VILLAGE OF NEW GLARUS

COMMUNITY DEVELOPMENT AUTHORITY (CDA)

Village Hall Board Room – 319 2nd Street, New Glarus, WI
March 25, 2024 6:00 p.m.

1. Call to Order
2. Approval of Agenda
3. Approval of 6.5.23 Minutes
4. Consideration/Discussion: Façade Improvement Grant Guidelines
5. Consideration/Discussion: Cooperative Housing Development
6. Village Administrator Updates
7. Adjourn

Greg Thoemke - Chairman
New Glarus Community Development Authority

POSTED: N.G. Village Hall 3/22/24
N.G. Post Office 3/22/24
Bank of New Glarus 3/22/24

Kelsey Jenson,
Clerk/Treasurer

PURSUANT TO APPLICABLE LAW, NOTICE IS HEREBY GIVEN THAT A QUORUM OR A MAJORITY OF THE NEW GLARUS VILLAGE BOARD OF TRUSTEES MAY ATTEND THIS MEETING. INFORMATION PRESENTED AT THIS MEETING MAY HELP FORM THE RATIONALE BEHIND FUTURE ACTIONS THAT MAY BE TAKEN BY THE NEW GLARUS VILLAGE BOARD.

PERSONS REQUIRING ADDITIONAL SERVICES TO PARTICIPATE IN A PUBLIC MEETING MAY CONTACT THE VILLAGE CLERK FOR ASSISTANCE AT 527-2510.

Village of New Glarus
Community Development Authority (CDA)
November 14, 2023 at 5:30 PM

The meeting was called to order at 5:31 p.m. by Chair Greg Thoemke. Members Present: Greg Thoemke, Peggy Kruse, Carol Hassemer, Dave Wyttenbach, Dave Staats, Mark Janowiak. Also Present: Village Administrator Lauren Freeman, Julie & Dan LeGros. Absent: Mike Marty

Agenda: Motion by Mark Janowiak to approve the agenda, second by Dave Wyttenbach. Motion carried.

Consideration/Discussion: Façade Improvement Grant Application for 301 2nd Street: Committee discussed the application's eligibility for the Façade Improvement Grant. The applicant withdrew their application. No action was taken.

Village Administrator Updates: Village Administrator Lauren Freeman provided updates on the Village Board's discussion of a new Tax Increment District (TID), New Glarus Hotel project, and a potential dog park.

Adjournment: Motion by Peggy Kruse to adjourn meeting, second by Mark Janowiak.

Minutes taken by:
Lauren Freeman, Village Administrator

Façade Improvement Grant Program Guidelines

Façade Improvement Grant Program Purpose
The purpose of the Façade Improvement Grant Program is to provide financial assistance for a portion of costs associated with publicly visible exterior building improvement projects that contribute to the visual appeal and viability of income-producing properties in downtown New Glarus. Attractive building facades and properties support and encourage local business and can have a significant effect on the attractiveness and marketability of the surrounding area. To encourage business owners and tenants to reinvest in the downtown area, the Village of New Glarus offers financial incentives, through small matching grants, to assist in the exterior improvement of these properties.

The eligible Façade Improvement Grant area is more specifically defined as the parcels and building within or immediately adjacent to the boundaries of Tax Increment District No. 4 (TID #4) (See attached map).

Whenever possible, applicants are strongly encouraged to use local contractors and financial institutions to complete all task associated with their property renovation.

Applicant Eligibility Requirements
Property owners of commercial/mixed-use structures (including multifamily residential) and building tenants, located within the defined downtown area, are eligible to request funding. The property owner must approve of the project if a tenant is the applicant. Buildings used exclusively as single-family or duplex residences, regardless of whether it is an owner or renter occupancy or an in-home business, are ***ineligible*** for funding. Governmental entities, religious institutions, non-profits, and public/quasi-public authorities are also ***ineligible*** for Façade Improvement Grant funding. Members of the Village Board, Community Development Authority, or any other official, employee, or agent of the Village of New Glarus, who exercises decision-making functions or responsibilities in connection with the implementation of this program are ***ineligible*** to participate in this program nor shall participate in the decision for grant applications for their business or family member business. A majority of the exterior building improvements must be visible from the public right-of-way.

Grant Amounts and Bidding Requirement
The Façade Improvement Grant program has an annual allocation of $40,000. Grants may be provided in an amount not to exceed fifty percent (50%) of the total project cost, or a maximum award of $6,000 per property for eligible exterior improvements. Alternative amounts may be approved by the Village Board on a case-by-case basis. The applicant/owner/tenant must document their matching fifty percent (50%) financial contribution with non-Village or non-Community Development Authority (CDA) funds. Total grant funding for any single property may not exceed two (2) grants within any four (4) year period. Applicants shall obtain and submit at least two (2) written bids or cost estimates for eligible project expenses from different contractors, or provide the CDA with a detailed, written explanation as to why it is not feasible to meet this requirement.

Applicants are eligible to complete the proposed façade improvement work themselves, with the following restrictions:

- The proposed project does not require a building permit (minor repairs only)
- The grant may cover the cost of materials and equipment rental needed to complete the project; labor costs will not be eligible for grant funding
- Applicant shall submit a detailed budget with costs quoted for materials and equipment rental in lieu of the two-bid requirement

Eligible Expenses

Eligible exterior/façade improvements include, but are not limited to, the following:

- Façade restoration, including documented historic elements
- Landscaping
- Masonry repair, tuck-pointing, and cleaning
- Exterior painting
- Doors and entrances
- Code compliant signage
- Code compliant awnings
- Exterior lighting
- Window repair or replacement
- Professional installation and labor costs related to exterior projects

Ineligible Expenses

As this program is primarily intended to maintain the historic and Swiss look and feel of the existing building stock in the downtown area, the following expenses are not eligible under this grant program:

- New building construction or interior improvements
- Tinted windows
- Non Code compliant awnings or signage
- Electric signage
- Security systems
- Roofing or roof repairs
- **Renovations not previously approved by the Historic Preservation Commission, Plan Commission and/or Swiss Design Review Committee**
- Land acquisition
- Operating equipment
- Furnishings
- Inventory
- Operating expenses
- Paving
- **Renovations started prior to receiving final approval of the grant request**

The Village maintains a separate Revolving Loan Fund program where some of the ineligible façade grant activities may be deemed eligible for revolving loan fund consideration.

Grant Performance Requirements

Within six (6) months of Village Board approval, applicants must enter into a grant agreement with the Village, obtain a building permit, **and commence work**. Projects, including final inspection, shall be completed within twelve (12) months from the date of Village Board approval. Extensions to the completion period may be granted for inclement weather, or the ordering of special building materials. The applicant must request an extension from the Village

Board in writing. The Village will notify the applicant in writing of its approval or denial of the grant request, and any requested extensions.

The applicant shall comply with all Village ordinances relating to the project. The applicant shall assist and actively cooperate with the Village to ensure contractors comply with all applicable provisions of the Ordinances, and with the rules, regulations, and relevant orders issues by the Village pursuant to such provisions of the Ordinances.

Program Administration
Initial applications for the grant program will be reviewed by the Village's Community Development Authority, who will provide a recommendation to the Village Board on whether to grant the request. Applications will also be reviewed by the Swiss Design Review Committee if they are located within the Swiss Design Overlay. Projects deemed eligible for funding are subject to Village Board approval. As applicable under Village Ordinances, projects shall be reviewed for code compliance by the Historic Preservation Commission and/or~~,~~ Plan Commission~~, and/or Swiss Design Review Committee~~ prior to Village Board review of a façade improvement grant application. Successful applicants are required to enter into a grant agreement contract with the Village in order to receive funding.
In order to qualify, the applicant cannot start on their project until after receiving all necessary approvals and permits. If work begins before application approval, the Village shall not fund the project with a Façade Improvement Grant.

Applicants must be in good standing with the Village of New Glarus, with current taxes and fees paid in full, and no outstanding building code violation citations, and must provide proof of property and liability insurance prior to start of grant performance period. Applicants shall not be disqualified based on age, race, religion, color, handicap, sex, physical condition, development disability, sexual orientation, or national origin.

Grant awards under this program are subject to funding availability, and nothing herein shall create an obligation for the Village to provide any grant funding to any applicants. The grant program awards are considered first-come, first-serve. Approved grant applicants shall provide a before and after photo of their property for grant documentation. Additionally, the approved grant applicant shall submit all receipts of grant work completed to be reimbursed the approved grant amount. The applicant's matching costs should be documented in the receipts as well.

Please see the Façade Grant Application Form for additional terms, conditions, and information on the application procedure. All questions should be directed to the Village Administrator at 608-527-5971 or adminsitrator@newglarusvillage.com.

