

Why Permanently Affordable Cooperative Housing?

A Solution for Permanently Affordable Housing
U-hab Co-op Incubator

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Uhab

COMMUNITY THROUGH COOPERATION

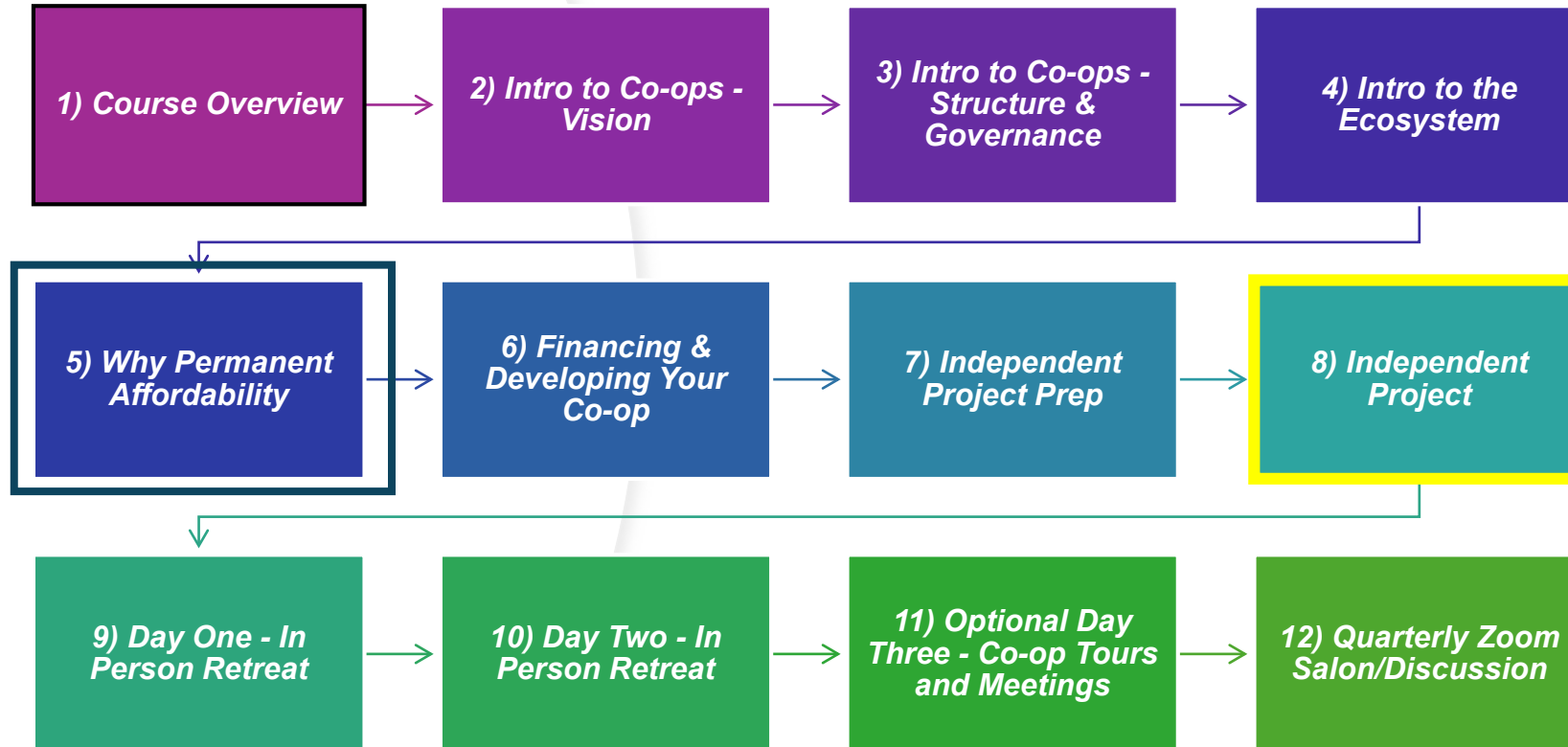


UHAB | URBAN HOMESTEADING ASSISTANCE BOARD

Agenda

- Introductions
- Permanent Affordability Discussion
- Relationship Between the Development Process & Affordability
- Plan to Maintain Affordability Long-term
- Q & A
- Homework and Survey

