Affordable Cohousing

A SELECTION OF IDEAS FOR CREATING MORE AFFORDABILITY IN YOUR COMMUNITY
[submitted to cohousing-l in weekly installments, for comment and input.]

The strategies outlined in the series to follow have been collected over the past 20 years of doing cohousing projects across the US and Canada. Many of the strategies outlined below are what I call Internal Banking. These "internal banking" relationships are magical when they happen, and it would seem they can only happen when there is a strong sense of community, and trust.

Each of these has been used successfully in one project or another. The vast majority of cohousing projects that have been built in North America have included a number of internal banking elements which have allowed members with some resources to assist members with more limited resources to participate in the community.

There are two primary ways of purchasing your home in cohousing. In the simplest form, these are: 1) an all cash purchase, or 2) a mortgage from a bank, usually requiring some downpayment from the purchaser. The mortgage is called a "take out loan" by the construction lender because it takes them out, paying off their loan to build the project.

Your cohousing group can adopt some or all of the following strategies for achieving a measure of affordability within your project. Some of these strategies work for some people. Others work for other people. Some of these strategies need to work together. It all depends on needs, circumstances, pride, personal relationships, liquidity, risk willingness, risk aversion, and/or time sensitive financial needs.

1. Internal Down Payment Assistance

Assisting with the necessary downpayment, required by the primary mortgage lender, is done in a number of ways. A revolving **Community Loan Fund** can be established with funds from members of the group who have available assets to invest within the community. This can make those assets available directly to other individual households within the community, or to a cooperative fund. For this purpose it should be administered by a volunteer group within the community, normally a finance committee, or an affordable housing sub-committee of the Finance Committee. Some groups arrange to have a third party administer this fund.

2. Outside Down Payment Assistance

In addition to the internal banking there are sometimes external down payment assistance programs available for specially qualified buyers. If you think you have members who may qualify you may want to ask for more information about these programs and/or help with research the current possibilities. As always, qualification will be based on making a commitment to being a part of the community.

3. Second Mortgages

In addition to down payment assistance, sometimes it can make sense to get a Second Mortgage. The two primary ways this is done are through;

a. **Second Mortgage** loans – direct, one member to another, above board, and visible to the primary mortgage lender. Some banks can provide a second mortgage, often at a much higher interest rate than the first mortgage.

b. **Silent Second Mortgage** loans – direct, one member to another, below the visibility of the primary mortgage lending bank. This allows the borrower to appear to have a larger down payment, allowing them to borrow more from the bank than would otherwise be able to offer. Since this is frowned on by the official bank lenders you may need to move this money to the buyer's savings account months in advanced to allow the money to "season" in that account.

4. Co-purchase Options

For most cohousing groups, there are buyers who find that it is feasible and more affordable for them to co-purchase their new home with another person or another household. Having common facilities and a strong sense of community is often what makes this possible. Sometimes the other party is another home owner within the community, and sometimes they are external friends or family. And sometimes the co-purchasers will occupy the new home together - sometimes called "tenants in common." In either case, the ownership is shared, the proceeds of the sale of the home is also shared if and when it is resold.

5. First Time Buyers

There are first time buyer mortgage programs that could help those who qualify by either reducing the down payment requirements, or possibly even eliminating the requirement for a down payment. If you think you may qualify, please ask for more information about these programs. Qualification will always be based on making a commitment to being a part of the community.

6. The Reduced Monthly Condo Fee Subsidy.

Adopted by some cohousing communities, the idea here is that banks will grant mortgages based on the following formula: your total housing costs = mortgage+ taxes+ insurance+ monthly condominium fees may not exceed x% of your gross annual income. If the condominium fees are removed or reduced, the bank can give the home buyer a slightly higher mortgage. Over the years, the total mortgage costs will remain the same, but because of inflation costs, the home-owner's income will usually rise, so that gradually, the homeowner can afford to pay the condominium fees. The removal of $150 in condo fees will allow the buyer to qualify for something like $20-30K more mortgage, often enough to allow a young family to buy that extra bedroom they need. If structured correctly, the cost to each of the non-subsidized households is only a few dollars each month in the initial year and may be reduced to zero in 5 to 10 years.

Members may apply for a temporary removal of the monthly Coho (or Condominium) fees in order to qualify for a higher mortgage. Starting from the initial granting of the subsidy, the Coho fees will gradually rise, e.g.: a) in 5 annual steps of 1/5 of the regular fees. After 5 years the member pays regular dues, or… b) in accordance with member's ability to pay, if member provides the Dearborn Commons Coho Business Association with income documentation.