Green County Housing Cooperatives
The Cooperative Development Process*

	Physical Development	**Organizational Development**
Step 1	Project Concept • Neighborhood selection • Identifying likely market • Draft concept paper?	Creating the cooperative corporation • Articles of Incorporation (requires founding members) • Bylaws
Step 2	Site evaluation and selection using market demand studies and feasibility analysis • WEDC grant for feasibility study	Preparing an owner handbook • Often contains: Articles, Bylaws, purchase agreement, occupancy agreement, rules, narrative description of ownership, governance and operations, financial details of operations
Step 3	Preliminary financing decisions and preparation • Equity • Debt • Grants, social investment	Marketing the cooperative • Marketing plan • Community meetings, newspaper articles, web lists, waiting lists of qualified buyers
Step 4	Finalizing assembly of the development team • Architects, engineers, attorneys, sponsor/developer, possible contractors	Owner Education • Ownership basics, governance, Board basics, financial management, owner screening and training
Step 5	Financial packaging • HUD programs • Local opportunities?	Purchasers become owners • Usually coincides with when building is complete and operations begin
Step 6	Essential commitments • Firm property purchase price • Construction costs with drawings • Loan and social investment commitments • Equity commitments	Transition to owner control • Board control by the sponsor/developer usually ends at the first annual meeting of cooperative owners when they elect a new board • Takes place when property is ready for occupancy and a given percentage of cooperative interests have been sold
Step 7	Property acquisition and construction	Board of directors training • Ongoing

	• Construction process monitoring • Constitution changes	• Cooperative housing associations • UWCC
Step 8	Operations start-up • Property management plan (self-management, management consultant, management company)	

* taken from *Home Base: The Playbook for Cooperative Development*, NCB Capital Impact, https://coophousing.org/wp-content/uploads/2022/04/Home-Base-the-Playbook-for-Cooperative-Development.pdf

HOME BASE

The Playbook for Cooperative Development

ncb
capital impact™

ACKNOWLEDGEMENTS

NCB Capital Impact would like to thank the following organizations and people for their support and dedication to making this publication possible in order to create more affordable cooperative homeownership opportunities:

NCB provided funding for this project. About NCB:
National Cooperative Bank is now simply NCB. While our name and look have changed as of October 1, 2006, our commitment to our customers remains as strong as ever.

NCB is dedicated to strengthening communities nationwide through the delivery of banking and financial services, complemented by a special focus on cooperative expansion and economic development.

Primary markets we serve include the basic ingredients of vibrant communities: housing, education, healthcare, cultural centers, local businesses and social services. In addition, NCB has a growing community banking network in southwestern Ohio.

Since being chartered by Congress in 1978, NCB has answered the financial needs of America's cooperatives and member-owned businesses for more than 25 years. NCB is distinctly qualified to understand first-hand the challenges facing cooperatives, having become one in 1981, and today boasting more than 2,600 customer-owners and more than $6.19 billion in assets under management.

About NCB Capital Impact
NCB Capital Impact, the non-profit affiliate of NCB, provides financial services and technical assistance designed to spark systemic change and empower communities to create more affordable cooperative homeownership, assisted living, housing and services for the frail and elderly, and facilities for health care centers and charter schools.

Also, thanks to:

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INTRODUCTION:

Sliding Into Home

IF LIFE WERE A BASEBALL GAME, homeownership would be like sliding into home base. Just as players reach for the plate with their outstretched fingers, aspiring homeowners reach for their "home base"—a place to call their own; a place that gives them a stake in their community; a place that keeps them safe. Unfortunately, home base can be out of reach for many. Skyrocketing real estate prices, building management practices, and other external factors have made owning an apartment, condominium or single-family home difficult at best, and oftentimes impossible.

Cooperatives can change that. Cooperatives are the pinch hitters that can help players round third and slide into home. They offer a homeownership model that allows residents to create wealth through reduced monthly housing costs and by building equity over time. Additionally, cooperatives empower residents by giving them control over building management and operations.

The benefits of cooperatives include:

- Lower costs related to converting cooperatives, as compared to condominiums
- Lower cost of homeownership through reduced per-unit land and construction costs as compared to single-family homeownership
- Preserving affordability of homeownership in order to meet policy goals
- Shared involvement of resident owners in asset and building management
- Avoiding displacement of longtime residents upon expiration of affordable housing subsidies and restrictions (including Low Income Housing Tax Credits)
- Provides an elegant exit strategy for owners of existing rental buildings, for whom the building's residents provide a highly motivated buyer.

So how do you slide into home? This guide is designed to help show you how cooperatives are created. Specifically, it provides resident associations a better understanding of cooperatives, the development process, and how to be smarter consumers. It also provides sponsors and developers with a detailed overview of cooperative creation through both new construction and conversion.

NCB Capital Impact provides technical expertise to cooperative developments nationwide. While there is no substitute for experience in real estate development, this guide draws on the organization's experience to help new players assemble a development team and understand the game plan, including:

- How to convert or construct a housing cooperative
- How to finance the development of a housing cooperative, including sources of funds
- A basic curriculum for training resident owners and their boards of directors

We are excited to share this information to help demystify the development process for housing cooperatives, and thereby increase the supply of this valuable form of affordable housing. Now let's play ball!

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THE GAME PLAN:

Understanding Co-op Basics

WHILE SINGLE-FAMILY HOMES and the land under them can be cooperatively owned, the ownership structure is most often used in multi-family buildings. The close proximity of residences facilitates relationships among the co-op resident/owners. It may encourage community ties based on neighborly interactions.

THE GAME: A housing cooperative, like a condominium or a single-family subdivision, is a framework for home ownership. Cooperatives bring people together to own the building in which they live.

THE PLAYERS: All types of people at all income levels live in co-ops. Every race, ethnic group, profession, and age group is represented. Famous examples of luxury cooperatives include the Watergate in Washington D.C. Another example is the Dakota in New York City where Leonard Bernstein, Roberta Flack, and John Lennon lived. Some co-ops accommodate senior citizens by offering special activities and services designed with their interests in mind. Some even limit ownership and occupancy solely to seniors. Other co-ops are set up to serve the interests of artists (loft-type structures), college students (even providing meals and study areas as well as a place to live), or people with a variety of disabilities. Other cooperatives are designed specifically to be affordable to low and moderate income people. Most often, co-ops represent a mix of people in many different circumstances.

THE PLAYING FIELD: Cooperative ownership can be applied to any type of multiple-unit physical structure or even the division of bare land. Physically, co-ops can be made up of townhouses sharing walls with the homes next to them; single family or duplex structures; garden apartments; walk-ups; mid-rise and high-rise buildings; fraternity-style or dormitory structures for students; individual building sites within a cooperative subdivision; manufactured housing parks; and even marinas.

While single-family homes and the land under them can be cooperatively owned, the ownership structure is most often used in multi-family buildings. The close proximity of residences facilitates relationships among the co-op resident/owners. It may encourage community ties based on neighborly interactions. Usually, all of the residences in a co-op are "under one roof," where the expenses are more likely to impact all owners. Families living in nearby single-family homes could be part of a co-op, but residents with a vested interest in shared property are more likely to be part of a co-op.

THE RULES: Owners/residents democratically control the building's management and operation. They come together as a corporation and pay a monthly amount that covers the buildings' costs, including the costs of maintenance, operations, property taxes, insurance, and principal and interest payments on the cooperative's mortgage.

THE GOAL: People become homeowners by buying shares in the co-op. Their shares give them the right to occupy a particular apartment, townhouse, or dwelling. The cooperative corporation itself owns the land and buildings. Together, the residents own 100 percent of the cooperative, while the cooperative owns 100 percent of the real estate/property title.

How does a housing cooperative work?

Cooperative owners each own a cooperative interest that is the combination of two things:

1. The co-owner's ownership interest in the cooperative corporation (represented by a certificate of ownership or corporate shares), and
2. An exclusive right to occupy a particular dwelling unit (that is owned by the cooperative corporation), which is represented by an occupancy agreement or proprietary lease.

Each ownership interest gives the co-owner a pro-rata undivided interest in the cooperative's property as a whole and the right to participate in the democratic governance of the cooperative. This pro-rata undivided interest means the owner has a proportionate part of ownership of the corporation that owns the land and buildings. The owner's right to occupy the specific dwelling unit continues as long as the individual is both a co-owner of the cooperative and abides by the occupancy agreement.

THE VALUE OF SHARED EQUITY

One of the greatest affordable housing challenges is the growing gap between what people can afford to pay for housing and what it costs. This gap between needs and available resources has widened so significantly that many policy makers and developers are questioning the traditional model of dividing all housing into ownership and rental. Under a "shared equity" approach, the appreciating value of the property is controlled and leveraged to promote affordable housing. The models created around the country that capture this "shared" equity approach vary. Limited equity cooperatives, community land trusts, and deed-restricted homes are the most common. In addition to enabling long-term affordability, these models often address rising housing costs, such as insurance, heating fuel, and maintenance by approaching them on a shared basis, providing for economies of scale. As of 2006, over half a million homes have shared equity and the numbers are rapidly growing.

In contrast, when a condominium unit is purchased, the individual is purchasing the title to real estate. That real estate includes everything from the air space to the paint on the back walls of the unit, plus a pro-rata undivided interest in the common elements of the buildings and land. Certain costs involved in developing and purchasing condos are higher than for cooperatives, since in a condo each unit is a separate piece of real estate and each unit sale a separate real estate transaction. Both condos and co-ops offer similar homeownership benefits like financing, tax deductions and equity building.

How are cooperatives financed?

Many advantages of cooperative homeownership come from the flexibility available in cooperative financing. Because the cooperative corporation owns the land and buildings as a whole, the cooperative can mortgage the property as a whole. Co-op corporation ownership is financed with a "blanket" or "underlying" mortgage. The cooperative can use a blanket mortgage to pay for the initial acquisition of its real estate, refinance existing debt, or finance major improvement and rehabilitation projects.

Because each individual cooperative homeowner has an ownership interest, he or she can borrow against that interest in the same way that a single-family or condominium homeowner can borrow against his or her ownership interest. This is known as a "share loan."

Cooperatives can be financed using only blanket debt, only share debt, or a combination of the two. Government funds or even grants can also be applied to financing the blanket or share loan. This allows cooperative developers a great deal of flexibility in matching the financial circumstances of the people likely to buy into a particular co-op.

How are cooperatives managed or maintained?

Cooperatives operate at cost. This means that the cooperative's annual budget reflects its best estimate of the exact cost needed to properly operate and maintain the building(s). These costs can include management, maintenance of the grounds and building structures, funding appropriate reserves, paying property taxes and insurance for the cooperative, and making principal and interest payments on the co-op's blanket mortgage.

