

Living & Owning in the Hart's Mill Village



A discussion about the Limited-Equity Housing Cooperative
ownership model as it might apply to Hart's Mill

and

A request for your input regarding upcoming decisions

Cooperative defined...

An enterprise formed by a group of people to meet their own self-defined goals that is:

- member-owned
- member-run
- member-serving

Housing Cooperative defined...

A cooperative that owns and operates housing exclusively for the benefit of its members

- member-owned (a form of joint ownership of all housing)
- member-run (members set the rules)
- member-serving (with a goal, in most instances, to provide the best possible housing at the lowest possible cost)

Limited-Equity Housing Cooperative defined...

A housing cooperative wherein co-op members have voluntarily, and with a sense of purpose, agreed to limit the resale value of their equity holdings (e.g., share value)

Hart's Mill GC, 1/28/2016:

“Consent to adopt a Limited-Equity Housing Cooperative Model for HM housing”

Limited-Equity Housing Cooperative

- The co-op owns both the land and the dwelling units
- You join the co-op by purchasing a share... which entitles you to:
 - ✓ Undivided interest what the co-op owns; you become an **owner**
 - ✓ The right to live in one of the co-op residential units; you become a **lessee**
 - ✓ The right to full “voice” in setting the rules of the (your!) co-op
- Two financial obligations of co-op members:
 - ✓ Purchase the **share**
 - ✓ Pay monthly **carrying costs**
- When you leave HM, the return on your investment is probably lower than what market rate returns might imply
- The shareholders (that includes *you*) set the rules

What's it going to cost me?

- Recall: two financial obligations of co-op members:
 - ✓ Purchase of **share**
 - ✓ Pay monthly **carrying costs**
- Where did the number \$40,000 come from?
 - ✓ Very rough early estimate of the cost of an average share in a HM housing co-op
 - ✓ It represents an attempt to provide an answer based on several different approaches (some quantitative; some qualitative)
 - ✓ A wish not to lowball the number

Questions?

About anything so far...

And now some questions for you:

- How do you think we should set the basis of a housing co-op share?
- How would you feel if we decided the share price were \$40,000? Could you afford that? ...with the understanding that this is an equity investment from which you will get a rate of return on your investment
- How committed are you a limited-equity approach?
- How do you feel about rental units?

Q. 1: How do you think we should set the basis of a housing co-op share?

- Some goals to consider:

- ✓ Fair & equitable
- ✓ Easy to understand
- ✓ Easy to implement

- Some possible options:

- ✓ Per some number based on household composition
- ✓ Per living unit
- ✓ Per square footage of living unit
- ✓ Other possibilities

- Why this is a difficult question:

- ✓ No “right” answer
- ✓ What other housing cooperatives do is not a helpful guide for us
- ✓ Simultaneously optimizing the three goals is not easy

Share

- A member's owned portion of the co-op's holdings
- Stock in a housing co-op corporation: residents own shares in the corporation that owns the buildings & land
- Two major categories of cost in a housing co-op:
 - Share (think of it as an "entry cost" or "joining fee" or down payment)
 - Monthly carrying cost. Member proportional contribution to:
 - Master mortgage principal
 - Master mortgage interest
 - Co-op property taxes
 - Co-op insurance premiums
 - Co-op reserve funds
- Two issues regarding share:
 - Price
 - Basis

Basis for Share Price

- Per (adult) person
- Per number based on some function of household makeup
- Per living unit
- Per living unit square footage (or amenities)
- Differential pricing (lower for people we wish to incentivize to join)
- Other

Q.2: How would you feel if we decided the share price were \$40,000?

- Some things to consider:

- ✓ Higher share price means lower monthly carrying cost
- ✓ Lower share price means higher monthly carrying cost
- ✓ Implications to individuals vary depending on whether one itemizes at tax time

- Why this is a difficult question:

- ✓ No “right” answer
- ✓ What other housing cooperatives do is not a helpful guide for us
- ✓ Finding the best balance is largely a subjective matter
- ✓ What’s the basis?
- ✓ In the end, our lender may have the final say

Q.3: How committed are you the limited-equity approach?

- Recall slide #4: We're talking about a housing cooperative wherein co-op members have voluntarily, and with a sense of purpose, agreed to limit the resale value of their equity holdings (e.g., share value)
- When you leave HM, the return on your investment is probably lower than what market rate returns might imply
- The issue is the influence of “unearned equity”
- The goal is to hold down the rate of housing appreciation to make our housing affordable in perpetuity

A limited-equity approach to co-op ownership

Possible Advantages

- As a community (& as individuals) we say we want to contribute in our own small way to affecting culture change. This is a perfect opportunity
- It addresses the affordable housing crisis dilemma
- Makes us feel proud
- Also allows us to soften the personal hit of a downturn in home prices (remember 2008?)

Possible Disadvantages

- It's an unfamiliar ownership model for attracting members
- Prevents us from enjoying the financial benefits of home ownership that our neighbors have
- Really cool idea, but, c'mon, this is about money! I feel cheated

Q.4: How do you feel about rental units?

- In the past, we seem to have been reluctant to consider rental units
- The question has come up fairly recently as the home ownership model and architectural designs have moved forward
- There may be advantages to revisiting the question
- Opportunities for renting could attract more investment in the community