Pathways to Expansion for Larger Co-ops

Introductions

- Name
- Organization
- Considering Expansion?

Reasons for Expansion

- Mission: to serve more members
- Financial: improve financial position, budget
- Replacement: aging or damaged building
  - cost, code, safety, appeal
- Rescue: buying a threatened co-op

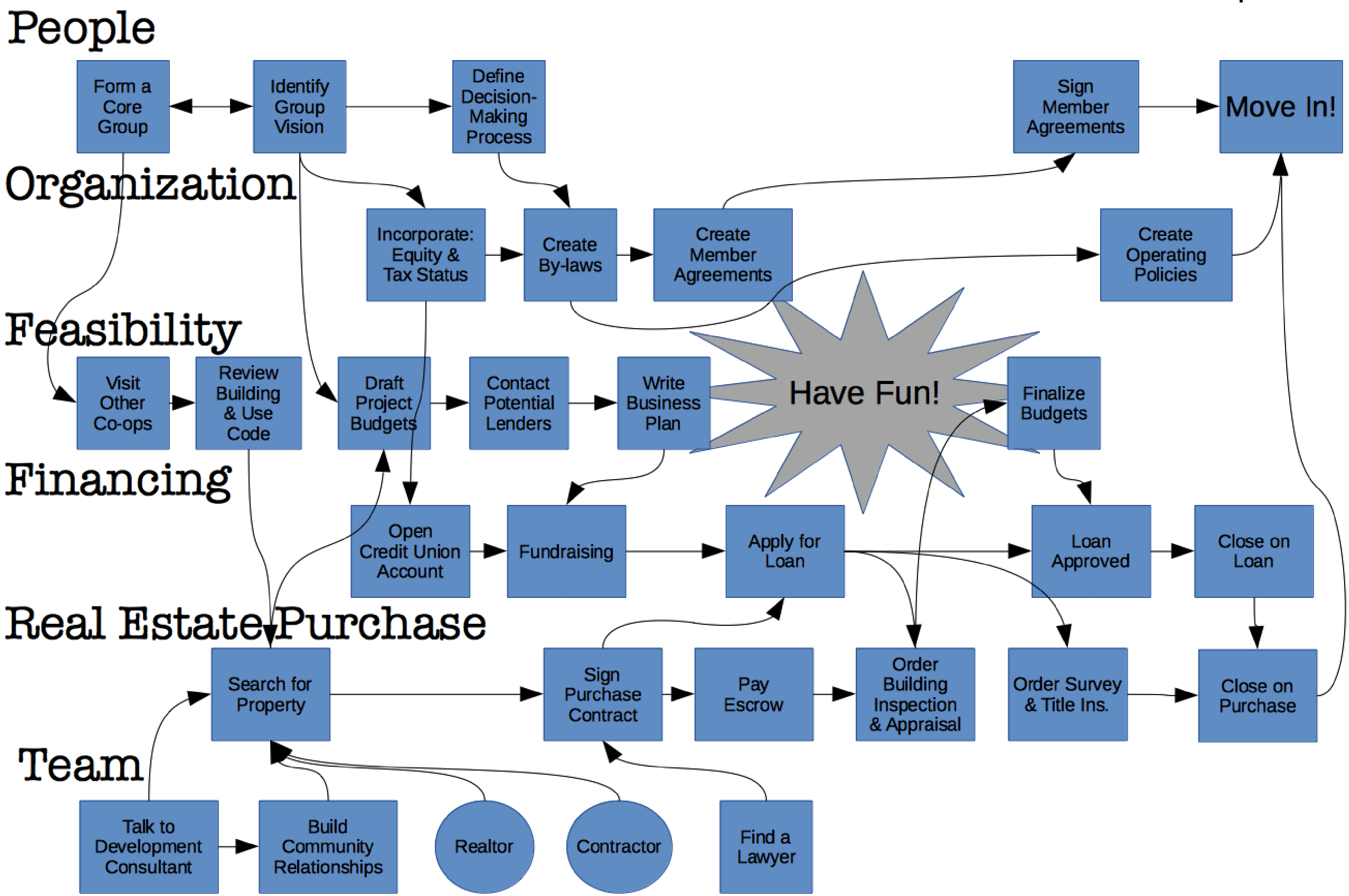
Reasons Not to Expand

- Risk of financial loss
- Opportunity cost of staff/leadership time
- Changing character of community
- Lack of opportunities
- Disruption for current residents
  - (Redevelopment)