Cooperatives can either hire a property management company to manage the building or decide to "self-manage" the property by hiring their own employees to operate and maintain the property. If the property is very small, cooperative owners may even play a role in property operations, depending on the cost and the available time and expertise of cooperative owners.

Homeowners pay monthly charges consisting of their proportionate share of one month's worth or one-twelfth of the cooperative's annual budget. The size and location of the apartment can affect the amount or proportion of the resident's monthly share. These monthly payments are referred to by different co-ops as "occupancy charges," "carrying charges," "housing charges," "assessments," or "maintenance charges." We will refer to them as occupancy charges.

At the end of each fiscal year, any surplus from the occupancy charges is used to benefit all of the member-owners. The funds can become part of the next year's budget, keeping increases in occupancy charges to a minimum. These net savings can also be added to the co-op's reserves for future needs, such as building repairs. Or they can be returned to the homeowners as dividends in proportion to each owner's monthly occupancy charge. This last option is a unique feature of cooperative ownership.

What is the difference between "market rate" and "limited equity" cooperatives?

Developers can choose to create different types of cooperatives. Some cooperatives limit resale prices to keep ownership affordable to succeeding generations of buyers. They are called "limited equity" cooperatives. In most limited equity cooperatives, a formula determines the maximum amount the seller can charge for his/her shares upon leaving the cooperative. The intent of such limitations is to assure continued affordability of the housing to limited income buyers. "Market rate" cooperatives, on the other hand, allow outgoing homeowners to sell their shares at whatever price buyers are willing to pay.

OWNERSHIP VARIATIONS
Different Ways to Play the Game

This guide focuses on the most basic of cooperative ownership structures: the "fee simple" cooperative. In the fee-simple cooperative, the cooperative corporation owns all of the land and buildings and the individual cooperative members own all of the cooperative interests. But variations of this exist and are used to meet a variety of specific needs – both organizational and financial. The variations include:

Land Leases/Land Trusts –The land on which the cooperative structures are built is owned by a third party (i.e. neither the cooperative corporation nor its members), which grants a long-term lease of the land to the cooperative corporation. The cooperative corporation owns the improvements (buildings, etc.) on the land. Cooperatives generally involve land leases or land trusts for one of two reasons:

1) the land itself is quite valuable and the owner wishes to retain a long-term interest in order to redevelop it after the lease period; or
2) the land lease provides for the enforceability of important restrictions on the use of the land, such as the ongoing affordability of acquisition and occupancy of the housing constructed on it. The lease/land trust provides the landowner/trustee with a compelling means to enforce resale and cost restrictions on both individual cooperative interests and the cooperative improvements as a whole.

Leasehold Cooperatives – A variation on the fee-simple cooperative ownership structure. In leasehold cooperatives, a third-party entity owns the land and buildings in fee simple and rents them as a whole to the cooperative corporation. Cooperative interests become interests in the corporation's leasehold rights (rather than its ownership rights) with coupled governance rights similar to those found in fee-simple cooperatives. Leasehold cooperatives are most often created to allow for the use of Low Income Housing Tax Credits (LIHTCs) in financing cooperative development. Due to the nature of the LIHTC program, the holders of the tax credits must be the actual owners of the housing in order to qualify to use the credits to reduce their federal income tax liabilities. However, the holder of the tax credits may not also be a resident of the building. In many cases, the leasehold cooperative may have the right of first refusal at the end of the LIHTC compliance period.

Mutual Housing Associations – This term has been used to describe a wide variety of situations. It may denote a situation in which a non-profit organization owns one or more sets of land and buildings that are cooperatively operated by their residents or substantially involve residents in asset or building management. In this situation, the non-profit organization may have a governance structure composed solely of representatives of cooperative co-owners; of cooperative co-owners and representatives of the communities in which the cooperatives are situated; or solely of community representatives.

Or it may denote a situation in which one or more fee-simple cooperatives come together to create a non-profit organization that provides professional management or other services to its member-cooperatives on a mutual basis. In this situation, the governance structure of the non-profit is likely to be composed largely or exclusively of representatives of the cooperative co-owners. Mutual housing associations are generally created to provide strength and stability to small cooperatives or as an alternative method of assuring long-term housing affordability.

In other cases, mutual housing associations can be a permutation or combination of the two situations.

Land-Only Cooperatives – These cooperatives involve a situation in which the land itself (and certain common improvements) is owned cooperatively but the dwelling units are owned individually by members of the cooperative. This may include boats in a marina, manufactured housing units on pads in a manufactured housing or "mobile home" park, or even conventionally built single-family structures.

AT-A-GLANCE: Housing Comparison Chart

	MARKET RATE CO-OP	LIMITED EQUITY CO-OP	CONDOMINIUM	RENTAL	SINGLE FAMILY
OWNERSHIP	Owner residents are sole owners through a corporation, which owns the land and buildings. Each owner has exclusive rights to occupy a particular dwelling unit in perpetuity.	Same as a market rate co-op	Unit owners take title to the air space to the back of the paint on the walls of a particular unit plus an undivided interest in the land and buildings.	The landlord owns the land and buildings. Each tenant has the exclusive right to occupy a particular unit during the term of the lease.	Owners take title to the land and building.
MONTHLY COSTS	Homeowners pay monthly operating costs to the cooperative—a proportionate share of total operating costs, blanket debt principal and interest, property taxes, insurance, and reserves. Homeowners with share loans make individual principal and interest payments directly to the share lender.	Homeowners pay monthly operating costs to the cooperative—a pro rata share of total 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, a credit union, nonprofit, or governmental entity. Homeownerswith share loans make individual principal and interest payments.	Homeowners pay monthly condo fees to the condominium association—a pro-rata share of total operating costs, insurance, and reserves. Homeowners with mortgages make principal and interest payments directly to each lender. Each owner makes his own property tax payments through monthly escrow or directly to the local government.	Tenants pay the rent amount specified in the lease, which may include the landlord's profit margin, typically based on the highest price the market will bear, rather than actual costs.	Homeowners 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.
MAINTENANCE & REPAIRS	Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance repairs between individuals and the cooperative.	Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance repairs between individuals and the cooperative. 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 owners.	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.
PURCHASE PRICE/ MOVE IN COSTS	Purchaser pays market price for shares/ ownership. 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 low price for shares/ownership. 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 the condo unit. Purchaser becomes obligated to pay monthly condo fees. Closing costs include legal fees, recording costs, and title insurance.	Tenant typically pays first and last month's rent plus a security deposit.	Purchaser pays market price. Closing costs include legal fees, recording costs, and title insurance.

continued on next page

AT-A-GLANCE: Housing Comparison Chart

	MARKET RATE CO-OP	LIMITED EQUITY CO-OP	CONDOMINIUM	RENTAL	SINGLE FAMILY
FINANCIAL LIABILITY	Homeowners have no personal liability on cooperative's blanket loan. They are obligated under their occupancy agreement to make monthly operating cost payments to the cooperative. Homeowners with share loans are personally liable to the share lender for the amount of the loan.	Same as a market rate co-op	Homeowners 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 until the end of the lease term.	Homeowners with mortgages are personally liable to their lenders for the amount of the loan and are responsible for home maintenance costs.
COMMUNITY CONTROL	Cooperative has the right to approve all potential buyers. Cooperative can terminate ownership and evict residents who violate the occupancy agreement, forcing them to sell their shares to new buyers. Homeowners democratically govern the cooperative and elect a board of directors to oversee operations.	Same as market rate co-op.	Condominium association has little to no control over the sale of units or behavior of unit owners. Unit owners democratically govern the condo association and elect a board of directors to oversee operations.	Tenants have no voice in who moves in and no control over the behavior of other residents.	Owners have no control over who moves in nearby and no control over the behavior of neighbors. Owner has the right to sell or rent their home to the buyer or tenant of their choice.
FACILITIES IMPROVEMENTS	Three methods are available to finance cooperative rehab, replacements, and improvements: 1) assessment of individual owners for their pro-rata share of the total rehab cost; 2) establishment and funding of replacement reserves; 3) new long-term blanket financing.	Same as market rate co-op	Two methods are available to finance condo rehab, replacements, and improvements of the common elements: 1) assessment of individual owners for their pro-rata share of the total rehab cost; 2) establishment and funding of replacement reserves.	The landlord is responsible for rehab replacements and improvements.	The owner is responsible for rehab replacements and improvements.
PROPERTY MANAGEMENT	Cooperative owners democratically elect a board of directors, which hires and oversees property management firm or can self-manage.	Same as market rate co-op.	Unit owners democratically elect a board of directors, which hires and oversees property management firm or can self-manage.	The landlord hires and oversees a property management firm or uses its own management firm.	Owner is individually responsible for property management and all aspects of the property.

AT-A-GLANCE: Housing Comparison Chart

	MARKET RATE CO-OP	LIMITED EQUITY CO-OP	CONDOMINIUM	RENTAL	SINGLE FAMILY
TAX BENEFITS	Cooperative owners enjoy all of the income tax benefits of homeownership, including deduction of the interest on their share loan, their portion of property tax payments and the interest on the blanket loan. In most states, owners receive whatever property tax benefits are available to other homeowners.	Unless the cooperative has given them up in exchange for tax-exempt financing or nonprofit corporation status, cooperative owners enjoy all of the income tax benefits of homeownership. In most states, owners 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.	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.	Tenants receive no income tax benefits of homeownership. In most states, rental properties incur higher property taxes than owner-occupied housing. The higher taxes are often passed through to tenants as part of their rent.	Owners enjoy all of the income tax benefits of homeownership. In many states, homeowners receive some property tax benefits in the form of lower assessments or lower tax rates.
HOME EQUITY	Cooperative owners build equity as the value of their cooperative interest increases and as their share loan debt is paid down.	Growth in equity is limited through a restriction of resale prices. Generally a formula is used to determine the resale price and the portion that the seller will receive of the increased value of their cooperative interest.	Unit owners build equity as the value of their unit increases and as their mortgage is paid down.	Any increase in value belongs to the landlord and typically reflects itself in increased rents. The tenant receives no benefit from the increased value.	Owners build equity as the value of their home increases and as their mortgage principal is paid down.

