

More than just housing ...



# CO-OP HOUSING



How you can profit by living in a housing cooperative.

## Introduction

*“A combination of factors including the rising cost of housing in recent years, have forced many people to look for alternative housing options. This guide to co-op housing attempts to answer your questions regarding ownership, responsibilities, and benefits of living in a housing cooperative.”*

## Did you know?

*In the United States, more than 1.5 million families of all income levels live in homes owned and operated through cooperative associations.*

*The period of greatest housing cooperative development was after World War II, in response to an acute housing shortage.*



## Your Questions Answered

### What is a housing co-op?

A housing cooperative forms when people come together to own and control the buildings in which they live. They form a co-op corporation and pay a monthly amount (called carrying charges) that covers operating expenses. It is the cooperative that owns the building, land, and any common areas and the members buy shares in the co-op.

### How many different kinds of housing cooperatives are there?

By altering the basic legal and finance structures, many different types of housing cooperatives can be developed.

A **market rate cooperative** sells shares at full market value in the original sale and permits a market rate of return on resales by its members.

A **limited equity cooperative** limits the return allowed when shares are sold. The amount of return is determined by a formula established in the corporation's bylaws.

A **leasing cooperative** leases the property from an investor on a long-term basis, sometimes with an option to buy. The residents operate the property as a cooperative.

A **mutual housing association** is a non-profit corporation set up to develop, own and operate housing. Generally, the association is owned and controlled by the residents of the housing produced.

A **senior housing cooperative** is a cooperative that has design and service features appropriate to senior residents.



### **How does a co-op work?**

The co-op is a legal cooperative corporation. Members of the co-op are the people living in the co-op and they run the co-op—from organizing social activities, to maintenance, to handling finances, to landscaping. The members set the by-laws of the co-op and also elect, from among themselves, a board of directors. The board makes sure that things run smoothly and according to the co-op's by-laws and operating agreements. The board will organize members' meeting on a regular basis and will usually hire staff to attend to the day-to-day business of the co-op.

### **Who owns the cooperative?**

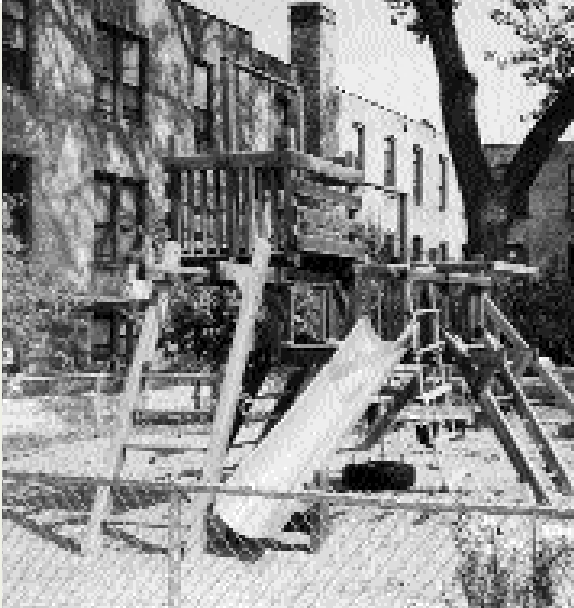
Cooperative members each own a cooperative share. Together, the members own 100% of the cooperative, which the cooperative owns all of the building, land, and any common areas. The right to reside in each specific dwelling unit is allocated solely to a specific cooperative member and governed by that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

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

As a member, you own a cooperative share that is the combination of two things:

- Your ownership interest in the cooperative corporation (represented by a certificate of membership or corporate shares), and
- An exclusive right to occupy a particular dwelling unit that is owned by the cooperative corporation (represented by an occupancy agreement).