Incubator Sessions:



Affordability Discussion

(Whiteboard Open for Notes)

- **You will work in groups to prepare a 2-minute pitch from the following prompt:**
- Your task is to prepare to present a pitch for permanently affordable housing co-ops before the city council. You have heard a lot of talk from council members and staff, both positive and negative, about permanent affordability and co-ops. Your group needs to get support from a broad range of council members, so your pitch should be designed as such. Prepare an up to 2-minute pitch that makes the case for permanent affordability and housing co-ops that will appeal to a broad range of council members and the community.
- In your room the first person alphabetically is the facilitator/reporter. After a brief discussion have each person make their **up to 2 minute pitch to their City Council**. Note the most persuasive parts that you might learn from each pitch.

Breakout Room Assignments

Room #1

Room #2 (Andy)

Room #3

Room #4

* Facilitator

WELLBEING vs WEALTH

Increased Real Estate Wealth, especially as a result of Housing Gentrification = Increased Costs for those Who Don't Own!

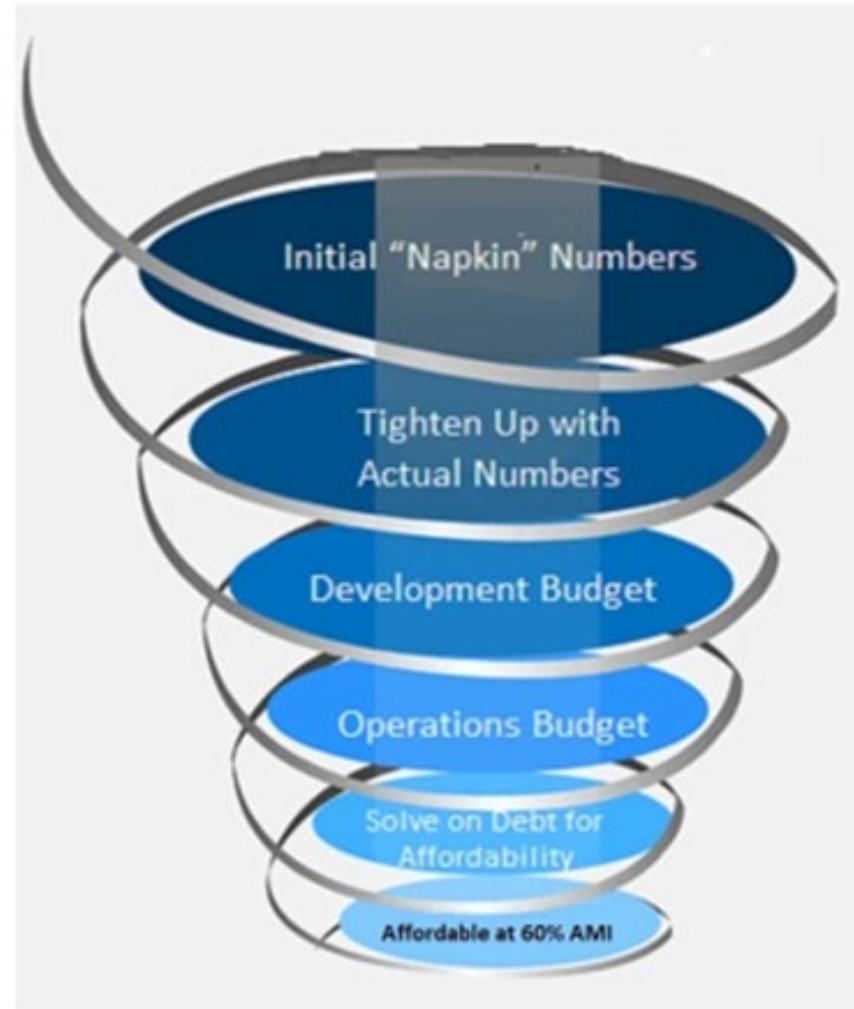
Parts of Wellbeing:

