COOPERATIVES & COMMUNITY HOUSING NEEDS

Margaret Bau, USDA Rural Development
Warren Kramer, Northcountry Cooperative Foundation
Dennis Johnson, Senior Cooperative Foundation

The 2018 webinar series Cooperative Solutions for Community Needs is brought to you by the University of Wisconsin Center for Cooperatives

www.uwcc.wisc.edu
What is a Co-op?

A cooperative is an organization owned and democratically controlled by the people who use its services

- Member - owner
- Member - control
- Member – benefits
Various types of co-ops
Defined by who owns the organization

Consumer Co-ops

Producer Co-ops

Shared Services Co-ops

Worker Co-ops
Housing Co-ops

Condo ownership –
Everyone owns a divided piece of a property. Each owns everything inside their own unit, to the “back of the paint.”

Co-op ownership –
Everyone owns the property together. Members make decisions about the property based on what they feel is best for the whole community.

Renting –
The landlord owns the entire pie and charges tenants to live there. Tenants own nothing.

Cartoon courtesy of Northcountry Cooperative Development Fund
Housing Co-ops Are a Flexible Model

• Cooperative owns land and dwellings
  • Apartment style
    • Senior housing co-ops
  • Separate homes

• Co-op owns land, individuals own homes
  • Resident Owned Communities

Greenwood Avenue Cottages
pocket neighborhood
Shoreline, WA

Village Cooperative of Wausau, WI

Adams-Friendship Cooperative Homes, WI
Types of Housing Co-ops

• **Market Rate**
  - Can sell share for any price
  - Home ownership as an investment
  - Real estate transaction

• **Limited Equity**
  - Often allow a 1%-2% annual appreciation
  - Controls resale values & keeps units affordable
  - Co-op has first option to purchase share
  - Home ownership for community
We Own It!

The Promise, the Impact, and Lessons of Resident Ownership in Manufactured Home Communities

Warren Kramer,
Executive Director
Northcountry Cooperative Foundation

UW Center for Cooperatives - Cooperatives and Community Housing Needs

June 21, 2018
Why Resident Ownership?

- Vulnerable to displacement.
- Minimal access to secondary mortgage market.
- Not major target for public affordable housing programs.
- Weakly documented.
- Poorly regulated sector.

- Deep social ties, robust community life.
- Strong self-identification as a neighborhood or community.
- Sense of shared pride borne out of common challenges.
Background
Terminology - manufactured homes

- **Trailer.** Recreational vehicles not conforming to local building or HUD code standards

- **Mobile home.** Factory-built housing units built before 1976 HUD code

- **Manufactured home.** Factory-built housing unit built after 1976 HUD code. Has a chassis that supports structural integrity of unit and designed for transport to building site on wheels. HUD Code supersedes any local code and MH can be sited anywhere in the US*

- **Modular home.** Factory-built housing units must meet state, local, or regional codes where it will be located. Modules are assembled in three dimensions in factory, transported to site by truck, assembled by crane

*Local codes can discourage use of MH by requiring all homes to meet certain requirements that make MH placement inordinately expensive or impossible to meet, thereby effectively zoning them out
Background

Terminology – manufactured home community ownership

- **Investor-owned community.** Manufactured housing communities bought, owned, and sold as real estate investment

- **Resident-owned community (ROC).** Manufactured housing communities owned by residents, typically through housing cooperative or nonprofit model

- **Non-profit/publicly owned community.** Communities owned by nonprofits, HRA’s, municipalities.

*Most manufactured home parks were built in the 50s -70s and have privately owned infrastructure (water, sewer & roads) so that whoever does own the community, is responsible for the maintenance, repair/replacement of the infrastructure.*
Background

History of industry

- Travel trailers towed behind cars
- Trailers became larger
- “Parks” were developed as temporary and seasonal locations for trailers
- Many trailers stopped being moved and became permanent fixtures in the parks
Background
Current manufactured home
Structure of investor ownership

Community owner
- Land owned by community owner
- Community comprised of individual lots
- Residents pay lot rent to community owner

Home lender
- Chattel home financing at 9% to 14% interest
Outcomes of investor ownership

- Lack of security
- Regular lot rent increases
- No direct voice in park policies
- Reduced incentive for investor to invest in community
- Little incentive / capacity for homeowners to invest in homes
- Minimal access to home financing
- Home depreciation*
- The investor owned industry is consolidating

*NeighborWorks: https://static1.squarespace.com/static/51149157e4b00dcd7b6e0e8a/t/57ab3631440243556f9524f2/1470838322571/Manufactured+Housing+as+a+Community+-+and+Asset-Building+Strategy_NeighborWorks_2002.pdf

