to ensure that the co-op housing remain affordable. Generally, the co-op's members benefit from below-market interest rate mortgage loans, grants, real estate tax abatement, or other favorable financing, the terms of which require that the housing remain affordable to both initial and future residents for a specified period of time. In some co-ops these limitations are voluntarily imposed by the members. Equity-limiting restrictions are usually found in the cooperative's bylaws. The co-op's legal documents may also establish maximum income limits for new members to further target the special benefits of the housing to families who are in most need of affordable housing.

- **Zero-equity cooperatives**

In a zero-equity cooperative, the members do not build any equity. There are two types of zero-equity co-ops, distinguished by ownership: a leasehold co-op, and a true zero-equity co-op. **Leasehold Cooperative**—The cooperative corporation leases the property from an outside investor, often a nonprofit corporation that is set up specifically for this purpose. Since the cooperative corporation does not own any real estate, the cooperative is not in a position to build up any equity (just as a renter doesn't build any equity). However, the cooperative is often in a position to buy the property if it comes up for sale, converting it to a market rate or limited-equity cooperative. Some leasehold cooperatives allow outgoing members to redeem a share of the cash reserves built up by the cooperative corporation while they were occupants.

**Zero-equity Cooperative**—The cooperative corporation owns the property, but in order to guarantee low income individuals access to the most affordable housing, does not allow members to

accumulate equity. In this scenario, members pay a lower-than-normal monthly carrying charge, and in return, forego accumulation of any equity.

**Do members need homeowners insurance?**

Yes, members need insurance, similar to condominium insurance. The co-op generally carries a blanket insurance policy that covers liability and damage to the cooperative's property from fire, water, or other disasters. However, this policy generally does not cover any damage to personal belongings inside members' units. Additional insurance is recommended to cover personal possessions and personal liability in the event of an accident in a member's unit.

**What is a share loan?**

It's a loan to buy a unit or "share" in a housing cooperative. Let's assume you're going to buy a \$100,000 home. Most likely, you would not be able to pay the seller \$100,000 in cash for the house. Instead, you would make a down payment, and you would get a mortgage from a lender to cover the remainder of the purchase price. In a co-op, since a member is actually buying a share(s) in a corporation rather than real estate, the member takes out what is called a "share loan" from a lender. A share loan is like a mortgage, providing the member with borrowed funds to buy the share(s) from the seller. Once the transaction is complete, and the buyer is a member of the co-op, monthly payments on the share loan are made to the lender, and monthly carrying charge payments are made to the co-op.

**What tax benefits are available to cooperative members?**

Co-op housing residents have the same potential tax benefits as other homeowners, including taking their share of the mortgage interest and real estate taxes as a deduction on Schedule A of their 1040 federal income tax return. The deduction can be substantial, but only if the co-op is able to pass the deduction on to its members (complicated rules apply to co-ops with substantial commercial income), and if the member itemizes deductions on his/her tax return. If the co-op is able to pass through the deduction, members should receive notification from the co-op of the deduction amount by January 31st of each year. Section 216 of the Internal Revenue Code covers the pass-through of mortgage interest and real property tax deductions from the cooperative to the shareholders.

In some states, homeowners receive favorable property tax treatment, similar to commercial and industrial uses. In most instances, cooperatives and their members receive the same benefit as single-family homeowners. Consult with a tax advisor for further information.

**Are members responsible for capital gains taxes when selling a co-op membership/share?**

Co-op shareholders are treated the same as single family homeowners when they sell.

**Can a member rent out their unit?**

Some co-ops are generous in allowing subletting, but most cooperatives severely restrict subletting in order to preserve the owner/occupant character of the community. Co-ops that do allow subletting often have restrictions on the length of time for which a member may sublet. Each co-op has a different policy, the terms of which are usually found in the occupancy agreement or proprietary lease.