2

UP TO BAT:

How to Get a Co-op Started

SOME CO-OPS GET STARTED, literally, from the ground up — what is called new construction. Others begin with the acquisition and rehabilitation of vacant buildings. Still other co-ops involve the conversion of an existing, occupied rental property to cooperative ownership — with or without major rehabilitation.

THE COMPLEX TASK of creating housing cooperatives or any multifamily residential building requires diverse skills and expertise in real estate development, finance, marketing, law, engineering, architecture, and project management. The cooperative development team must bring those skills together. Because *Home Base* is a manual about co-op development, all of the development steps are focused on co-ops. However, the basic steps outlined are usually required for any well-conceived multifamily residential development, whether co-op, condo, or rental. The complicated real estate development process is by no means unique to the cooperative form of ownership.

Devising a Winning Strategy: Planning and Preparation

Some co-ops get started, literally, from the ground up — what is called new construction. Others begin with the acquisition and rehabilitation of vacant buildings. Still other co-ops involve the conversion of an existing, occupied rental property to cooperative ownership — with or without major rehabilitation. Major differences in the development process will stem from the presence of residents in an existing building. In the case of conversion of a rental building, existing residents are the best and most likely source of owners for the planned cooperative.

The number of units in an existing building or a planned building will greatly impact the complexity of the project and the number of people needed for the development team. It's possible to create a small co-op, but there are a number of costs that do not vary much, regardless of the size of the project. Because of this, it may not be as cost effective to create a small co-op as to a large co-op. A conversion project can be feasible with at least 25 units, though 50 units would be better.

Small co-ops are harder to create and harder to operate once in place. When there are fewer than 25 units, it is difficult to attract and pay for the cost of a professional property manager. It is also difficult for a small co-op to maintain leadership because the responsibilities of serving on the board can't be passed to as many individuals as in a large co-op. These factors are important to consider in planning new construction or conversion of a cooperative.

WILL THEY BE FANS OR PLAYERS? *Existing Residents*

Where there are existing residents, it is critical to know the degree of resident support for a cooperative, what role they want to play in the development and conversion process, and whether or not there are any prohibitions on resident displacement. Such prohibitions on displacement can come from state or local laws, existing federal or state contracts, or from local governments or governmental agencies. Prohibitions can also be a condition of any social financial investment that will be necessary to make the cooperative affordable to its target market. Any such prohibitions must be a central consideration in planning a cooperative conversion and determining its feasibility. Residents who wish to stay and not purchase into the cooperative may need to remain as rental tenants of the cooperative. The latter case happens when the residents cannot legally be displaced for some reason or if the cooperative does not wish to evict them.

The presence of an existing group of residents will lead to differences in marketing strategies, timing of owner and board training, and the early involvement of prospective owners in the development process. Other aspects of development will be the same, whether or not there are existing residents.

Who are the players? The Development Team

A development team is the group of people that make the cooperative happen. It can comprise members of a single organization or bring together many individuals and organizations.

The Players:

Sponsor
Coordinator/Project Manager
Financial Packager
Attorney
Architect and Engineer
Marketer
Trainer
Management

The full team described in this section would most likely be used in a large project, approximately 150 units or more. In smaller co-op development, multiple roles may be played by a single person.

Roles of the Players

SPONSOR

For every cooperative, there is a development sponsor: a person or organization who is the final decision-maker, takes responsibility for outcomes, and provides the energy to carry the process through. The sponsor can be an individual or organization, for-profit or non-profit, with real estate development experience. It can also be a church group or charitable organization with little or no development experience, an apartment owner seeking a fair price for the property, or a well-organized group of residents looking to buy their building. Whether the sponsor puts up a substantial investment or obtains most of the necessary start-up funding from other investors or cooperative owners, its effectiveness will come from having a substantial stake in the outcome of the development process whether it is money, ideology, or reputation.

Responsibilities

During the project concept phase, the sponsor explores options, assesses needs, learns the co-op process, and formulates a plan. By the end of this phase, the sponsor should have the appropriate team and plan prepared to finance and implement the project in a professional manner. The sponsor should also understand state law and procedures as they relate to co-op formation. (Chapter 3 will address details of the project concept and planning phase.)

Skills

Few sponsors have all of the skills and capacities necessary to carry out every task involved in cooperative development. Therefore, the rest of the development team provides additional skills and capacities. Beyond the members of the development team, the sponsor will generally reach out to lenders, community groups, community leaders, and local, state, and sometimes even offices of federal agencies to provide critical resources to the development process.

COORDINATOR/PROJECT MANAGER

Next to the role of sponsor, the most critical role that must be filled is the development coordinator or project manager. When the sponsor is a for-profit or non-profit corporation with substantial real estate development experience, a member of its staff typically fills this position. This individual or organization will oversee the entire development process.

Responsibilities

While various individuals on the team will manage important aspects of the cooperative development, it is the development coordinator who will:

- Oversee the creation of a business plan, timeline, and development plan
- Assemble and contract with the architect, attorney, and other members of the development team
- Ensure that the development team tasks are being completed on schedule
- Coordinate meetings of the team

- Oversee and assist team members with their tasks
- Create and update a financial pro forma and apply for financing, or oversee and work with the financial packager to do this
- Facilitate cooperation and communication among team members
- Ensure all government and other approvals are completed on schedule
- Oversee the creation of the cooperative corporation, consistent with state legal requirements
- Make sure that residents and/or purchasers are fully informed and appropriately involved in the development process. This last step is especially critical when existing residents are in place.

Skills

To be effective, the coordinator must have excellent communication, political, and project management skills. Ideally, the individual or organization that fills the role will also have two sets of critical expertise– in real estate development and finance, and in housing cooperative organizational structure and operations. At a minimum, the development coordinator should have substantial expertise in one of these areas and be ready to work closely and effectively with a team member that has substantial expertise in the other area.

FINANCIAL PACKAGER

Sometimes this responsibility falls to the development coordinator/project manager. The financial packager obtains the financing, often from a variety of sources, and is a critical component to cooperative development.

Responsibilities

The role of the financial packager involves:

- Analyzing and presenting financing options for the cooperative based on market analysis, incomes of existing or projected residents, construction and/or rehabilitation requirements, and acquisition prices
- Assisting in the preparation of applications for pre-development loans from government programs or private sources to cover fees for architects, attorneys, and other expenses before construction
- Assisting in the preparation of the financial proforma, including the development budget and first-year cooperative estimated operating budget
- Participating in contract negotiations for property acquisition
- Preparing applications for loans, subsidies, and other forms of investment
- Assisting in the selection of and communication with lenders
- Monitoring the construction/rehabilitation program from a financial perspective and updating the pro forma accordingly
- Providing input in drafting cooperative documents, developing marketing programs, establishing cooperative operations, and arranging for owner training that complies with social investment requirements.

A sound development process will require the consideration of several basic financing options and likely many changes to the original option chosen as events and complications unfold.

Skills

The financial packager must be imaginative, able to "make the numbers work" to meet the cooperative's future needs, and have access to funding sources.

ATTORNEY

To successfully develop a housing cooperative, a number of complex legal hurdles must be cleared. The sponsor or developer needs an attorney who can navigate the many legal issues that arise during the development process.

Responsibilities

The development team attorney plays a number of important roles and is crucial to:

- Negotiating the purchase of land or an existing multi-family building
- Negotiating and drafting contracts between the sponsor and outside members of the development team
- Reviewing and negotiating loan documents
- Drawing up the documents that structure the legal existence of the cooperative corporation and its relationship to individual cooperative owners
- Helping to file the necessary application and plans for the creation of the co-op corporation
- Explaining the legal structure and requirements of the cooperative corporation, if an existing resident group is the sponsor.

Skills

The four primary considerations in selecting an attorney are: expertise, flexibility, capacity, and fee.

- *Expertise* refers to the experience and skill the attorney will bring to the development process. Among the skills that may be needed are negotiation, resident education, and possibly litigation. Areas of knowledge required should include cooperative experience, tenant statutory rights, real estate contracts, partnership and non-profit corporate structure, conversion of ownership form from landlord to cooperative ownership, tax implications, financing, and the structure and management of cooperatives.

- The attorney should have the *flexibility* to work in non-traditional ways. Where an existing group of residents is involved or a deep social investment is sought, the attorney may need to spend time patiently responding to questions at night or weekend meetings. Creativity may be needed to solve financing problems or resolve conflicts among the sponsor, residents, social investors, and community representatives who each have a stake in the development. The attorney must be accessible — willing to return phone calls promptly and available to answer questions and deal with problems as they arise.

- *Capacity* refers to an attorney's time and supporting resources. An attorney may be experienced in all areas but not have the time to commit to a new project. A less experienced attorney on the other hand, may have sufficient time to learn new subjects but will need to consult with other attorneys in order to do a competent job. Supporting resources are especially important when litigation is involved.

- Attorney *fees* can be a significant part of the soft costs of cooperative development. Soft costs are out-of-pocket expenses that are not directly related to property acquisition, construction, or rehabilitation. One way to reduce fees is to have more than one attorney. If the sponsor is a thinly funded community nonprofit or a low-income resident group, it may be necessary to rely to some extent on free legal assistance. Specialized issues involving cooperative structure, tax questions, or

Hirer Beware

It is not advisable to have a building resident act as an attorney for either the development team or a resident group, particularly for free. No matter how willing a resident/attorney may be to help out, paying clients and other demands often overshadow good intentions. Cooperative development is a unique field and requires specialized expertise. Lastly, there is potential for perceived or real conflict of interest and exploitation.