Carsey: https://static1.squarespace.com/static/51149157e4b00dcd7b6e0e8a/t/5114d505e4b0f297c4870bf/1360319749304/Building_value_and_security_2006.pdf
Structure of manufactured housing cooperative

- Cooperative purchases community
- Each household purchases a membership in the Cooperative
- Current residents choose between joining or renting from Cooperative
- Members pay monthly carrying charges and renters pay lot rent to Cooperative
Outcomes in manufactured housing cooperative

- Security of tenure
- **Lot rents increase only** with operating costs or for capital improvements
- Direct voice in community policies and operations
- Strong incentive to invest in community
- Land ownership for residents
  - Better access to competitive home financing
  - Potential for growth in home equity (asset building & wealth creation)
NCF Track Record
Resident-Ownership Conversions 2004 – 2018

Bennett Park Cooperative,
Moorhead, 70 units (2007)

Stonegate Cooperative,
Lindstrom, 50 units (2012)

Sunrise Villa Cooperative,
Cannon Falls, 47 units (2004)

Madelia Mobile Village,
Madelia, 57 units (2008)

Five Lakes Cooperative,
Fairmont, 94 units (2014)

Park Plaza Cooperative,
Fridley, 88 units (2011)

Hillcrest Community Cooperative,
Clarks Grove, 90 units (2015)

Zumbro Ridge Estates, Inc.,
Rochester, 122 units (2017)

Pammel Creek Estates, Inc.,
La Crosse, 59 units (2016)

Prairie Lake Estates
Homeowners Cooperative,
Kasson, 75 units (2013)
What it takes

Key elements for success

What does it take for this to work?
• Willing Seller
• Willing Buyer
• Financially Feasible Deal

What are chief barriers to resident ownership of MHCs?
• Lack of access to opportunities
• Lack of access to technical expertise
• Lack of access to capital
# What it takes

## Two-track process

<table>
<thead>
<tr>
<th>REAL ESTATE TRANSACTION</th>
<th>COOPERATIVE ORGANIZING</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Negotiate/obtain site control</td>
<td>- Orientation for residents</td>
</tr>
<tr>
<td>- Carry out due diligence</td>
<td>- Election of interim Board, appointment of committees</td>
</tr>
<tr>
<td>- Review operating history</td>
<td>- Group incorporates as legal entity</td>
</tr>
<tr>
<td>- Evaluate capital needs</td>
<td>- Interim Board develops development and operating budget</td>
</tr>
<tr>
<td>- Conduct sewer video</td>
<td>- Interim Board presents proposed monthly lot rent increase and membership fee for member approval</td>
</tr>
<tr>
<td>- Environmental site assessment</td>
<td>- Board reviews due diligence results</td>
</tr>
<tr>
<td>- Appraisal</td>
<td>- Develop management plan</td>
</tr>
<tr>
<td>- Apply for permanent financing</td>
<td>- Board applies for permanent financing</td>
</tr>
<tr>
<td>- Finalize loan documents</td>
<td>- Cooperative purchases property</td>
</tr>
<tr>
<td>- Close on purchase of property</td>
<td>- Cooperative holds first annual member meeting, elects permanent Board</td>
</tr>
</tbody>
</table>
What it takes

Post-purchase services

Organizational Development and Support
- Action planning and implementation.
- Member engagement, board and committee governance
- Procedure and policy development.
- Peer-to-peer training.
- Resource development.

Asset and Property Management
- Accounts payable/receivable.
- Manufactured home placement and sales.
- Financial reporting.
- Preventive maintenance and improvements.
- Collections.
- Policy and rule enforcement.
Case Study: Sunrise Villa Cooperative
Cannon Falls, Minnesota
47 units
Sunrise Villa Mobile Home Park

- Local mom-and-pop owner
- Community facilities: storm shelter
- Purchase price: $928,000 or $19,745/unit
- Equity requirement (share price): $500 per household
- Financing sources:
  - $696,000: Community Development Bank, Ogema, MN
  - $490,000: Northcountry Cooperative Development Fund
  - $23,500: Resident Equity
- Monthly carrying charge: $300 (up from $245, a 23% increase)
Sunrise Villa Cooperative - Process

- Total development timeframe: 11 months
- Resident Process: One meeting about every six weeks
- Park Attendance of meetings: 33% to 51% of households
- Charter membership: 29 of 46 households (63% of park)
- Closed on purchase: September 28, 2004
Sunrise Villa
Development budget (Uses), 47-unit project