## LINKS TO CO-OP HOUSING ORGANIZATIONS

Organization	Address	Mission	Web Site
Northcountry Cooperative Development Fund	219 Main St. SE Suite 500 Minneapolis, MN 55414 612-331-9103	Financial intermediary and co-op housing developer, offering loans and technical assistance to co-ops and their members.	<a href="http://www.ncdf.coop">http://www.ncdf.coop</a>
University of Wisconsin Center for Cooperatives	230 Taylor Hall, 427 Lorch St. Madison, WI 53706 608-262-3981	Comprehensive site with current news of interest to co-ops and a wealth of links.	<a href="http://www.wisc.edu/uwcc">http://www.wisc.edu/uwcc</a>
Urban Homesteading Assistance Board	120 Wall St. 20th Floor New York, NY 10005 212-479-3300	Provides training and technical assistance to low income, limited equity co-ops in New York.	<a href="http://www.uhab.org">http://www.uhab.org</a>
National Association of Housing Cooperatives	1707 H Street, NW, Suite 201 Washington, DC 20006 202-737-0797	Joint association of housing co-ops. Provides education, networking, technical assistance, and representation for members.	<a href="http://www.coophousing.org">http://www.coophousing.org</a>
North American Students of Cooperation	PO Box 7715 Ann Arbor, MI 48107	Membership organization of campus based co-op housing. Provides training, lobbying, and networking.	<a href="http://www.nasco.coop">http://www.nasco.coop</a>
National Cooperative Business Association	1401 New York Ave. NW Suite 1100 Washington, DC 20005 202-638-6222	Membership organization for all types of co-ops (not limited to housing).	<a href="http://www.ncba.coop">http://www.ncba.coop</a>
NCB Development Corporation	1725 Eye Street, NW, Suite 600 Washington, DC 20006 202-336-7700	Focuses on the financing and development of affordable housing, education, healthcare, and worker ownership.	<a href="http://www.ncbdc.org">http://www.ncbdc.org</a>
Cooperative Housing Coalition	1725 Eye St. NW Suite 600 Washington, DC 20006 202-336-7750	Policy-orientated lobbying arm of the NCB, NCBDC, NCBA, and NAHC. Good site for information regarding pending national legislation regarding cooperatives.	<a href="http://www.chc.coop">http://www.chc.coop</a>
Cohousing Association of the United States		Cohousing specific site with a community list that links to individual websites that have vacancy information. Also contains sample legal documents such as bylaws and pet policies.	<a href="http://www.cohousing.org">http://www.cohousing.org</a>
Council of New York Cooperatives and Condominiums		Nonprofit membership organization of New York-based cooperatives. Provides representation and facilitates education through workshops and frequent contact with the press.	<a href="http://www.cnyc.com">http://www.cnyc.com</a>

Organization	Address	Mission	Web Site
Cooperative Housing Information Center		Contains a good general overview of the development process.	<a href="http://www.housinginfo.coop">http://www.housinginfo.coop</a>
Intentional Communities		Provides important information and access to crucial resources for seekers of community, existing and forming communities, and other friends of community.	<a href="http://www.ic.org">http://www.ic.org</a>
Senior Cooperative Foundation	215 Kaesen Ave. Box 27 Vermillion, MN 55085 866-730-2667	Contains links and posts vacancies in senior co-ops in Minnesota.	<a href="http://www.seniorco-opnet.org">http://www.seniorco-opnet.org</a>
Midwest Association of Housing Cooperatives		Michigan-based housing co-op advocacy group, providing board training and related resources through conferences and printed materials.	<a href="http://www.mahc.coop">http://www.mahc.coop</a>
Madison Community Coop	1202 Williamson St., Suite C Madison, WI 53703 608-251 – 2667	Affordable housing resource for the Madison area, with specific emphasis on the inclusion of low income and marginalized groups.	<a href="http://www.madisoncommunity.coop">http://www.madisoncommunity.coop</a>
Inter Cooperative Council	337 E. William St. Ann Arbor, MI 48104 734-662-4414	Dedicated to affordable student housing in Ann Arbor, Michigan. Posts vacancies.	<a href="http://www.icc.coop">http://www.icc.coop</a>
Greater Washington Mutual Housing Association, Inc.	017 New Jersey Ave. SE Washington, D.C. 20003 202-554-2993	Provides management services, resident training and technical assistance aimed at achieving financial security and a sense of community among residents and neighbors.	<a href="http://www.gwmha.org">http://www.gwmha.org</a>
Cooperative Living of Seattle		Group of Seattle-based activists working to promote and create housing cooperatives, urban communes, co-housing, and group houses.	<a href="http://www.seattlecoops.org">http://www.seattlecoops.org</a>
Potomac Association of Housing Cooperatives	838 W. Fairmount Ave. Baltimore, MD 21231 410-276-5114	Primary goal is the continuing education of co-op boards and members.	<a href="http://www.potomacassoc.com">http://www.potomacassoc.com</a>