The Development Process

How to Start a Housing Co-op

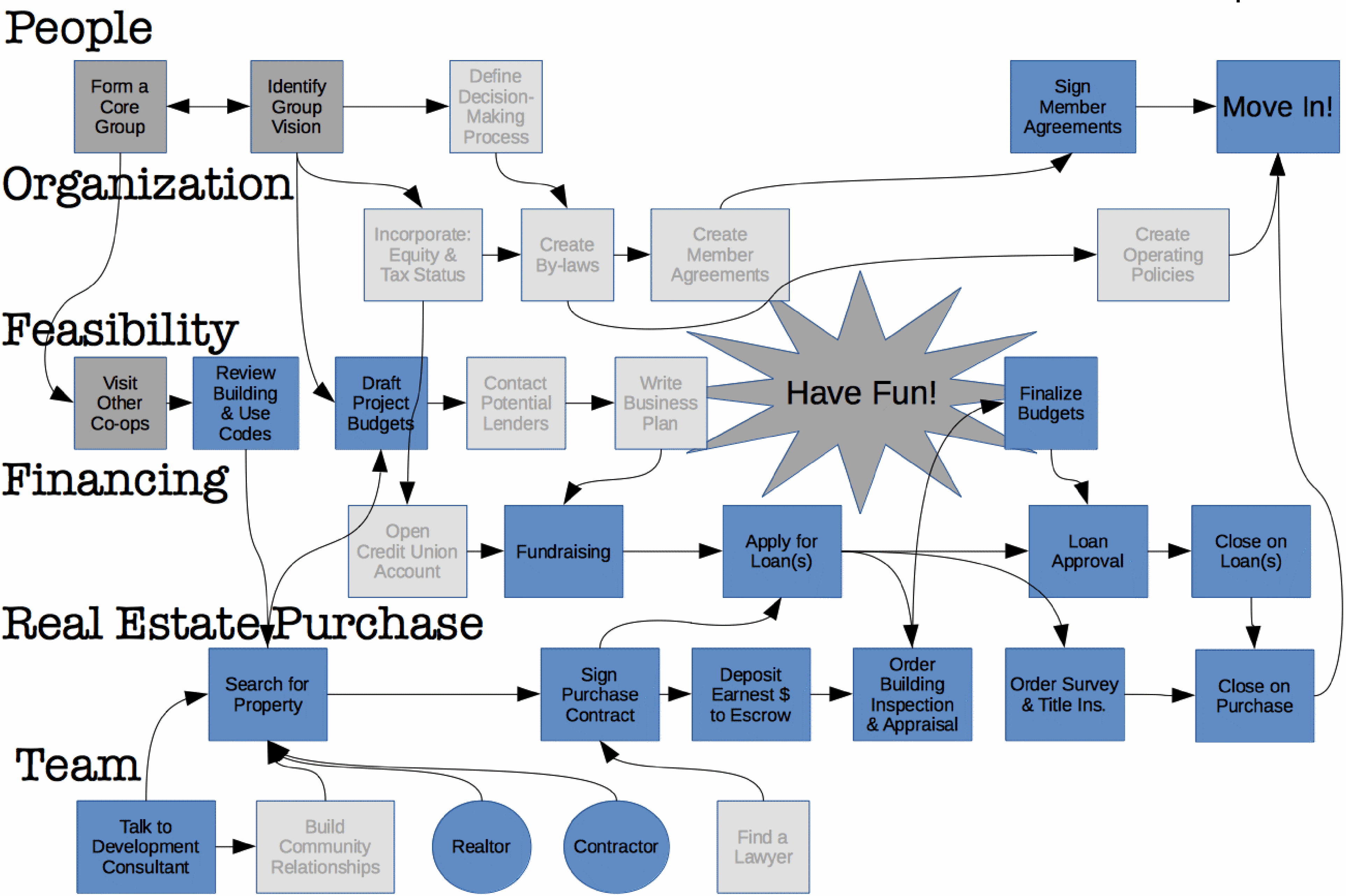
...in only 30 easy steps



How to Start a Housing Co-op

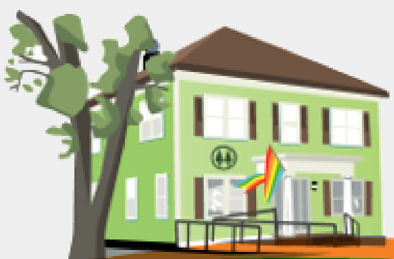
...in only 30 easy steps

north american
NASCO
students of cooperation



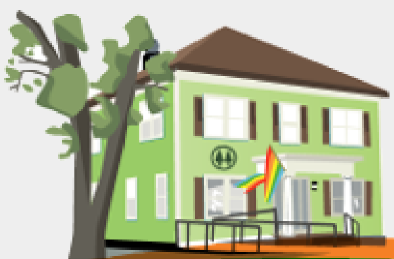
Forming a Core Group

- have full-time staff to work on project (+)
- member turnover means restarting process occasionally (-)
- turnover gives easy access to new recruits (+)
- designing for others: hard to know their needs
  - But easier to make decisions when it's not personal



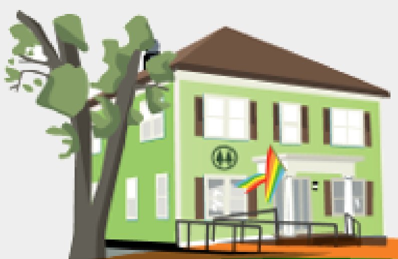
Identify Group Vision

- Have established visions/norms/values (+)
  - Develop variations on vision, but consistent with co-op mission
- Constrained by existing co-op's mission (-)
- Too many chefs. Need approval from more people (-)



Building and Use Code

- Familiarity using existing buildings
- Track-record makes variances/requests from City easier
- Risk: Code may have changed, current buildings non-compliant, may trigger scrutiny



Community Relationships

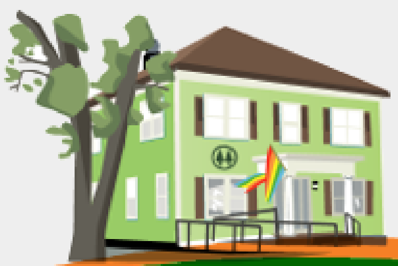
- Existing relationships