<table>
<thead>
<tr>
<th>USES</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td>$928,000</td>
</tr>
<tr>
<td>Capital improvements</td>
<td>50,000</td>
</tr>
<tr>
<td>Replacement reserve</td>
<td>15,000</td>
</tr>
<tr>
<td>Operating reserve</td>
<td>15,000</td>
</tr>
<tr>
<td>First mortgage reserve</td>
<td>20,880</td>
</tr>
<tr>
<td>Working capital reserve</td>
<td>12,000</td>
</tr>
<tr>
<td>Legal</td>
<td>15,000</td>
</tr>
<tr>
<td>Pro-rated taxes/insurance</td>
<td>6,518</td>
</tr>
<tr>
<td>Title/Recording</td>
<td>7,000</td>
</tr>
<tr>
<td>Environmental, infrastructure assessment</td>
<td>2,000</td>
</tr>
<tr>
<td>Financing fees</td>
<td>11,280</td>
</tr>
<tr>
<td>Other soft costs</td>
<td>160,822</td>
</tr>
<tr>
<td><strong>TOTAL USES</strong></td>
<td><strong>$1,243,500</strong></td>
</tr>
</tbody>
</table>
Why Resident Ownership
Experience of Sunrise Villa Cooperative (Cannon Falls)

- Capital improvements, equipment
  - Resurfaced streets and roads
  - Rebuilt playground
  - New bus stop
  - Safe, tamper-proof mailboxes
- Fully funded reserve accounts
- Only one lot rent increase since 2004
- Two lot rent holidays since purchase
- Extremely financially stable project
- Refinanced with 30-year, 6% first mortgage by Minnesota Housing Finance Agency in Fall 2008
- Strengthened cash flow and capacity for improvements
Dedicated Acquisition Financing, Franchised Model for Service Delivery, Peer Network

- **ROC USA, LLC®**
  An organization working to bring resident ownership to every manufactured home community in the U.S. Was created in 2008.

- **ROC USA® Capital**
  - 110% LTV financing
  - Competitive interest rates
  - Uses big bank lines of credit to fund resident purchases
  - Lead lender, structures participation lending for other investors

- **ROC USA® Network**
  - Certified Technical Assistance Providers (CTAP)
  - NCF is one of nine CTAPs across the U.S.A. (36 states)
  - Peer-to-peer learning

www.rocusa.org
Empirical Findings

Indications of Success

1. Resident-owned communities are an improved community asset
   - Higher level of civic engagement in local politics, neighborhoods, schools
   - Lower crime than other parks
   - Better-maintained than prior to resident purchase

2. Resident-owned communities are preferred by homeowners
   - Homes in ROC’s appraise for higher value and sell faster and for more
   - Lot rents stabilize and lag the market rents in peer investor owned communities
   - Residents control what goes on in their neighborhoods, decide community rules, capital improvements, etc.
Key partners and supporters

- Core governmental and philanthropic support
  - Prosperity Now!, Washington, DC
  - Family Housing Fund, Minneapolis
  - Greater Minnesota Housing Fund, Saint Paul
  - McKnight Foundation, Minneapolis
  - Minnesota Housing Finance Agency, Saint Paul
  - Wisconsin Housing and Economic Development Authority, Madison
  - Minneapolis Foundation, Minneapolis
  - Ford Foundation, New York
  - Lincoln Institute of Land Policy, Cambridge, Massachusetts
  - NCB Capital Impact, Washington, DC
  - Northwest Area Foundation, Saint Paul
  - Opportunity Finance Network, Philadelphia
  - USDA – Rural Cooperative Development Grant Program
  - United States Department of Housing and Urban Development
Senior Housing Cooperatives

UWCC Webinar
What is a senior housing cooperative?

• Not for profit business entity owned and controlled by the people who use it
• Cooperative owns land, building, common areas; flooring, appliances, and window treatments in units
• Members buy a share and become an owner of the cooperative – entitles owner to live in a specific unit
• Members have governance rights – one vote per share – elect a board of directors
• Pay a monthly fee
Senior Cooperative Foundation
109 Midwest Cooperatives
April 2018
Community Features

• Great room/community room
• Club room
• Guest suite for visiting family and friends
• Fitness center
• Workshop
• Library
• Heated underground parking with wash bay
• Garden plots
Why Are Co-ops Popular

• Members remain in control at a time of life when most other alternatives require sacrificing control.
• They preserve their equity - no “spend-down” of assets.
• They preserve tax benefits of homeownership
• They save money through more efficient use of resources and no profit to outside owner.
• They do not pay for services they don’t want or need (ala assisted living).
• They enjoy improved health through daily participation in a community energized by governance, social activities, and new friendships
"From a gerontological point of view, the essential benefit of the cooperative is that it provides an economic structure and social framework that 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."

Gerald Glaser, Gerontologist
Ebenezer Center for Aging, testifying before the President’s Housing Commission, 1981
“It is most important to understand that the cooperative concept appeals to older adults — especially couples -- who would not normally consider ‘seniors’ housing and who typically would remain in their single-family homes.”