## LITERATURE REVIEW

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This literature review was compiled as a means for the housing cooperative community to gain a better sense of the model's successes and failures, strengths and weaknesses. Organizations interested in developing best practices or who are in pursuit of grant funding are encouraged to utilize this body of literature. The articles were compiled through internet research and analysis of bibliographical materials from some of the most frequently cited publications in the field.

**1. Calhoun, Charles and Christopher Walker. 1994. *Final Report: Loan Performance of Management Cooperatives*. The Urban Institute, Washington, D.C. Photocopy.**

Research compares the performance of HUD multi-family insured mortgage programs, including cooperatives, non-profit, limited-dividend and profit-motivated owners. The outcomes of their research, conducted using data from 1958 to 1993, show that management cooperatives represent a low risk investment. Indeed, cooperatives had the lowest borrower default rate among all the models in the Section 221 (d) 3 below market rate program.

**2. Cotton, Michelle, Susan Saegert and David Reiss. 1996. "No More 'Housing of Last Resort': The Importance of Affordability and Resident Participation in Rem Housing." The Task Force on City Owned Property, New York City. Photocopy.**

Describes the outcomes of a study performed by Susan Saegert and Gary Winkel of the City University of New York for the New York City Task Force on City Owned Property. It describes the political climate around which the city rethought its public housing process, as well as a detailed account of study outcomes. It finds that residents of cooperatively owned properties are more likely to be engaged in their community. Cooperative buildings also have rents more often perceived as "reasonable," fewer maintenance problems and lower crime rates.

**3. Eversole-Nolan, J. 2000. *Developing and Sustaining Rural Senior Housing Cooperatives: Report on Homestead Resident survey*. USDA RBS 99-12.**

*Find it online at [www.cdf.coop/pdf.html](http://www.cdf.coop/pdf.html)*

Describes the quality of life of older adults living in rural cooperative housing. Research findings show that cooperatives provide seniors with a high level of satisfaction because seniors are able to enjoy ownership without the maintenance responsibilities, are able to stay in their home communities, and can continue to live independently. The study includes reasons why seniors moved to a cooperative, the demographics of seniors in a co-op, and quality of life indicators.

**4. Kennedy, Tracey, et. al. 1995. *Keys to Successful Cooperative Housing in Rural Areas*. USDA, Rural Business and Cooperative Development Service, Service Report 44.**

*Find it online at [www.rurdev.usda.gov/rbs/pub/sr44.pdf](http://www.rurdev.usda.gov/rbs/pub/sr44.pdf)*

A step-by-step beginners' guide to developing a housing cooperative. While not exhaustive, this paper includes an introduction to the concept of cooperative housing. The guide discusses three aspects of cooperative housing development including the planning and organizing process, management and operations of the cooperative, and general cooperative financing options.

