Ownership Options for Affordable Cohousing

Note: *This handout was created for cohousing workshops that Design Coalition presented in 1992 in Madison, Wisconsin. Some of the references are local or Wisconsin-specific.*

Rental

Rental housing is owned, and most commonly operated by, someone other than the residents. Residents pay a monthly charge to cover the costs of the housing, and frequently are asked to pay a security deposit and the last month's rent in advance. Residents typically are not required (or allowed) to participate in management decisions, and have no fiscal responsibility other than the timely payment of rent.

Rental housing can be operated on either a for-profit or a non-profit basis. When owned by a for-profit entity, rents can provide a cash flow profit to the owner (from rental income that is not used for mortgage payments or maintenance). Private ownership can result in both responsible and irresponsible management, depending on the individual. Properties can be poorly maintained and the cash "bled" out of them, or well maintained through reinvestment of income in repairs and replacements. At the time of resale, it is the owner who realizes any gains from appreciation of the property's value.

In a non-profit ownership scenario, the corporate mission is to provide quality housing at reasonable costs. All income from the project (rent) is used to maintain the housing and to manage the property. Since quality of housing is a primary goal in this model, responsible management practices are the norm in non-profit ownership. Income from rents is used exclusively for the maintenance and management of the property, and to build operating and replacement reserves for effective management of the units. In the event of resale, any appreciation realized by the owning corporation must be transferred to another non-profit entity.

Condominium

Condominium home ownership generally blends a multi-family housing design with a single-family mortgage structure. Individuals own their units through a mortgage arranged independently with a lender. Individuals hold title to their unit and generally have the unrestricted right to sell or lease their home. Condominium homeowners generally form associations (made up of residents) for the purpose of co-owning and managing common areas and public spaces, and agree to rules governing conduct in, and maintenance of, those areas. An association fee covers the costs of maintaining common property, including physical maintenance, taxes and insurance.

Since mortgages are arranged and qualified for independently, any liability associated with ownership is assigned to the individual owner of the property. This includes foreclosure on the property. Similarly, individual ownership of a condominium home assures the owner of the right to resale of the unit at market prices, and to realize any gains through property value appreciation. Homeowners also realize the tax benefits of home ownership through the deduction of mortgage interest.

Cooperative

Cooperative home ownership can take a variety of forms but they all share common definitional characteristics. A cooperative corporation is the owner of the property, and holds what is called a "blanket: mortgage" for all of the housing units and common areas. Individual tenant/shareholders own a ‘share interest’ in the cooperative corporation (either through stock or membership) and a "proprietary lease" entitles them to occupy their unit. Co-op members are also co-owners of any common areas by virtue of their share interest in the cooperative.

Democratic principles apply to all cooperatives, and governance is exercised by a rule of " one-member/one-vote" A democratically elected board of directors and its committees function as administrators for the housing, and annual general membership meetings are convened for elections and community decisions. Members of the cooperative incur no individual liability should the project somehow fail to meet its obligations. property value can be expressed through increases in member shares or stock value, depending on the equity structure of the cooperative, and members can also deduct their share of mortgage

Appreciation of
interest for tax purposes.

The fundamental difference between types of co-ops revolves around the amount of **member equity** that is used to capitalize the project, and the rules governing the **resale value** of stock or memberships.

Market-rate cooperatives generally require a substantial al down payment in the form of membership fees stock purchase, and do not restrict the resale value of that fee or stock at the time of transfer , As property values appreciate, so does the value of the membership. This can translate into substantial appreciation of an original investment (subject to market prices).

Limited Equity cooperatives require smaller down payments from new members, but also restrict the resale value of that membership at the time of transfer. These models are generally used as a means to ensure the long-term affordability of the housing for future tenants, and rely on outside sources of capital and subsidies to underwrite the development or purchase costs of the housing.

Leasing cooperatives are a means to bring investment dollars from an outside owner/investor into a low- or moderate-income housing project. In these models the cooperative is formed and leases the buildings from an owner/investor. The mode is most useful in financing low- and moderate-income projects where owners can benefit from tax shelter laws designed to encourage investments in this form of housing. Current tax shelters require that the property be owned by the investor for twenty years. After that time it can sold to the cooperative,

Potential Sources of Funding

There are a wide variety of financing tools available for housing development projects. The following list is not exhaustive, but it does represent many of the resources available.