Rick Fenske, Senior Market Researcher
Maxfield Research, Minneapolis
Community Benefits

• Seniors remain to anchor the community’s economic, social and intergenerational foundations

• Seniors’ financial resources and contributions are retained

• Resale of homes creates ripple effect - frees up affordable housing alternatives for younger families

• Cooperatives pay full real estate taxes and create employment opportunities
## SCF Cooperative Member Survey

<table>
<thead>
<tr>
<th>Survey Question</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Like cooperative better than or same as previous home</td>
<td>92%</td>
<td>88%/94%</td>
</tr>
<tr>
<td>Recommended cooperative to others</td>
<td>92%</td>
<td>94%</td>
</tr>
<tr>
<td>Would move to cooperative again again</td>
<td>90%</td>
<td>96%</td>
</tr>
<tr>
<td>Communities need cooperative living option</td>
<td>96%</td>
<td>99%</td>
</tr>
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</table>
SCF Cooperative Member Survey
Like most about your cooperative:

<table>
<thead>
<tr>
<th>Feature</th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>357</td>
<td>511</td>
</tr>
<tr>
<td>No home maintenance</td>
<td>277</td>
<td>233</td>
</tr>
<tr>
<td>Security</td>
<td>230</td>
<td>191</td>
</tr>
<tr>
<td>Social involvement/Activities</td>
<td>206</td>
<td>245</td>
</tr>
<tr>
<td>Location</td>
<td>169</td>
<td>182</td>
</tr>
<tr>
<td>Underground/heated parking</td>
<td>100</td>
<td>103</td>
</tr>
<tr>
<td>Carefree living/easy living</td>
<td>39</td>
<td>103</td>
</tr>
<tr>
<td>Everything</td>
<td>11</td>
<td>85</td>
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</table>
## SCF Cooperative Member Survey
### Dislike most about your cooperative:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nothing</td>
<td>0</td>
<td>352</td>
</tr>
<tr>
<td>Issues with building</td>
<td>57</td>
<td>127</td>
</tr>
<tr>
<td>Too many or inappropriate rules</td>
<td>52</td>
<td>55</td>
</tr>
<tr>
<td>Complainers</td>
<td>29</td>
<td>41</td>
</tr>
<tr>
<td>Board decisions/lack of member input</td>
<td>29</td>
<td>33</td>
</tr>
<tr>
<td>Noise</td>
<td>21</td>
<td>32</td>
</tr>
<tr>
<td>Gossip/busy bodies/cliques</td>
<td>19</td>
<td>28</td>
</tr>
<tr>
<td>Yard access</td>
<td>15</td>
<td>24</td>
</tr>
<tr>
<td>Costs</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Aging/need younger members</td>
<td>13</td>
<td>20</td>
</tr>
<tr>
<td>Selling units</td>
<td>13</td>
<td>2</td>
</tr>
</tbody>
</table>
SENIORS ANTICIPATING NEED FOR HELP

Page 65+

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outdoor maintenance</td>
<td>65%</td>
</tr>
<tr>
<td>Heavy housework</td>
<td>54%</td>
</tr>
<tr>
<td>Light maintenance</td>
<td>34%</td>
</tr>
<tr>
<td>Trips to store, etc.</td>
<td>26%</td>
</tr>
<tr>
<td>Light Housework</td>
<td>18%</td>
</tr>
<tr>
<td>Cooking meals</td>
<td>14%</td>
</tr>
<tr>
<td>Personal grooming</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: AARP
Growth of Older Population
1990-2050

Older Population (in thousands)

Ages 65-74
Ages 75-84
Ages 85+

HUD-insured master mortgage

• Nonrecourse first mortgage, with principal and interest allocated based on unit size
• Fixed interest rate for 40 years
• Assures today’s low interest rates for ALL buyers for years to come
• Assures disciplined, third-party oversight of operations and maintenance and reserves
Limited Equity Growth

• 2% per year
• Assures affordable, predictable pricing for future buyers
• Assures there will be buyers for current members’ homes
• Keeps the focus on community priorities, stability, and security
What the Member Pays

- **Share Payment** -- repaid, with appreciation, on sale of unit
- **Monthly payment** -- including expenses, reserves, some utilities, taxes, and mortgage payment
- **Costs of any optional congregate services** -- Separately arranged with outside providers
Development Process

• Stage I: Concept Evaluation and Development
• Stage II: Design, Pricing & Preliminary Marketing
• Stage III: Finalize Design, Marketing, Contracting, and Financing
• Stage IV: Construction, Marketing
• Stage V: Occupancy, Marketing
Carefree Living in a Vibrant Community

seniorcoopliving.org
Senior Cooperative Foundation

Dennis Johnson
651.310.0235
dennisj@seniorcoops.com

Travis Johnson
651.310.0226
travisj@seniorcoops.com

seniorcoops.org