**5. Kleine, Doug. 2001. "Urban Housing Cooperatives—Benefits Beyond the Walls." *Journal of Cooperative Development*, 2(4):12-16.**

*Find it online at <http://www.cdf.coop/journal.html>*

Doug Klein, executive director of the National Association of Housing Cooperatives, describes the four major documented benefits of housing cooperatives including affordability, quality of life, civic participation and lower crime.

6. Leavitt, Jacqueline and Susan Saegert. 1990. *From Abandonment to Hope: Community Households in Harlem*. New York City: Columbia University Press.

Illustrates why and how cooperatives succeed or fail, using the proliferation of limited equity co-ops in New York City as an example, with particular emphasis on the importance of age and gender of co-op residents.

7. Miceli, Thomas J., Gerald A. Sazama and C.F. Sirmans. 1994. "The Role of Limited-Equity Cooperatives in Providing Affordable Housing." *Housing Policy Debate*, 5(4):469-90.

Find it online at <http://www.fanniemaefoundation.org/programs/hpd.shtml>

The authors study the benefits of limited equity co-ops in lowering overall housing costs by both reducing housing externalities and eliminating high management costs through tenant screening and self-management. The authors emphasize the utility of housing cooperatives developed in conjunction with a variety of different affordable housing options. In addition, they suggest various policy methods the federal government could use to promote limited equity co-ops, stressing the importance of technical support for overall program success.

8. Mushrush, Larson and Krause. 1997. "Social Benefits of Affordable Housing Cooperatives." UC Davis Center for Cooperatives, Davis. Photocopy.

By comparing three models of affordable housing (a cooperative complex, a traditional rental complex, and dispersed rental "voucher" units), the authors construct a compelling case for cooperative housing. This study should inform the work of affordable housing developers and policy-makers as they look for better ways to support low-income families.

9. Parliament, Claudia, Andrew Vonnegut and Stephen B. Parliament. 1998. "Keeping Housing Affordable: Cooperative vs. Absentee Ownership." *1998 Cooperative Housing Journal*: 18-24.

In conducting their research of low-income housing projects, the authors find that cooperative ownership reduces housing operating costs because cooperative residents both participate in governance and directly realize the benefits of controlling costs. However, cooperatives must exhibit seven very specific "design principles" for cost-savings to be actualized. Examples of these principles include clearly defined boundaries; adaptation of rules to local conditions; ability of participants to change the rules of the organization; and the presence and use of conflict resolution mechanisms of low cost and easy access. The researchers emphasize that these design principles should be carefully nurtured to ensure cooperative success.

10. Rohe, William. 1995. "Converting Public Housing to Cooperatives: The Experience of Three Developments." *Housing Policy Debate*, 6(2):439-79.

Find it online at <http://www.fanniemaefoundation.org/programs/hpd.shtml>

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 Plus Housing Homeownership Demonstration of the US Dept. of Housing and Urban Development. Rohe concludes that conversion is feasible, but requires substantial expertise and extensive planning to successfully convert public housing to the cooperative model, and should not be done without appreciation for these challenges.

11. Saegert, Susan and Gary Winkel. 1996. "Paths to Community Empowerment: Organizing at Home." *American Journal of Community Psychology* 24(4): 517-550.

Examines how low-income minority communities in limited equity cooperatives build on their strengths to improve material conditions, and how these actions lead to further empowerment at the individual and group level, thereby increasing engagement in civic life.

12. Saegert, Susan and Gary Winkel. 1998. "Social Capital and the Revitalization of New York City's Distressed Inner-City Housing." *Housing Policy Debate* (9)1: 17-60.

Find it online at <http://www.fanniemaefoundation.org/programs/hpd.shtml>

Explores the importance of social capital as a means of developing safe and affordable housing. Until this study, a connection between lower crime rates, higher quality housing, a stable resident base and cooperative homeownership had only been theorized. By looking at the City of New York's public housing reprivatization program, in which public housing was transferred into five different ownership types, the authors are able to show that cooperative ownership resulted in a lower crime rate, higher resident participation levels, longer duration of resident tenure and more reasonable rents than other affordable housing models.