- Can't fly under the radar (-)

Drafting Budgets

- Have solid data from existing buildings

Fundraising

- Have access to reserves
- Have a track-record to stand on
- May be perceived as self sufficient, less in-need than a start-up effort (-)

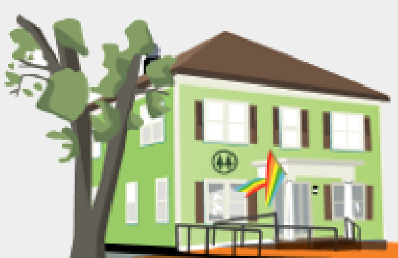


Negotiating a Contract

- Decision-making time to offer (+/-)
  - Authorizing staff to make offers within certain parameters
- Higher downpayment/earnest money offers
- Existing Org taken more seriously

Move In!

- Existing channels for member recruitment, waitlist
- Project delay: alternate housing?
- Redevelopment: Temporary Housing?



Financial Strategies

- Key Ratios
- Strategies

Debt Coverage Ratio

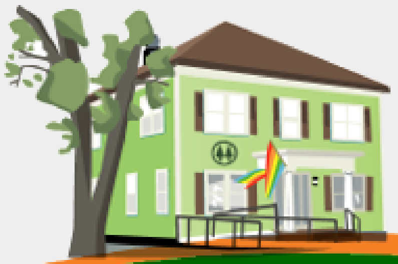
Bankers like Cashflow

Net Operating Income =

Revenue – Operating Expenses

$$\text{DCR} = \frac{\text{Net Operating Income}}{\text{Debt Payments}}$$

> 1.2



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Loan To Value

$$\text{LTV} = \frac{\text{Loan Amount}}{\text{Appraised Value of Property}}$$

70% / 80% / 90%

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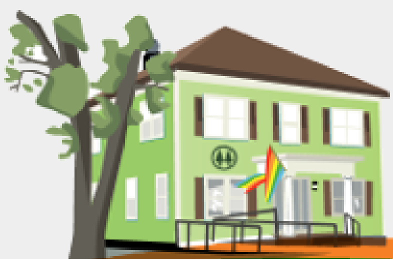
Traditional Acquisition