### **How do I finance my purchase?**

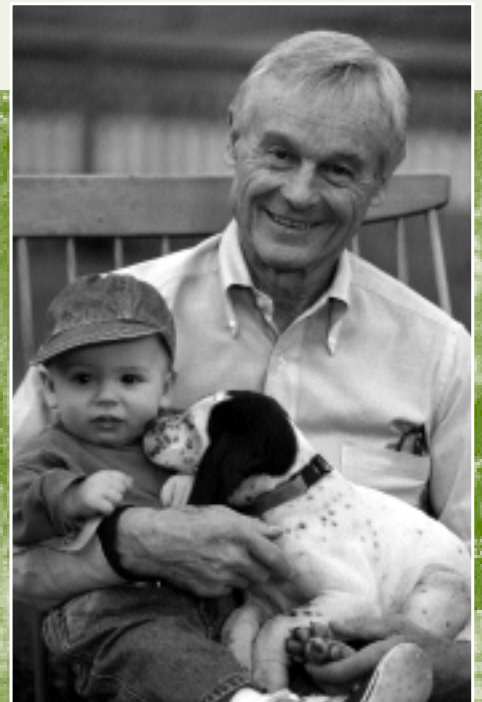
As a new member buying a cooperative share, you only pay the equity or share price at closing. As an incoming member you can readily borrow part or all of the share price using a share loan that is secured by a cooperative interest, just like a single-family mortgage is secured by the home itself. A share borrower must individually qualify for his or her own share loan and is individually liable for this debt.

### **What monthly payments do I have to make?**

The occupancy agreement requires each member to pay only his pro-rata share of the budgeted costs of the cooperative. These costs may include taxes, mortgage payments, repairs and maintenance. If you have taken out a share loan, you 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, as well.

### **What tax benefits are available to me?**

Members can deduct their pro-rata share of the cooperative's mortgage interest and real estate taxes on their personal federal income tax returns, in addition to the interest paid on any share loans. They have the same rights to exemption from capital gains taxation as any other homeowner. In some states, homeowners receive favorable property tax treatment compared to commercial and industrial uses. In most instances, cooperatives and their members receive the same benefit as single-family homeowners.



## How do I acquire equity?

As with any mortgage, once you begin to pay down your share loan, and as the market value of your cooperative interest increases, you build home equity.

## What's the difference between owning a co-op and owning a condo?

A **cooperative member** owns a cooperative interest (an ownership interest in the cooperative corporation and its property as a whole plus the exclusive right to occupy a particular dwelling unit). Co-ops usually assist members to find perspective purchasers, and no real estate transaction fees are involved.

A **condominium owner** owns fee title to a dwelling unit plus an undivided interest in the common property of the condominium development (the land and the buildings themselves). Owners must find their own buyer and the sale is a real estate transaction.

## How can low-income families afford owning a co-op?

The difference appears over time. Cooperative ownership takes people out of the rental market at what can be the same or slightly lower monthly cost. Thereafter, co-op owners are largely insulated from escalating costs and will reap the benefits of their rising incomes. Where social investment is available — through home-purchase assistance, project-based section 8, or in some other form — cooperative ownership can readily be made available to even very low-income families.

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

**Lower Monthly Costs:** Because cooperatives operate at cost, co-op carrying charges are often 15—25 percent or more below rental market value.

**Tax Deductions:** For income tax purposes, co-op members are considered homeowners and can deduct their share of the real estate taxes and mortgage interest paid by the cooperative.

**Home Equity:** Co-ops provide for accumulation of individual member equity.

**Limited Liability:** Cooperative member/owners have no personal liability and need not individually qualify on the co-op blanket mortgage. The cooperative corporation is responsible for paying off any blanket loans. This often makes it possible for persons whose income might not qualify them for an individual mortgage to buy a membership in at least a limited equity co-op.

**Overall Savings:** Co-op members benefit from economies of scale in co-op operating costs as well as from not-for-profit operation. Bulk purchasing of major building improvements provide substantial savings on a per-member basis. In a low-income setting, the spreading of costs among co-op members cushions the economic shock of emergency repairs that so often leads to mortgage delinquency and foreclosure for single-family homeowners.