13. Saegert, Susan and Gary Winkel. 2000. "Co-ops are Acting as an Alternative to Abandonment and Displacement in New York City." *Journal of Cooperative Development*, 2(3):10-11.

Find it online at <http://www.cdf.coop/journal.html>

A brief, accessible summary of the authors' broader research findings comparing city-owned property that was converted to co-ops with four other affordable housing models. The authors found that resident-controlled co-ops consistently reported the highest levels of satisfaction with management quality, building quality, and building security, while also reporting the lowest level of building crime.

14. Saegert, Susan and Gary Winkel. 2001. "Cooperative Housing, Social Capital and Crime Prevention." 2001 *Cooperative Housing Journal*: 13-19.

This is a summary of a more in-depth research paper titled "Social Capital and Crime in New York City's Low-Income Housing." It is a brief, easily understandable summation of their research findings which show that resident-controlled cooperative reduces building crime, even when cooperatives are located in high-crime neighborhoods. They end with an analysis of policies that would promote success for housing cooperatives which include a broader technical assistance program.

15. Saegert, Susan, et al. 2002. "Clinton Seed Fund: Report on the Clinton HDFCs, 2002." Center for Human Environments, CUNY Graduate Center, New York City. Photocopy.

Find it online at [web.gc.cuny.edu/che/projects/cs/CSEpdf](http://web.gc.cuny.edu/che/projects/cs/CSEpdf)

Studies the effects of limited equity cooperatives (LECs) in the Clinton neighborhood in New York City and identifies methods that would promote the cooperatives' continued viability. The authors found that despite rising housing costs in the neighborhood, the LECs provided affordable, safe and quality housing. The authors also found that LECs promoted both neighborhood diversity and stability. Resident surveys also identified services and education that residents felt would be most beneficial to cooperative success, including legal assistance and training to improve the shareholder association.

16. Saegert, Susan, Gary Winkel and Charles Swartz. 2002. "Social Capital and Crime in New York City's Low-Income Housing." *Housing Policy Debate*, 13(21):189-226.

Find it online at <http://www.fanniemaefoundation.org/programs/hpd.shtml>

Adapted from abstract: This article presents evidence to suggest that components of social capital can play a role in preventing crime in low-incoming housing. It develops a conceptual approach to crime prevention involving social capital, alternative forms of ownership [limited equity co-op housing], and environmental design principles. The study compares five programs that house New York City's poorest, mostly minority residents. Results of the analysis indicate that three components of social capital—basic participation in tenant associations, tenant prosocial norms and a building's formal organization—were all related to reducing various types of crime in the buildings under study.

17. Saegert, Susan et al. 2003. "Limited Equity Co-ops as Bulwarks Against Gentrification." Center for Human Environments, CUNY Graduate Center, New York City. (Find it online at [web.gc.cuny.edu/che/projects/csf/Lim\\_Equ\\_Co-ops.pdf](http://web.gc.cuny.edu/che/projects/csf/Lim_Equ_Co-ops.pdf))

Taken from abstract: This study examines the contributions of limited equity cooperatives (LECs) to the sustainability of high quality affordable housing for lower income and minority residents in a rapidly gentrifying neighborhood. Analysis of survey data showed that effective leadership, inclusive participation, and trust and cooperation among shareholders predicted physical quality, financial and social stability, and continued affordability. Measures to assure the ongoing success of LECs and their continued affordability to lower income residents are discussed, as well as the broader political implications of LECs.

18. Sazama, Gerald W. and Roger Willcox. 1995. "An Evaluation of Limited Equity Housing Cooperatives in the United States." Center for Real Estate and Urban Economic Studies, University of Connecticut, Storrs. Photocopy.

Studies the value of limited equity cooperatives (LECs) as an affordable housing model using the following guidelines: 1) the effect of resident participation on operating costs; 2) the disutility of time and effort that members devote to co-op activities; 3) the intangible benefits of co-op living; 4) the degree of subsidization; and, 5) the financial viability of LECs. As a result of the authors' research and experiences in the field, they conclude that LECs are in fact, an efficient, financially viable, socially beneficial means of providing affordable housing.