Neither is it advisable to try to lower legal fees by limiting the attorney's scope of work too tightly. At a minimum, all cooperative documents and contracts should be drafted or reviewed by and discussed with the attorney. The attorney should take the lead in assuring that state corporations and securities requirements are met.

syndication scenarios may arise, requiring the expertise of a specialty attorney. It is important that one specific attorney has the clear responsibility for an end result, no matter how many attorneys or other professionals contribute to the work. Many attorneys will defer payment for a large part of their fees until construction financing.

ARCHITECT AND ENGINEER

Early in the development process, the need for architectural and engineering reports will arise. In new construction, these professionals will be called upon to analyze prospective sites and make judgments as to what can reasonably be built and whether the location is desirable. Construction plans must meet local zoning restrictions. Utility and sewage lines must be readily available or affordable to install. The stability of the soil, the purchase price, and the number and type of units to be built are crucial early considerations.

Responsibilities

Where existing structures are involved, early reports will provide a preliminary building evaluation of the structures and their environmental hazards. A "Phase 1 Environmental" report from an environmental engineering firm will detail any evidence of concerns -- for example lead paint, asbestos, underground storage tank leakage, etc. The engineer's evaluation (of mechanical systems, structure, roof, etc.) should describe the building, including apartment unit plans, and evaluate the major systems like plumbing and electricity. It should make recommendations for rehabilitation based on code requirements, energy conservation, resident need, and sponsor/cooperative input into amenities and materials required to meet market conditions. The evaluation should include a statement of probable construction costs for a variety of scenarios – from minimal upgrades to optimal improvements. These financial estimates are crucial to the financial packager who will use them to create the development budget, projected annual operating budget, sources and uses, cash flow projections, and other financial pro forma needed for initial loan applications.

Skills

The architect should be familiar with local building codes and approval processes, be creative in design, be able to communicate well with the sponsor/cooperative, and depending on the construction management method chosen, have good construction management experience that ensures the construction timeline is met.

MARKETER

In order for the cooperative to come into being, individuals must purchase cooperative interests. Some person or organization that is part of the development team needs to identify those people and help them buy into the co-op.

Responsibilities

When already in place, residents represent the most logical marketing prospects. Often, one or two tenant leaders who understand cooperatives and are supportive of the effort can have a major impact in marketing to other tenants. When there are existing residents, the primary marketing task is to organize and train the existing residents. Communication skills, an understanding of cooperative structure and operations, and a profound respect for the needs and capacities of the resident population are required.

When the cooperative needs to identify additional buyers, it is important to educate local real estate brokers on cooperatives and enlist their involvement in advertising and marketing campaigns to identify potential purchasers. It may be necessary for the cooperative to hire a real estate agent to ensure that the cooperative sells out.

When an existing owner of a rental building wishes to convert the building to a cooperative, the property management company will often be the most important player in defining the success of the conversion. Nothing better demonstrates the advantages of ownership than converting to a more effective, resident-responsive management style. An overlap between management and marketing can also reduce development costs.

Skills

The marketing skill sets required will be slightly different depending upon whether the property is new construction or rehabilitation of an existing building. Basic sales techniques should be complemented with an understanding of cooperative structure and operations. In addition, the marketer should have the ability and commitment to retain new owners after the purchase agreement is signed but before the property is ready for occupancy.

TRAINER

Training is an essential part of the cooperative development process.

Responsibilities

A trainer is responsible for teaching purchasers the basics of homeownership, the cooperative structure and their roles and responsibilities before they become cooperative homeowners. Purchasers must be encouraged to participate actively in the cooperative. Another key aspect of development is board training. A responsible leadership must be developed and nurtured to lead and manage the cooperative. Further, the continuous encouragement of new leadership must be built into the process of cooperative governance, and a commitment to ongoing owner and board training must be built into the cooperative's operating philosophy.

Skills

A good trainer will have solid expertise in cooperative governance and experience in working with cooperative corporations—able to develop rapport with participants.

PROPERTY MANAGEMENT

Most co-ops will require services from a property management company to take care of operating and maintaining the building. Some co-ops will be able to provide some services internally while others will look for a property management company to act as a consultant and then hire their own employees. All co-ops should have experienced management with good references.

Responsibilities

The co-op will want management that can either provide full services or be willing to develop a plan that includes participation by the cooperative. The management must understand the co-op structure and provide complementary services. This includes meeting with the board at least once a month and providing a full and easily understood accounting of that month's activity.

Skills

Where Federal Housing Administration (FHA) insured financing or Section 8 assistance is anticipated, management should have experience working with

Timing is Everything:
When to develop a management plan

Ideally, a management plan is put together during development, with management working as part of the development team. This can be especially valuable in conversion of existing occupied properties. Management can be effective in marketing cooperative interests to prospective residents and can have valuable input on cost-saving designs and materials that create savings in property upkeep. However, limited available funds or other factors may make this early involvement impossible. If management cannot get involved early, the financial packager should be able to provide a preliminary annual budget based on research. The management plan is something that can be delayed until the project is further along, if necessary. However, within a month prior to final closing, a management plan ought to be in place for a smooth transition.

Additional human and organizational resources

In addition to putting together the development team, the sponsor and development coordinator will reach out early to lenders, community groups, community leaders, local governments, and public and private sources of social investment. Gathering support is sometimes formalized by creating an advisory committee whose members make a personal commitment to see the development process through from beginning to end. Advisory committee members should be individuals who can facilitate the mobilization of community resources and/or smooth the process to support development.

Bringing in appropriate government agencies early in the process will help government staff better understand cooperative housing and its financing. Relevant government agencies might include the municipal housing department, county health department, city and state housing authorities, bond agencies, and the local office of the U.S. Department of Housing and Urban Development (HUD).

Housing and Urban Development (HUD)-assisted projects. (See the Terms and Definitions appendix for details on these programs.) The management company might also have familiarity with other subsidy financing that is part of the project. Finally, management must understand that cooperatives are different from rental properties, in that the board makes major decisions and the management works for the board.

Money Matters: Fees for Professional Services

Members of the development team can charge by the hour, a flat fee, or a contingency fee.

Hourly rates are most common for attorneys and financial professionals. They will tend to fall within a general range for each profession in its respective geographic location. A more experienced professional, who may charge a higher fee, may consume less time and incur fewer costs in the long run. A retainer or minimum fee may be required in situations where the fee is based on an hourly rate.

Flat fees are most common for architectural and engineering firms. Some firms may be willing to do some of the pre-development work without payment, with the understanding that, if development proceeds, they will be hired and paid to do the work.

Hourly or contingency fees are most common for financial packagers and development coordinators, especially where roles are combined in a single development consultant organization. Contingency fees are generally an agreed-upon percent of financing or percent of total development costs that are paid after successful completion of the project. Some fees may be deferred until later in the development process, and are paid from a source such as construction or permanent loans, proceeds from the sale of cooperative interests to owners, or from a combination of different sources. Management fees, on the other hand, will be paid on an ongoing basis over the entire life of the cooperative. Sometimes, a management company can be persuaded to become part of the development team in exchange for a contract once the cooperative begins operations.

Payment for Sponsors

Sponsors, whether non-profit or for-profit, will also be paid for the cooperative development. The sponsor will need to recover its investments both for out-of-pocket costs and for the organization's time and effort. The sponsor will typically receive the bulk of its payment at final closing, when the property is ready for occupancy by owners, permanent financing is put in place, and purchases by cooperative owners are finalized. The sponsor's return can come in cash from the mortgage taken out by the cooperative, the sale of the building to cooperative owners, or a combination of the two. The sponsor can take unsold shares as part of its compensation. Sponsors can also take back mortgages on the cooperative land and buildings and, in this way, receive a return on its investment, its fees or profits, plus interest over time. The sponsor's compensation and the developer's fee are typically between 7.5 and 15 percent of total development costs,including acquisition.

3

RUNNING THE BASES:

The Cooperative Development Process

COOPERATIVE DEVELOPMENT involves two parallel processes: physical and organizational development.

- Physical development is a multi-step process including site/property selection, financial feasibility analysis, design, financing, site/project acquisition, permitting, construction, and operations start-up.

- Organizational development is also a multi-step process: entity creation, owner sales, owner and leadership training, and transfer of control from the developer/sponsor to the cooperative's member-owners.

While many of the steps in physical and organizational development will actually proceed simultaneously and some, like marketing, could be classified as either, each requires its own focus.

No shortcuts

Different combinations of sponsors and development coordinators will allocate responsibilities differently and other development team roles will be bundled/divided among team members and organizations in different ways. We refer to the center of responsibility for many of the elements of development simply as the "sponsor/developer." Keep in mind the complex reality of development team roles as you work through the outlines of physical and organizational development.

APPROACHING FIRST BASE: PHYSICAL DEVELOPMENT

There are two types of physical development:

1) Converting an existing building, possibly with moderate renovations.
2) New construction or "gut" renovation of a vacant building. Gut renovation is sometimes used in place of "substantial rehabilitation," a standard term used by lenders for significant restoration or refurbishment of an existing building.

The initial steps in converting an existing property to cooperative ownership are different from those for new construction. The two types converge later in the process and become more similar.

The 8 Steps

Our description of the physical development process is divided into eight steps. While these steps typically occur in order below, they may vary or be pursued simultaneously depending upon the project.