**Community Building:** Cooperatives provide homes for members and build a community for the co-op as a whole.

**Security:** Tenure is secure, within the guidelines of the law, co-op bylaws and occupancy agreements.

## What do most housing cooperatives look like?

Housing cooperatives can be high-rise apartment buildings, garden-style apartments, townhouses, single-family homes, and senior housing. There are other kinds of housing cooperatives like manufactured home park cooperatives wherein the cooperatives usually own the land, utilities, and community facilities while their members own the individual “manufactured homes.”



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# HOUSING AT A GLANCE

Note: Primary source of information for the table provided below was the Cooperative Housing Coalition website at [www.chc.coop](http://www.chc.coop).

	Market Rate Cooperative	Limited Equity Cooperative	Condominium	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 fee title to a 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 condo fees to the condominium association — a pro-rata share of actual operating costs, insurance, and reserves. Unit owners with mortgages make principal and interest payments directly to the lender. Each unit owner makes his own property tax payments through monthly mortgage escrow payments or directly to the local government.	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 &amp; 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 dwelling unit maintenance and repair, in order to even out and reduce costs to their 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 cost/ Move-in costs</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 is 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 their 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.	Members have no personal liability on cooperative's blanket loan. Members are obligated under their 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.
<b>Community Control</b>	Cooperative has right to approve all potential members. Cooperative 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. Cooperative 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 in to the neighborhood and no control over behavior of neighbors.

# HOUSING AT A GLANCE

	<b>Market Rate Cooperative</b>	<b>Limited Equity Cooperative</b>	<b>Condominium</b>	<b>Rental</b>	<b>Single Family</b>
<b>Facilities Rehab, Replacements &amp; Improvements</b>	<p>Three methods are available to finance cooperative rehab, replacements, and improvements:</p> <ul style="list-style-type: none"> <li>• Assessment of individual members for their pro-rata share of the total cost;</li> <li>• Establishment and funding of replacement reserves; and</li> <li>• New long-term blanket financing.</li> </ul>	<p>Three methods are available to finance cooperative rehab, replacements, and improvements:</p> <ul style="list-style-type: none"> <li>• Assessment of individual members for their pro-rata share of the total cost;</li> <li>• Establishment and funding of replacement reserves; and</li> <li>• New long-term blanket financing.</li> </ul>	<p>Two methods are available to finance rehab, replacements, and improvements of the common elements:</p> <ul style="list-style-type: none"> <li>• Assessment of individual unit owners for their pro-rata share of the total cost; and</li> <li>• Establishment and funding of replacement reserves.</li> </ul>	<p>The landlord decides when and if rehab, replacements, or improvements are to be done.</p>	<p>Owner is individually responsible for all rehab, replacements, and improvements.</p>
<b>Property management</b>	<p>Cooperative members democratically elect a board of directors, which hires and oversees property management firm and/or employees.</p>	<p>Cooperative members democratically elect a board of directors, which hires and oversees property management firm and/or employees.</p>	<p>Unit owners democratically elect board of directors which hires and oversees property management firm and/or employees.</p>	<p>The landlord hires and oversees property management firm and/or employees.</p>	<p>Owner is individually responsible for all aspects of property.</p>
<b>Tax benefits</b>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>Tenants receive no income tax benefits associated with homeownership.</p>	<p>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.</p>
<b>Home Equity</b>	<p>Cooperative members build equity as the value of their cooperative interest increases and as their share loan is paid down.</p>	<p>Growth in equity is limited through a limitation of resale prices. Generally, a formula determines the portion the selling member will receive of the increase in value of her cooperative interest and the pay-down of the cooperative mortgage.</p>	<p>Unit owners build equity as the value of their unit increases and as their mortgage is paid down.</p>	<p>Any increase in value belongs to the landlord and reflects itself in increased rents.</p>	<p>Owners build equity as the value of their home increases and as their mortgage is paid down.</p>



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