19. Thompson, David J. "Renters Fight Back and Find their Freedom: A Senior Mobile Home Park Goes Co-op." National Association of Housing Cooperatives, Washington, D.C.

David Thompson shares the story of one manufactured home park in Woodland, California. The residents, many of whom were seniors on a fixed income, were faced with an 11% rent increase in the course of one rental period. The article follows the residents through the conversion process and their first years as a cooperative corporation.

20. Van Ryzin, Gregg G. 1994. "Residents' Sense of Control and Ownership in a Mutual Housing Association." *Journal of Urban Affairs*, 16(3):241-253.

From the abstract: The paper presents results from a survey of residents of a self-managed mutual housing association for older people. Specifically, it explores the relationship between residents' actual level of participation in the management and ownership of low income housing and their perceptions of control and ownership over their living environment. Results suggest that these experiences are influenced by a number of factors in addition to direct participation. In particular, the quality of relations with resident leaders, satisfaction with the social and physical environment, and gender differences all significantly affect perceptions of control and ownership.



## Differences Among Co-op, Condo, Rental and Single Family

Market Rate Co-op	Limited Equity Co-op	Condo	Rental	Single Family
<b>OWNERSHIP</b>				
Member/residents are the sole owners through a corporation which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.	Member/residents are the sole owners through a corporation which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.	Unit owners take title to the air space to the back of the paint on the walls of a particular dwelling unit plus an undivided interest in the common elements (the land and buildings).	The landlord owns the land and buildings. Each tenant has the exclusive right to occupy a particular dwelling unit during the term of the lease.	Owners take title to the land and building directly.
<b>MONTHLY COSTS</b>				
Members pay monthly carrying charges to the cooperative—a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, insurance and reserves. Members with share loans make individual principal and interest payments directly to the share lender.	Members pay monthly carrying charges to the cooperative—a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, insurance and reserves. Share loans, if any, are small and may be serviced by the cooperative. Members with share loans make individual principal and interest payments.	Unit owners pay monthly fees to the condo association—a pro-rata share of actual operating costs, reserves and insurance. Unit owners with mortgages make principal and interest payments directly to the lender. Unit owners make their own property tax payments.	Tenants pay the rent specified in the lease, which includes the landlord's profit margin.	Owners with mortgages make principal and interest payments directly to the lender. Owners make their own property tax and insurance payments through monthly mortgage escrow payments or directly to the insurance company and local government.
<b>MAINTENANCE/REPAIRS</b>				
Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual member and cooperative as a whole.	Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual member and cooperative as a whole. Many limited equity cooperatives assume most or all responsibility for unit maintenance and repair, in order to balance and reduce costs to members.	Condominium association is responsible for exterior maintenance. Individual unit owner is responsible for all dwelling unit maintenance and repair.	Landlord is responsible for all maintenance and repair.	Owner is responsible for all maintenance and repair.
<b>PURCHASE PRICE</b>				
Purchaser pays market price for shares or membership. Pro-rata share of cooperative's blanket loan remains in place. Purchaser assumes seller's obligations under occupancy agreement. Few closing costs.	Purchaser pays low price for shares or membership. Pro-rata share of cooperative's blanket loan remains in place. Purchaser assumes seller's obligations under occupancy agreement. Few or no closing costs.	Purchaser pays market price for condominium unit. Purchaser becomes obligated to pay monthly condo fees. Closing costs include title insurance, tax pro-ration, etc.	Tenant typically pays first and last month's rent plus security deposit.	Purchaser pays market price. Closing costs include title insurance, tax pro-ration, etc.
<b>FINANCIAL LIABILITY</b>				
Members have no personal liability on cooperative's blanket loan. Members are obligated under occupancy agreement to make monthly carrying charge payments to the cooperative. Members with share loans (if any) are personally liable to their share lenders for the amount of the loan.	Members have no personal liability on cooperative's blanket loan. Members are obligated under occupancy agreements to make monthly carrying charge payments to the cooperative. Members with share loans (if any) are personally liable to their share lenders for the amount of the loan.	Unit owners are obligated to pay monthly condo fees to the condominium association. Unit owners with mortgages are personally liable to their lenders for the amount of the loan.	Tenants are obligated under their leases to pay monthly rent to the end of the lease term.	Owners with mortgages are personally liable to their lenders for the amount of the loan.