- Community
- Agency
- Affordability
- Long-Term Secure Tenure
- Disposable Income/Pocket Equity
- Health
- Education/Employment Support
- Social Capital
- Appropriate/Modest Equity Appreciation
- Inheritance/Succession
- Community Wealth



**Co-op
Development
Timeline**

Iterating Toward Affordability



Affordability

- Initial Affordability

$$\begin{aligned} \text{Housing Cost} &= (\text{Operating Cost} + \text{Debt Service})^* \\ &\quad + \text{Utilities} \\ &\quad + \text{Share Loan Debt Service)} \\ &\leq \\ &30\% \times \text{Target Income} \end{aligned}$$

*Monthly Charge (“Rent”)

2023 Area Median Incomes Chicago



Income Limits for 2023

2023 Area Median Income Guidelines - Chicago, IL

Household Size	1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons	8 persons
30 % of median Maximum monthly housing cost	\$23,190 \$500	\$26,490 662	\$29,790 745	\$33,090 827	\$35,760 894	\$38,400 960	\$41,040 1,026	\$43,680 1,092
50 % of median Maximum monthly housing cost	\$38,650 \$966	\$44,150 1,104	\$49,650 1,241	\$54,150 1,378	\$59,600 1,490	\$64,000 1,600	\$68,400 1,710	\$72,800 1,820
60 % of median Maximum monthly housing cost	\$46,380 \$1,160	\$52,980 1,325	\$59,580 1,490	\$66,160 1,654	\$71,520 1,780	\$76,800 1,920	\$82,080 2,052	\$87,360 2,184
80 % of median Maximum monthly housing cost	\$61,800 \$1,545	\$70,600 1,765	\$79,450 1,986	\$88,250 2,206	\$95,350 2,384	\$102,400 2,560	\$109,450 2,736	\$116,500 2,913
100 % of median Maximum monthly housing cost	\$77,300 \$1,933	\$88,300 2,208	\$99,300 2,483	\$110,300 2,758	\$119,200 2,980	\$128,000 3,200	\$136,800 3,420	\$145,600 3,640
120 % of median Maximum monthly housing cost	\$92,760 \$2,319	\$105,960 2,649	\$119,160 2,979	\$132,360 3,309	\$143,040 3,576	\$153,600 3,840	\$164,160 4,104	\$174,720 4,368

% of Median	Definition
<50%	Very Low Income
<80%	Low Income
<120%	Moderate Income
<165%	Middle Income

Questions?

Sample Development Budget (20 apts.)

ACQUISITION & REFINANCING

Acquisition	\$2,600,000
Legal	0
Adjustments	0
Operating Account	0
Total	\$2,600,000

CONSTRUCTION COST

Contractor Price	750,000
Contingency	75,000
Weatherization	0
Other	0
Other	0
Total	\$825,000

PROFESSIONAL FEES

Borrower's Legal	20,000
Borrower's Eng/Arch Fees	37,500
FHA Exam Fee	15,109
Bank's Engineer Prep & Insp	604
Environmental Review & Testing	3,000
Co-op conversion legal	50,000
IPNA/PCNA	0
Permits and Approval	0
Total	\$126,214

CLOSING AND OTHER FEES

FHA Financing Fees	60,437
Appraisal	7,000
Bank Legal -- constr. loan	50,000
CMI Finance Fee	0
Title	38,322
Mortgage Tax-local exemption	0
NYS Transfer Tax	16,319

GNMA Placement Fee	2,115
Survey/UCC	3,000
FHA Mortgage Insurance Premium	42,306
Total	\$219,499

CARRYING COSTS

Construction Interest	32,206
Real Estate Tax	0
Water and Sewer Charges	11,340
Insurance	18,900
Rent Differential	0
Relocation	0
Developer Fee	210,000
Co-op Training	30,000
Relocation consulting	0
Marketing	30,000
Resident organizing & tech. assistance	0
Tax abatement consulting	0
Operating loss during construction	0
Soft Cost Contingency	35,605
Other	0
Total	\$368,051

RESERVES

Capitalization of Replacement Reserves	52,500
Capitalization of Operating Reserves	78,729
Total Reserves	131,229