STEP 1: Project concept
STEP 2: Site evaluation and selection using market demand studies and feasibility analysis
STEP 3: Preliminary financing decisions and preparation
STEP 4: Finalizing assembly of the development team
STEP 5: Financial packaging
STEP 6: Essential commitments
STEP 7: Property acquisition and construction
STEP 8: Operations start-up

STEP 1: Project Concept

The first step is defining what type of project you want to develop. For the conversion of an existing building, as compared with new construction, certain decision points can be abbreviated. The project concept could be detailed in a paper that describes the project for stakeholders.

Key Elements of Project Concept Plan

EXECUTIVE SUMMARY

- Cooperative Background
- Goals
- Cooperative Management Plan
- Board of Directors Experience & Responsibilities
- Operations/Management Plan
- Training Plan

PRELIMINARY MARKET ANALYSIS

- Market Context
- Market Trends

BUILDING PLAN

- Building Location and Size
- Proposed Design/Renovation
- Anticipated Timeline
- Contingency Plan

THE SPONSOR

- Management Team and Project Management Team
- Experience and Capacity
- Development Partners and Team

PROJECTED FINANCIAL PLAN

- Development Budget
- Operating Budget
- Balance Sheet
- Cash Flow Pro forma

APPENDICES

Decision Points

New construction or rehabilitation: One of the first decisions to make is whether to do a new construction or renovation. Renovation projects are appropriate for buildings where residents have expressed interest in purchasing their apartments or there are a substantial number of vacancies in a building. In housing markets with higher vacancy rates, often the cost to acquire and renovate is less than new construction. In low vacancy rate markets, new construction may be preferable. New construction may also be preferable in markets where existing properties are not as adaptable to cooperative housing, for example, when many buildings are small, with fewer than 20 apartments.

Neighborhood selection: Define the neighborhood or neighborhoods where you will look for sites. Neighborhood selection research should include discussions with real estate brokers, local government officials, building owners, local neighborhood associations, and community development corporations. (See Step 2 to learn how to select a site.)

Identifying likely market: Identifying the likely market for the cooperative units is the next crucial decision to be made. The major things to understand about the market are the household sizes, desired apartment size, community or building amenities, and income. Typically, a better market for cooperative ownership will be individuals or families who are currently renters but are interested in ownership. In markets where cooperatives are less well known, there will often be households who cannot afford homeownership other than under a cooperative structure. In some cases, a cooperative may be for a specific market segment – like artists or seniors– which will require more focused market research.

Identifying the market helps define the type and size of units to be developed, the construction standards, the required local services and amenities, and the prices that will be affordable to that group of households. Affordable purchase prices for owners, as compared to the cost of purchasing and developing a site, also define the amount of subsidy that will be required. If the subsidy required is greater than what is typically available through local government and charitable sources, the project may not be viable or may require extra up-front time to enlist the support of subsidy providers.

Typical sources of information for likely cooperative buyers are census data, city and state community development and housing reports, local homeownership counseling agencies and consumer credit agencies, real estate brokers, and existing cooperative or condominium developers. Some homeownership counseling agencies or non-profit homeownership programs might also be potential sources. Most cities and towns with populations of more than 80,000 typically need to prepare Consolidated Plans to receive certain types of federal funding. These documents, which are publicly available, often have the necessary market information. Home Mortgage Disclosure Act (HMDA) data is also kept by census tract and zip code and can help you determine how many mortgages are applied for and approved in the geographic location and whether the area is experiencing increased or decreased residential investment.

Concept paper draft: Based on the above information, the sponsor will write a one-to-two page concept paper that can be given to the board of directors, relevant staff, potential residents, partners, and people who might be helping to identify a site or finance the project. The write-up should include:

- *Description of what a cooperative is and why you are interested in creating one.* Keep in mind that in most markets, your desired audience may not be familiar with cooperative housing.
- *Project type, size, and target neighborhoods.* Describe whether the project will be new construction, acquisition and rehabilitation, or conversion of existing occupied building(s); the number and likely unit sizes; and neighborhoods where you expect to look for property;
- *Target market of resident owners in the cooperative,* including the income ranges of the residents you anticipate will be living in the apartments and any targets for affordability. Also, estimate how fast the units will be filled/shares purchased.
- *Potential funding sources.* If the target market is likely to require subsidies to afford to purchase a unit in the cooperative, then a description of likely funding sources should be included. In addition, the source for pre-development financing (the costs required before construction begins) should also be indicated.
- *Likely timeline.* Determine the number of months to:
  - Find a site (often up to 2 years)
  - Package the financing
  - Complete architectural drawings and other requirements to begin construction or rehabilitation
  - Complete the construction
  - Market and sell the units
  - Seek and receive approval for the creation of the cooperative corporation
- *Potential partners.* Indicate any potential partners including consultants, other non-profit agencies, homeownership or cooperative counseling agencies, and any development team members identified.

TIME OUT: *Creating a Contingency Plan for the Project Concept*

Planning for potential constraints on the building development process is critical to ensure success. It's important to develop alternatives in case a proposed site becomes unavailable or other problems arise. Lenders typically want to know that development assumptions are conservative, allowing for extra time in the timeline and financial contingencies in the budget, in particular. Lenders also expect the sponsor/developer to understand specific constraints of the process in your area. Summarizing major risks and how to address them is an important part of a solid plan.

- *Time:* The vast majority of developers and cooperatives find that their project took longer than originally expected. Delays are common in several parts of the development process, such as locating an appropriate site, gaining site control, securing financing, addressing environmental issues, obtaining building permits and zoning variances, preparing architectural drawings, completing major construction projects, moving residents if needed, and finishing cosmetic repairs. A project manager can help estimate how long design and construction work will take and ensure the proposed timeline is conservative.
- *Money:* It is critical to know what sources of funds are available before entering the site selection phase. Packaging resources, particularly if subsidy financing is expected, can be time consuming and difficult. Many subsidy sources are highly competitive, have application cycles only once a year, or may require more than one application to be successful. There may be more or fewer resources available than you expect.
- *Rules & Regulations:* Find out the compliance issues for the local jurisdiction of the site, such as building codes or zoning restrictions. Sources of information on local rules and regulations include experienced project managers, other cooperatives, architects, developers, contractors, and local government officials. It is important to note that local officials may interpret zoning rules and building codes differently. Therefore, you may get different answers to the same questions. In addition, buildings that require "special permits" or variances that include public or committee review are always subject to uncertainty. Many times, the final answer may not be available until an inspection or zoning hearing. However, it is important to be aware of the types of concerns that may arise and have a team that is experienced in dealing with them. Sometimes it is necessary to hire an expeditor to move the review and approval process forward.

Expect the Unexpected

Even in the best of circumstances, situations will arise during the development process that you can't anticipate. Consider these possibilities:

- All three construction bids come in between 3 and 5 percent higher than budgeted.
- There is a shortage of building materials delaying the delivery of selected materials by two months, which in turn extends the project completion by two months and results in increased construction interest costs.
- The contractor discovers asbestos on site that has to be removed. This type of discovery should be avoided if an Environmental Phase I is properly performed.
- An expected funding source falls through, leaving the project $500,000 short.
- The site is vandalized and a portion of the work has to be re-done. While the replacement of materials and the labor cost of the work are covered by the builder's risk insurance, the damage to the project in time delays must be considered.

- *Need for Professional Assistance:* The development process involves a great deal of technical expertise. It is important to contract with knowledgeable professionals to guide you through various aspects of the process. Be aware that using volunteers can be an excellent way to obtain certain services; however, it can also be problematic due to a lack of commitment or time availability.

Contingency planning is a must. Most experts recommend a contingency fund of 5 percent on soft costs, 7 to 10 percent for new construction, and 10 to 15 percent for renovation projects, in addition to the General Contractor's contract. Some subsidy funders restrict contingencies to 10 percent or less; this should be researched in budgeting. A higher contingency for renovation projects is advisable as these often involve older buildings. Renovations can present unforeseen or hidden construction problems that are not discovered until walls are torn down and work is well underway.

While a contingency line item is always required with bank financing, it cannot substitute proper planning, budgeting, and oversight. Projects that go over budget are forced to delay construction while identifying additional funding; reduce the amount of amenities or the quality of materials in the construction/renovation; or eliminate the developer's fee (who may come back to the cooperative to cover that cost).

STEP 2: Site Evaluation & Selection Using Market Demand Study and Feasibility Analysis

The next step is to identify potential sites, which includes gathering specific information about site location, arranging for site and environmental evaluations, and estimating subsidies available based on potential buyers' incomes. If the project will be rehabilitation or conversion, current residents' actual incomes will be used for estimating subsidies. As information is collected about potential sites, they will need to be evaluated for the feasibility of cooperative development. Banks typically require such an analysis for making financing decisions.

Location

Among the things that need to be considered when choosing a location is which sites are available for new construction? What existing buildings have potential for rehabilitation? How much do the sites cost? A sponsor/developer should also consider:

- accessibility to highways, services, mass transit, and community amenities
- areas targeted by local government for subsidy financing or homebuyer assistance programs
- the homeownership rate in the neighborhood

Hidden from Plain View

Potential sites can be found in unexpected places. Some leads to investigate include:

- Local realtors
- Foreclosed properties by local or state governments, banks, and Fannie Mae
- Distressed properties with HUD mortgages
- Re-zoning candidates (buildings or vacant lots are typically available in these neighborhoods)

Be sure to talk to your local government's housing and planning departments. Driving around the target neighborhoods is another important first step before beginning a fuller analysis.

If the homeownership rate of the area is falling, marketing any type of homeownership might be difficult. In cases where subsidy financing from the government is required, political support for the project might be important.