Market Rate Co-op	Limited Equity Co-op	Condo	Rental	Single Family
<b>COMMUNITY CONTROL</b>				
Cooperative has right to approve all potential members and can terminate membership and evict residents who violate occupancy agreement. Members democratically govern the cooperative and elect board of directors to oversee operations.	Cooperative has right to approve all potential members and can terminate membership and evict residents who violate occupancy agreement. Members democratically govern the cooperative and elect board of directors to oversee operations.	Condominium association has little or no control over sale of units or behavior of unit owners. Unit owners democratically govern the condominium association and elect board of directors to oversee operations.	Tenants have no voice in who moves in and no control over behavior of other residents.	Owners have no control over who moves into neighborhood and no control over behavior of neighbors.
<b>FACILITY REHABILITATION</b>				
Three methods available to finance cooperative improvements: 1. Assessment of individual members for pro-rata share of the total cost. 2. Establishment and funding of replacement reserves. 3. New long-term blanket financing.	Three methods available to finance cooperative improvements: 1. Assessment of individual members for pro-rata share of total cost. 2. Establishment and funding of replacement reserves. 3. New long-term blanket financing.	Two methods are available to finance improvements of the common elements: 1. Assessment of individual unit owners for their pro-rata share of the total cost. 2. Establishment and funding of replacement reserves.	The landlord decides when and if rehab, replacements, or improvements are to be done.	Owner is individually responsible for all rehab, replacements, and improvements.
<b>PROPERTY MANAGEMENT</b>				
Cooperative members democratically elect board of directors, which hires and oversees property management firm and/or employees.	Cooperative members democratically elect board of directors, which hires and oversees property management firm and/or employees.	Unit owners democratically elect board of directors, which hires and oversees property management firm and/or employees.	The landlord hires and oversees property management firm and/or employees.	Owner is individually responsible for all aspects of property.
<b>TAX BENEFITS</b>				
Cooperative members enjoy all of the income tax benefits of homeownership. In most states, cooperatives and their members receive whatever property tax benefits are available to other homeowners.	Unless the cooperative has given them up in exchange for tax-exempt financing, cooperative members enjoy all of the income tax benefits of homeownership. In most states, cooperatives and their members receive whatever property tax benefits are available to other homeowners. In some states, there are additional property tax benefits or savings due to the limitation of resale prices.	Condominium unit owners enjoy all of the income tax benefits of homeownership. In most states, condominium unit owners receive whatever property tax benefits are available to other homeowners.	Tenants receive no income tax benefits associated with homeownership. In most states, rental properties incur higher property taxes than owner-occupied housing. The higher taxes are passed through to tenants as part of their rent.	Owners receive all of the income tax benefits associated with homeownership. In many states, homeowners receive some property tax benefits in the form of lower assessments or lower tax rates.
<b>HOME EQUITY</b>				
Cooperative members build equity as the value of their cooperative interest increases and as their share loan is paid down.	Growth in equity is limited through a limitation of resale prices. Generally, a formula is used to determine the portion the selling member will receive of the increase in value of the cooperative interest and the pay-down of the cooperative mortgage.	Unit owners build equity as the value of their unit increases and as the mortgage is paid down.	Any increase in value belongs to the landlord and reflects itself in increased rents.	Owners build equity as the value of the home increases and as the mortgage is paid down.



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