TOTAL DEVELOPMENT COST

\$4,269,993

LOANS & EQUITY					
LOANS	Rate	Term	Percent of TDC	Loan Amount	Annual Debt Service
FHA 213	2.65%	35 years	70.77%	\$3,021,858	\$132,570
HPD/HCR	0.00%	30 years	22.93%	\$979,083	\$0
TOTAL				\$4,000,941	\$132,570
EQUITY					
Total Equity			6.30%	\$269,052	
TOTAL LOANS AND EQUITY				\$4,269,993	

• Source: Simple Sample Development Budget.xls



Acquisition & Refinancing

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Legal	0
Adjustments	0
Operating Account	0
Total	\$2,600,000



Construction Cost

CONSTRUCTION COST	
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Contingency	75,000
Weatherization	0
Other	0
Other	0
Total	\$825,000



Professional Fees

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Carrying Costs & Other Fees

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Reserves & Total Development Costs

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TOTAL LOANS AND EQUITY				\$4,269,993	

Questions?

Operating Budget

Sample Operating Budget (20 apts.)	
INCOME	
GROSS RESIDENTIAL INCOME	\$314,916
VACANCY LOSS	-15,746
COMMERCIAL INCOME	0
VACANCY LOSS	0
EFFECTIVE GROSS INCOME	\$299,170
EXPENSES	
TAXES	0
WATER & SEWER	9,660
INSURANCE	35,606
PAYROLL	0
ELEVATOR	0
CLEANING & EXTERMINATING	24,000
HEAT	13,000
COMMON AREA ELECTRIC	1,500
COOKING GAS	0
MANAGEMENT	20,948
PAINTING	0
REPAIRS & REPLACEMENT	31,500
STEWARDSHIP & MONITORING	7,121
LEGAL	4,725
ACCOUNTING	10,000
MISCELLANEOUS	2,993
REPLACEMENT RESERVE	5,250
OPERATING RESERVE	5,985
MORTGAGE INSURANCE PREMIUM	0
TOTAL	\$172,288
PER UNIT	8,614
DEBT SERVICE	
NET OPERATING INCOME	\$126,882
TOTAL DEBT SERVICE COVERAGE	115%
ACTUAL TOTAL DEBT SERVICE	110,402
NET CASH FLOW	\$16,480

Operating Budget - Income

INCOME	
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VACANCY LOSS	-15,746
COMMERCIAL INCOME	0
VACANCY LOSS	0
EFFECTIVE GROSS INCOME	\$299,170

Expenses: Property Taxes

EXPENSES	
TAXES	0
WATER & SEWER	9,660
INSURANCE	35,606
PAYROLL	0
ELEVATOR	0
CLEANING & EXTERMINATING	24,000
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Debt Service:

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Monthly Charges (“Rent”)

- First Test: Can Members Carrying Charges, In Total, Pay All of the Ongoing Expense, Before Debt Service?
- Second Test: Are Carrying Charges Set Affordably to Target Population (i.e. 60% of AMI – Area Median Income)?

Fair Share Division of Financial Responsibilities

- How to Divide up the Costs of the Building
 - Both Monthly Costs (Carrying Charges/"Rent")
 - Equity Values
- Various Methods
 - Square Feet
 - Rental Rooms
 - Zoning Rooms
 - Baths
 - Balconies/Patios
 - Hybrid of Core Value & Zoning Rooms
- Section 8

Insiders and Outsiders

- Insiders

- Current Residents of Building who are Going to Join the Co-op
 - They will be the Co-op
 - They are Putting in the Work to Make the Co-op Happen
 - They Get to Stay No Matter their Income
 - Developer Needs to Find a Way for them to Afford it
 - Pay a Small “Insider” Purchase Price and Get a Larger Cash Amount when they Move

- Outsiders

- New Resident who Move In After Conversion
 - Typically Pay a Larger Equity Contribution
 - Likely Need a Share Loan to Pay that Equity
 - While Income Qualified are Often Somewhat Higher Income than Insiders