7. Maintenance Reserve Reinvestment

All home owner's association need to establish a maintenance reserve fund to prepare for the cost of maintenance and repairs in the future - roofs, hot water heaters, etc. Hopefully you won't need that money for 10 or 15 years since you chose to build a high quality, durable building. The reserve fund comes from an initial contribution by first buyers followed by monthly additional contributions. This fund, which can run as much as several hundred thousand dollars, is normally invested in bonds, or other safe interest bearing securities.

Some of this money (NOT ALL OF IT) can be re-invested in your own community. By establishing a relatively large reserve fund up front you can make 1) internal subsidies (investments) are possible, and 2) lower monthly contributions to the reserve fund, lowering home owners dues.

Some communities will invest a portion of this fund in its own members, through a buy-down subsidy. Your community can buy a portion of a unit (or, buy down the price of a unit) for a qualified member. Then, the member can repay this subsidy when his/her income allows, or when the unit is sold.

Since the units will be resold at market price the value of the original subsidy/investment rises with the value of the property. When the investment is returned, the community can either re-use this money to subsidize other qualified households, or simply repay the reserve fund. The finance committee will have to determine whether to co-own the subsidized units, or simply subsidize them and the decision will need to be balanced with the prudence of tying up the resources from the reserve fund, evaluating long term liquidity needs.

8. Unit Price Buy Down

Members may apply for a reduced price on their unit, financed by a buy-down subsidy provided by the rest of the membership. The price reduction will be determined by need according to certain criteria, including household size, and size of desired unit. At any time, a member can contribute an amount equal to initial portion of market price subsidized and thus buy themselves out of the obligation to return the subsidy upon sale of the unit. Otherwise, the member will return an amount equal to initial portion of market price subsidized proportional to the present market value of unit upon sale of the unit.

9. Design for Affordability - Capital Costs and Operating Costs

The project can be designed with affordability in mind. Simplicity and standardization are the goal to reduce capital costs (initial construction costs). In addition, making smaller units available will make your project affordable to more people - once they understand and believe in the value of the common house and how it can fit into and suppliment their lifestyle. These smallest units might be located close to the common house to allow for convenient use of CH facilities as a supplement to the small units.

Designing for affordability also means building a durable, low maintenance project. Obviously, you want to reduce long-term operating costs. Of course this competes with keeping capital cost down and a balance has to be achieved.

10. Shared Units

Other prospective members might be encouraged to consider sharing larger units, such as two bedroom “bi-master” suites. This can be done either as tenants in common (see 4. above), or as the owner-member renting to another resident-member. Obviously the households sharing a large unit will have to share a private kitchen.

11. Community Owned Rental Unit

Some prospective members can't afford to purchase. You can greatly expand economic diversity in your community by allowing for one or two rental units. Note that this can negatively effect mortgage qualifications and insurance underwriting.

Some communities own a rental unit together as a community. This has to go in the original budget, and must be accounted for in the original unit pricing. If you're building 25 units and one is going to be a rental the price of the 24 units that are for sale must be slightly higher, approximately 4% higher. As a community you will own that 25th unit, and you will have rental income from it.

In some groups a subset of the membership, usually five or six households, come together, pooling their money to purchase a rental unit as a group. They act much like a investment club, managing their assets and receiving rental income. This needs to be approved as a strategy by the whole community since it can negatively effect mortgage qualifications and insurance underwriting for other owners.

12. Participating Nonresident Owners

Some communities allow outside investors to purchase units as rentals. When doing this we always hope that the purchasers can be participating nonresident owners who are engaged in the community but do not live there. As a community you will want to set a limit on this. There is some debate as to what number of rentals is healthy in a cohousing community. Four rental units in a 16 unit community seems to work fine. Again, this needs to be approved as a strategy by the whole community since it can negatively effect mortgage qualifications and insurance underwriting for other owners.

13. Purchase of One or More Units by an Outside Affordable Housing Entity

Some communities allow outside affordable housing entities to purchase units as rentals. As good as this might sounds it can be challenging to implement because agencies, church groups or affordable housing programs who are capable of buying one or more units will have certain rules and “strings” attached. They will also have a decision making bureaucracy to be navigated, and they often take way too long to engage and make the necessary commitments. This needs to be approved as a strategy by the whole community since it can negatively effect mortgage qualifications and insurance underwriting for other owners.

(Note: please submit corrections, suggestion or comments to Chris ScottHanson so that the original of this document can evolve to be clearer, and more complete.)

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