What Are Financing Tools?

Mortgages/loans: both market-rate and low-interest.

Loan guarantees: in case the lender is worried about the project's viability. Guarantees are a form of insurance, in the event that your project defaults. They also help make loans more sale-able in the secondary market,

Grants / equity: money from a source for development or down payment costs, Can help to reduce project costs, resulting in reduced mortgages. Can also subsidize special programs for affordability in a mixed-income project.

Land Trusts can help defray or eliminate the costs of the land for a project. Land trusts hold title to the land in perpetuity, Individuals can hold title to the buildings on the land, and may pay a lease fee to the trust~ for the use of the property.

Who Provides Them to a Project?

Local lenders provide market rate individual and multi-family mortgages.

City of Madison (CDBG, CDA) The city has a wide variety of programs designed to encourage and support new home ownership initiatives, developments in older neighborhoods, cooperative housing ventures and affordable housing programs. Opportunities for subsidies exist in the form of equity/grants, low interest and deferred payment loan programs.

Wisconsin Housing and Economic Development Authority (WHEDA)
This autonomous state agency also plays an important role in a large number of mortgage programs for both affordable and market rate housing. Its programs encompass single family and multi-family housing, and provide low interest loans and guarantees for projects that meet eligibility criteria. The WHEDA Foundation provides grants for affordable housing projects as well.

National Cooperative Bank provides financing for cooperative ventures of all kinds. It is not a source for subsidies (either low-interest or deferred loans) but it is very co-op friendly and understands the details of cooperative financing.

National Cooperative Business Association supports some housing efforts, particularly through its Kaplan fund. This fund is specifically designed to assist projects which benefit older people, and is exclusively for cooperative ventures.

Federal Home Loan Banks now provide significant subsidies to projects that incorporate affordable units. Funds are available as grants for equity or as write-downs for market interest rates. Projects must apply for funds in conjunction with a local lending institution which is a member of the Federal Home Loan system.

Investors in low and moderate income housing play an important role in properties which are eligible for tax credit programs, Eligible projects can realize significant equity investments ,

Implications for Ownership Models

A number of significant factors can come into play when choosing an ownership model that best meets the needs of your group. It is important to realize that, even within the confines of particular models, it is often possible to modify common practices and create a hybrid that better suits the designs of your particular project. The following definitions are general descriptions. Remember that there are always alternatives.

Mixing and Matching...

Please remember that it is possible to blend home ownership and rental units in one project. The benefits to doing this in cohousing are distinct. Having rental units can provide your community with flexibility and diversity that would otherwise be lacking. Several projects operating in northern Europe have demonstrated that having the option to rent is an important step for people considering a longer-term commitment to a project, Rental units also give people who cannot afford to purchase a home an option to fully participate in the community.

It is also possible to combine a range of equity investments under the roof of one cooperative, so that a range of memberships can be incorporated in one project. One example of how this might be accomplished would be through a stepped-ownership arrangement such as a lease/purchase program. In this model, lower income families without resources for a down payment lease a unit for a specified period of time. Monthly payments are adjusted so that they are affordable for the family, and allow a portion of the payment to be set aside in escrow. At the end of the lease period, the escrow account is used to finance the family's purchase of the unit, and is used as a down payment. This type of diversity can also be fostered by developing a variety of differently designed units which incorporate different amenities and have a range of square footage.

The two biggest challenges in designing these kinds of combinations are time and money. Rental or leased units must be owned by someone (either in common and managed by the community or individuals with investment income). If they are targeted to be more affordable than others, sources of financing have to be secured that will allow carrying charges (rent) to be lowered. They will also represent a potential liability if for some reason the demand for the units is not high enough, The owners would then have to face the prospect of dealing with vacancies, and to pay the carrying costs somehow.

Applying for subsidies, and creating a financing package that meets the needs of the project and its financiers, takes time. A commitment to diversity frequently means a commitment to educating and convincing lenders and government officials of the worth of your efforts and the security of their risk in lending to your project. All of that means work and time spent in meetings.