- 80% Loan-to-Value
- 20% downpayment (cash)
- 10% transaction costs (cash)

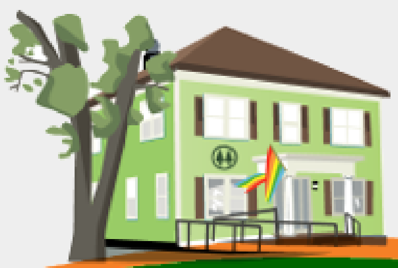
Leveraging Existing Equity

- 100% LTV on new property
- 50% LTV on new property + existing property
- 10% transaction costs (cash)



Refinancing

- Replacing existing loans with new loans with better terms.
- Reduce total debt payments to improve overall cashflow
- 80% LTV, 20% Cash, plus closing costs
    - Property DCR = 1.1, but rest of co-op is 1.3, Global 1.2



"Free" Money

- Municipal, non-profit bond financing
- HOME Loan program
- Tax Credits
  - Low-Income
  - Historic
  - New Markets

Fourth Street Co-op

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Fourth Street Co-op

Fourth Street Co-op

Rationale

- Replaced an older building serving 25 members.
- New building serves 200
- New construction in the area was drawing more students, changing tastes?
  - New construction but also more affordable than other “luxury” options

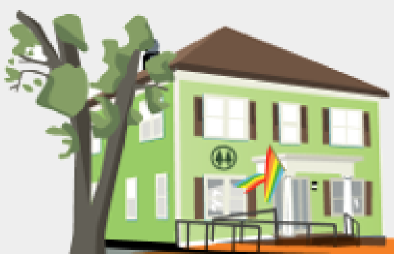
Fourth Street Co-op

- Property was owned by Riverton Community Housing, leased to 4th Street Co-op
- Riverton Board initiated process based on:
  - concerns about condition of building
  - concerns about trend toward student demand new construction
  - opportunity for greater density on this plot
- Hired a non-profit developer to analyze feasibility, manage project
- Worked with current residents at 4th Street and other co-ops on design

Fourth Street Co-op

Financing

- $1m equity, $12.5m in new debt.
- Used equity in other properties for a single bond issue
- Construction for 1 year
  - Goal to keep rents below other new housing, but cover cost of a new buildings

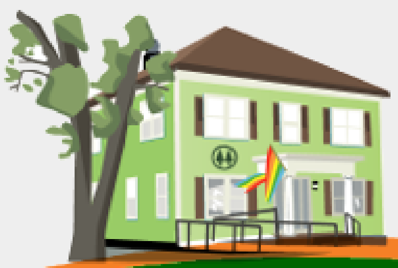


College Houses: Super Co-op

College Houses

Rationale

- Fulfilling mission to serve more members
- New building serves 176 members. Replaces 2 smaller buildings with 100.
- Opportunity: Rezoning for higher density
  - Redevelopment: Aging property that needed replacement



College Houses

- Process
- 2002: Board started talking about the idea in the abstract
- Annual board planning retreats, setting goals for development planning each year
- 2007: Broke ground on new construction. 1 Year to Move In.

College Houses

$10.9m Tax-Exempt bonds

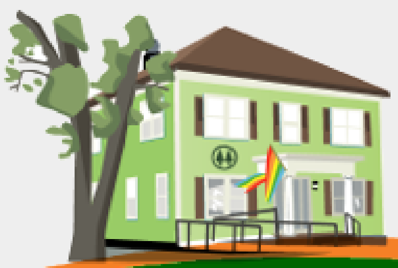
$1.8m bank loan

$1.7m Cash

$800k City grant

Total: $15m

Interest Rate Swap fixed interest rates at ~3.2%



Madison Community Co-ops

MCC

Rationale

- Property with 31 beds was damaged in a fire.
- Property was very close to campus lakefront, so land value very high.
- Redevelop, or sell and buy new buildings?
- Growth? Risk? Revenue?

MCC: Process

This was a very challenging decision for the co-op to make.

- Core Group
- Group Vision
- Building Code
- Community Relationships
- Fundraising
- Move-In!

MCC

Financing

- About 3/4 insurance payment
- About 1/4 cash invested
- Major lost revenue: property vacant for 2 years
- Did not require new debt, but depleted reserves.

What's Your Next Step?

1)
2)
3)