Cost should be the first level of investigation for potential sites: identifying building/land owners in the target neighborhoods, assessing their interest in selling, and determining their likely sales price. Information is typically available on-line or at the local building department or finance office. It is important to learn about existing violations on the site, the last purchase date, and the amount of current liens on the property. In addition, pay attention to other cost-influencing factors, such as Brownfield sites or if the building is in an area that might be eligible for an Enterprise Zone, Community Development Block Grants (CDBG), Redevelopment Census Tract, or other sources of funding. Online data from the census, area real estate brokers, and Home Mortgage Disclosure Act (HMDA) are typically useful. This information will help develop a short "back of the envelope" evaluation of likely costs to acquire, rehabilitate, or construct.

Market Demand Study

Evaluate the housing market for potential demand for cooperative housing. Involve existing residents in gathering information about rehabilitation needs and about whether their fellow residents would be potential purchasers. Most lenders will want a formal market study as part of any financing proposal and will often need to approve the market study contractor. A market study for housing cooperatives has several primary components. It should:

- Demonstrate adequate demand for the property over the long term. Does current market activity suggest there will be an active market of buyers and sellers interested in a cooperative throughout its useful life?
- Demonstrate the price the market would be willing to pay for cooperative interests (shares) in the property. (For more about price, see "The Price is Right" at right.)
- Demonstrate the marketability of the project as a rental. Most lenders, particularly in markets where cooperatives are uncommon, will not provide the financing to construct/rehabilitate a project unless the sponsor can demonstrate that the building could be viable as a rental if it did not sell as a cooperative. In the event that co-ops do not make sense for the market, particularly where multi-family ownership is not well established, evaluating marketability as a rental can be important for assessing alternative operating income and building uses.

Estimate Costs to Build. The estimated costs to develop the project, including both "hard" (construction) and "soft" (inspections and reports, architect and attorney fees, taxes and insurance, etc.) costs should be included. These costs should be compared to the amount you expect the units to sell for and the anticipated blanket mortgage including any subsidy funding to ensure the project will be financially viable.

The Price is Right

Creating housing that is affordable to neighborhood residents is important. In general, total payments for "carrying or common charges" and share loan payments should be similar or less than the typical housing payments for people purchasing properties in the area. In areas where cooperative housing or multi-family homeownership may be a new concept, the share price should be lower, and similar to area rents. Your likely market will be households that are currently renting, unless a specialized market such as a senior cooperative is the project goal. Housing payment amounts in the market can be researched on-line, from local brokers, and from local government housing officials. Determining potential resident incomes from census data or from community surveys or reports is another good strategy. Other research to assess potential for price and demand might include what size apartments are most desired and needed, estimated by household size, recent sales, and rentals in the area.

Buyer/Seller Negotiation. Potential sites can typically be narrowed down to one or two. The next step would be to enter into negotiations with the sellers. One challenge is that the time it takes to package subsidy financing is often several months. This can cause problems in hotter markets where owners may be reluctant to wait for the sale to go through. In markets or neighborhoods with higher vacancy rates it is possible to get an "option" to purchase a property that can give you six months or more to purchase it, or a "contract of sale" that provides an extended time (3 to 6 months) needed to close.

Site and Environmental Testing. For renovation and construction projects, an environmental review is required, especially if applying for any government funding. This environmental evaluation is different from the engineer's review of the structure and mechanical systems. For an existing building, however, an engineer's report may identify some environmental issues that need to be addressed, including asbestos and lead paint. For new construction projects, tests will include:

- soil borings (soil analysis)
- identification of the location of water, sewer, electric, telephone, and cable lines and the cost to extend them to the property
- a zoning analysis by an architect to see the potential size and number of units that can be in a building
- a review of possible drainage issues

If the environmental analysis identifies any problems, additional testing and a remediation plan may be required to clean up the site before construction or renovation.

The developer will typically test the site to ensure that it can be developed at the given price during the "option" or "contract of sale" period. This contract of sale period should enable the buyer to cancel the sale without penalty if any of the tests come back suggesting significant additional construction costs.

Early and Often: *Conduct Regular Feasibility Analyses*

Many professionals recommend that feasibility analyses be conducted at six or seven separate times throughout the development process. Early analyses tend to be rough estimates, with each subsequent analysis gaining additional refinement. Throughout the physical development process, it is important that the project manager and/or financial consultant update the financial pro forma as individual line-item cost estimates change or as estimates of market demand or available subsidy require:

1. Predevelopment Phase 1 as the first part of the site evaluation and selection step
2. Predevelopment Phase 2 at the end of the site evaluation and selection step, when the completed market study is available
3. Predevelopment Phase 3 in dialogue with the architect, engineer, and (perhaps) potential contractors as the bid package is being put together
4. Upon completion of any redesign (as required, for example, by funding agencies)
5. Upon feedback from lenders requiring budget adjustments
6. Upon completion of the construction contract documents
7. After the bidding process, to align with the selected bid(s)

Feasibility Analysis. The market demand study supplies one side (the income or source side) of a feasibility analysis. The other side builds out the expense or uses of funds. It is one thing to know what the market will pay for cooperative shares at any given location with a particular set of amenities and monthly occupancy costs. It is quite another to balance this market demand with the anticipated project development and operating costs. In order to move forward with a development concept, that is exactly the balance that the developer/sponsor must be able to achieve. While most good developers use a highly sophisticated set of pro forma for their feasibility analysis, the two essential components are:

1. *The Sources and Uses Table* lays out all components of the total development cost, the uses of funds and the sources of funds. Development costs include developer's fees; construction costs; builder's overhead and profit; legal, architectural, financing, and other third-party fees; training and marketing costs; and every other element of the total budget. The uses against all the funds coming into the project include homeowners' share purchase prices, subsidies coming into the project, and long and short-term debt. Appendix C provides a sample sources and uses table.
2. *Operating Budget of the Project* demonstrates that, on an ongoing basis, the potential buyers will be able to pay all of the ongoing project operating and maintenance costs, including debt service on the cooperative's permanent blanket debt, with or without the help of ongoing subsidies. Appendix F provides a sample maintenance and operating budget.

STEP 3: Preliminary Financing Decisions and Preparation

Much of the research and analysis conducted in the first two steps are essential for step 3. Project development funds come from a combination of three basic sources:

- *Equity* (funds or property provided to pay for construction, purchase or renovation): Contributions come first from the developer/sponsor and, ultimately, from the cooperative purchasers themselves.
- *Debt* (borrowed funds): Comes in the form of construction financing, then permanent blanket debt borrowed by the cooperative and secured by the land and buildings. Individual cooperative purchasers take out share debt that is secured by their cooperative ownership interests. In much the same way as when a company issues its stock, share loans generate debt for the individual but equity or cash for the co-op.
- *Grants, social investment, or "soft debt"* (borrowed or donated funds): Grants or soft debt are frequently provided from governmental or charitable sources for lower income households. Soft debt is borrowed money that need not always be fully repaid. Soft debt may be provided either to the cooperative and applied as a second position mortgage to the blanket debt or provided to individual shareholders as a grant or second position share loan. Often soft debt is forgiven over a period of time that the property is intended to remain affordable. If the co-owner sells and moves before the end of that affordability period, the co-owner may have to repay part or all of the soft debt.

The type of project planned will help define the financing and amounts of the three types of capital required. The sponsor/developer will also need to make preliminary estimates/decisions early on about:

- How much, if any, social investment will be necessary to make the project affordable to the target population;
- What sources of social investment might be available and at what cost. Many sources have substantial timelines for review and approval that can cause delays in a project, as well as requirements that can hurt marketability of the shares, such as resale restrictions or income documentation beyond bank requirements;
- What sources of market rate construction financing and blanket financing are available and at what rates and terms;
- How to balance share prices with blanket debt in structuring permanent financing.

During this early step, it is important to have a good estimate of what it will cost to develop the project and the likely share prices and blanket mortgage amount. Also, meet with potential lenders and subsidy providers to determine their interest in the project and their opinions of its viability. Presenting them with your concept paper, the site cost evaluations and site estimate is important. Potential funders can also provide important information that will help ensure the cost estimates and market assumptions are correct. Be clear with funders that you are still several months away from a firm proposal.

At this point, it is also necessary make a preliminary determination regarding the amount of subsidy needed and whether that amount is likely to be available. If the market prices alone are not enough to enable private financing for the project, social investment financing will be necessary to cover the difference between the price your target market is able to pay and the actual costs. Subsidies can typically be accessed through state and local governments and from the regional Federal Home Loan Bank for developing affordable homeownership or for low-income homebuyer assistance.

This research helps define what income ranges can be targeted because the subsidies can reduce the price to

TIP:

It is important to meet with funders before your development team is assembled, since you don't want to spend the time and money to contract with the full development team unless you know the project will be viable and that funders are interested.

the homeowner and enable lower income families to purchase shares. A quick scan and discussion with local and state government housing department staff would be useful. Banks should typically be contacted during the earliest steps and then again when packaging financing. Early contact is especially important in markets where cooperative housing may not be a familiar concept. Prior to applying for government and other social investment financing, a letter of interest outlining terms and conditions of financing will be received. Yet in cases where social investment is necessary, banks will usually not process an application until after commitments of the social investment have been received.

STEP 4: Finalizing Assembly of the Development Team

At this point, all of the development team players, including the architects, engineers, and attorneys who will assist with the physical and organizational development should be identified. The sponsor/developer should begin to talk with potential contractors. The actual selection of a contractor may not take place until financing is almost or entirely in place.

STEP 5: Financial Packaging

The first preparation for financial packaging occurs early in the development process during the project concept phase and preliminary financing decisions. It is important to apply for financing once the development team is selected, the more thorough site analysis is completed, construction drawings are prepared, and approval processes are completed or well under way. Government and subsidy funders typically have lengthy applications. Their review process requires extensive staff and, often, reviews by elected officials. These processes tend to take a minimum of six months to complete.