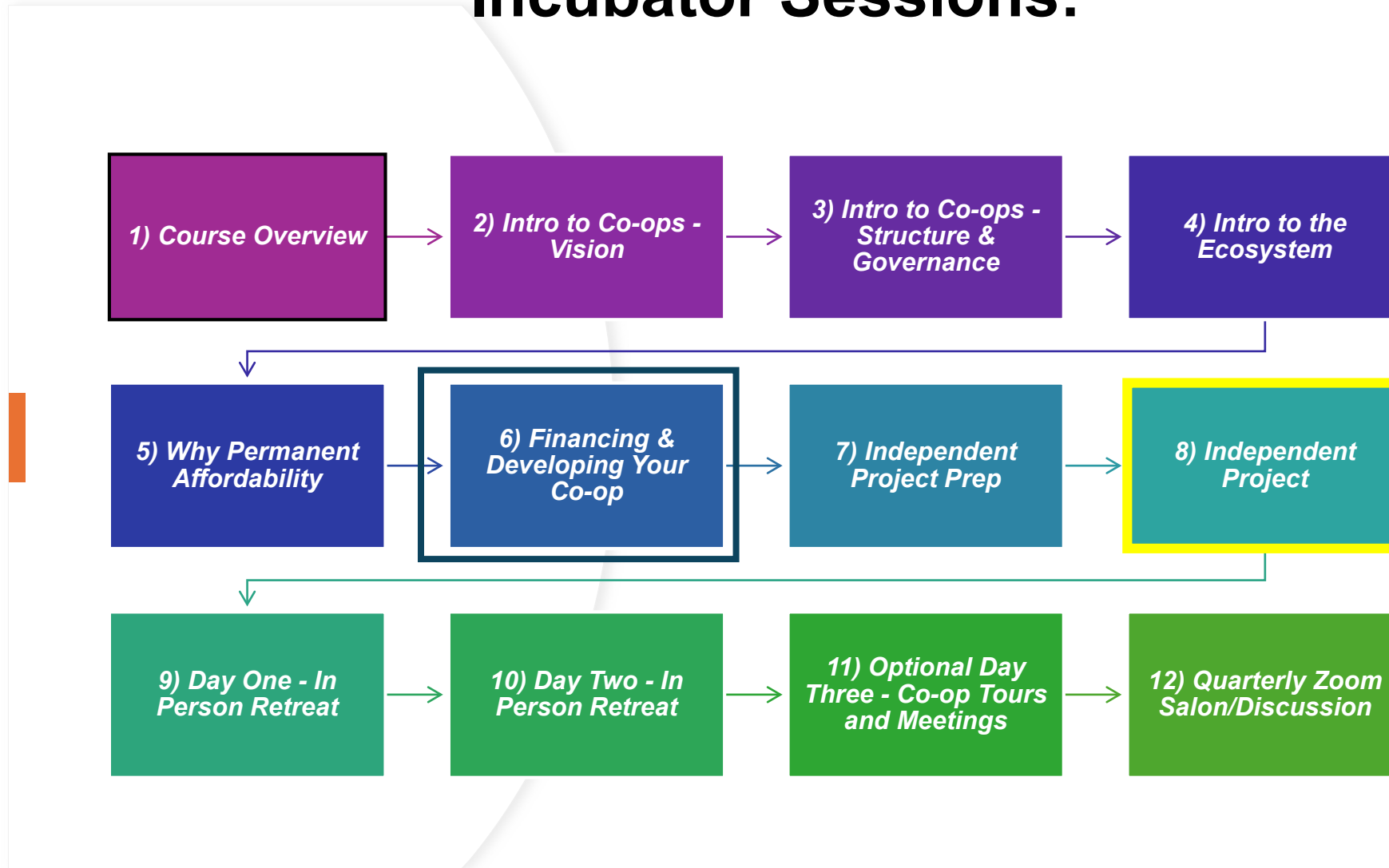
Preserving Affordable Cooperatives

Resale Policy

- Initial Affordability
- Income Restrictions
- Initial Sales Price
- Resale Price Cap
- “Flip Tax”
- Waiting Lists
- Resale Procedures
- Regulatory Agreements
- Enforcement and Monitoring
- Ongoing Training, Technical Assistance and Services

Questions?

Incubator Sessions:



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www.uhab.coop