Many state and local governments may be unfamiliar with cooperative housing and uncertain about how to apply their existing subsidy products to the project. Although homebuyer assistance products are usually easy to convert to cooperative housing, some governments may require additional education and some modification to their application. Typically, the lower the income of the target market, the more subsidy financing applications need to be submitted. Often, a developer of affordable cooperative housing will be applying to both state and local governments for financing, and sometimes foundations.

Some may seek funding for pre-development expenses (expenses required before construction begins), if they do not have equity available. Many sponsors/developers first look for outside funding by seeking grants or forgivable loans to pay for engineering and architectural work, option costs to assure property availability, and the costs of putting together the next version of the feasibility analysis. Many nonprofit

Finding your clean-up batter: *Selecting the contractor*

There can be value to having a contractor involved from the early stages of the development process. However, it can be less costly to wait until architectural drawings and specifications are completed and then find a contractor through a bidding process. If a developer uses a bidding process to select a contractor, an architect will typically prepare the bid package, with developer oversight. Usually around 30 days are permitted for the bidding process, during which time (for a renovation project) a site walk-through for interested contractors will usually be scheduled. Typically the lowest-priced, qualified bidder is selected.

A developer should check a contractor's references, review their bid with the architect to ensure estimates make sense, and ensure they have the capacity to handle your job and other projects scheduled for the same time. After a contractor is selected, negotiations around specific line items help to create a more finalized scope of work. Typically a contractor's bid amount is only committed for 60 to 90 days, so it is important to be ready to begin construction soon after the bidding process. After a contractor has been selected, you will also want to move to construction loan closings with your financiers.

developers, who meet the criteria for being "Community Housing Development Organizations" from their local or state government, are eligible for forgivable loans from the Federal HOME program for these costs. More detailed proposals are required to seek large amounts of social investment along with construction and permanent financing (including FHA-insured loans) from conventional lenders.

The feasibility analysis will be the centerpiece of these proposals. The level of detail and certainty involved will increase as one moves from proposals for small amounts of predevelopment funding, through additional seed money, and on to larger commitments for permanent social investment and construction and permanent debt financing.

More About Pre-sales and Documentation

Many lenders will require pre-sold units as documentation of cooperative interest. These sales will be secured with down payments held in escrow from purchasers who can afford the balance of the ownership price and whose income can support the cooperative's projected monthly occupancy charges. The required percentage of pre-sales will vary among lenders and development scenarios. Higher blanket loan-to-value ratios may, for example, call for higher percentages of pre-sales. Markets where cooperative housing is less common will also typically require higher pre-sales.

STEP 6: Essential Commitments

The sponsor/developer will need to put certain commitments in place in order to complete financing and move to construction. A firm purchase price must be finalized with the property owner and a realistic construction/rehabilitation cost with firm drawings established to be able to approach lenders with a loan request. Often, commitments and proposals will proceed through several iterations as costs and funding sources become more certain. For example:

- Loan commitments are generally made contingent on

The Paper Trail: *Construction Documents*

A complete set of construction documents typically consists of:

1) **Working drawings.** These are the large floor plans, elevations, sections, and details that cover each and every aspect of the building. They provide dimensions, materials, layouts, and in some cases, construction phasing. The working drawings include architectural, structural, mechanical, electrical, plumbing, civil, landscape, interior design, and other specialty area drawings approved by the appropriate local government agency.
2) **Construction specifications** (or the "project manual"). These "specs" outline the materials and methods to be used and provide the contractor with everything from manufacturer and model numbers for equipment, to color numbers and finishes for paint. The drawings and specifications jointly form the "contract documents" to which the contractor will refer when preparing his or her bid. Since the specifications define the quality of the materials that will be used, it is important for the sponsor and/or developer to go over the specifications carefully with the architect to review the materials that will be used. Understanding the durability and aesthetic nature of the materials, their ease of maintenance, and their desirability in the local market are all important in reviewing the specifications.
3) **Bidding requirements.** These are instructions for those who wish to bid on the construction contract. Bidding requirements vary by funding source. Most funding sources require that the invitation to bid be sent to a list of approved contractors, though many also require advertising and outreach to minority and/or small contractors.
4) **Addenda (or additions)**. Addenda are additions to any of these documents issued by the architect during or after the bidding and/or negotiation process.

commitments for specific kinds and amounts of social investment.

- Social investment is often contingent on loan commitments.
- Construction and acquisition financing are generally contingent on a commitment for permanent underlying financing as well as some share pre-sales or documentation of the marketability of the shares.

STEP 7: Property Acquisition/Construction or Rehabilitation

Once financing commitments have been secured, it will be time to complete whatever steps remain to acquire the property and begin construction/rehabilitation. The following elements must be in place to begin construction:

- Complete set of construction documents including final drawings, construction specifications, and bidding requirements.
- The executed general contractor's contract including conditions, contract modification forms (such as change orders) and the form of lien waivers to be used
- Site control evidenced by an executed sales contract, a signed lease, or some other legally binding agreement
- Firm commitment for permanent financing.
- All necessary third-party approvals required by the local jurisdiction to begin construction.

Construction/Renovation Process Monitoring

In preparing for work to begin, it is important to have the construction monitoring process in place. The architect will typically have either weekly or biweekly meetings on-site that the project manager or a representative of the developer/sponsor should attend. A representative, such as an inspector, from the lenders also attends. The architect's minutes from these meetings are an important log of the progress of the construction/rehabilitation and ensure the timeline created by the contractor is being followed. The contractor will typically request payment once a month or every couple of months and typically require payment within 30 days thereafter. An internal process enables the expedited review, sign off, and payment of invoices, including drawing down the funds from the funders. Most contractors, particularly the smaller firms, rely on those disbursements to pay their sub-contractors. Most contractors will also have interest or penalty clauses in their contract if they are not paid on time. In both instances, payment delays can lead to work slow-downs and increased costs.

The Construction Process

Construction is initiated by the bidding process and selection of a general contractor. It is completed when the building is finished and the government issues a certificate of occupancy that permits individuals to move into the building. During this period, these activities occur:

1) A contractor is selected.
2) The contract and construction timeline are negotiated.
3) Mortgage financing is closed.
4) Construction is initiated.
5) The construction process is managed.
6) Change orders are monitored.
7) The certificate of substantial completion is negotiated.
8) The certificate of occupancy is obtained.

Constitution Changes

Creating an expeditious process for review and approval of "change orders" is essential. Unfortunately during most construction and rehabilitation projects, changes are requested from the contractor. The reasons for this can vary: a certain material listed in the specifications is not available and the contractor suggests an alternate, or the contractor discovers different conditions in a building being renovated once the existing walls are torn down – and everything in between. Each change order request will require rapid review and decisions from the developer and architect. Most development budgets have a contingency line item to cover the cost of change orders. Since each change order reflects a cost increase, or very rarely, a decrease, it needs to be reviewed. If contingencies are used rapidly in the early part of the project, it can be sign of trouble later in the project and should be monitored carefully. To the degree that a change order may decrease the developer's fee/profit when exceeding contingencies, it will often require approval of the developer's staff/board in addition to the project manager and bank. A process should be in place to ensure rapid discussions and decision-making.

STEP 8: Operations Startup

If the cooperative corporation has not already assumed ownership of the property, it usually will soon after the certificate of occupancy is issued. Once ownership and certificate of occupancy prerequisites are met, the cooperative can set up closings with the initial purchasers. At closing, the purchasers buy their shares from the cooperative and enter into occupancy agreements with the cooperative. After the closing, the new cooperative homeowners may occupy their units. Where 100 percent of the cooperative interests have not yet been sold, the sponsor/developer will remain financially responsible for the occupancy charges of the unsold units. The development budget will typically have a "working capital" line item to cover these costs. The financial health of the sponsor/developer and the cooperative corporation will depend on quickly selling the remaining cooperative interests or leasing units temporarily until all interests are sold. Typically, permanent lenders will not close on the underlying mortgage until binding purchase agreements/ subscriptions for a minimum number of apartments are in place.

By the time the certificate of occupancy is issued, the co-op will need management that can either provide full services or properly outsource the work to manage the property. Management also needs to develop a plan of participation by the cooperative's board and all of its members. The management must understand the co-op ownership structure and provide services that will complement it. This includes meeting with the board at least once a month and providing a full and easy-to-understand accounting of each month's activity.

To self-manage or not to self-manage?

One of the first decisions a cooperative board of directors will need to make is whether to self-manage, hire a management consultant, or hire a management company.

The Ins and Outs of Cooperative Property Management

Effective cooperative property management protects the value of the building, the co-ops' principal asset, and keeps members satisfied by maintaining basic services and responding to co-owner requests and complaints in a timely and professional manner. Good management will:

- Prepare an annual management plan and operating budget for review and approval by the board of directors
- Prepare and submit all reports required by lender(s) and/or regulatory agencies
- Supervise all aspects of project operation and maintenance, including the purchase of necessary maintenance supplies and equipment, reporting major physical problems to the board, and providing expertise in the planning of major rehabilitation projects
- Collect amounts due and maintain accurate records on the daily operations of the property
- Serve as liaison with lender(s), various government agencies, professionals, vendors, and the co-op
- Hire, train, and terminate employees as necessary, with the board's approval
- Attend at least one board meeting each month to present the monthly financial statements (including actual versus budget amounts for expenditures and revenue, and assets and liabilities) and discuss any problems that may arise
- Assist the board in planning for required capital replacements and improvements that may be required over time
- Institute a well-defined and easy-to-follow work order, request, and complaint process.

Self-management is usually not recommended because few co-ops, even small co-ops, are able to adequately perform the multitude of important management tasks and establish sufficient internal control systems. Often the financing sources for the cooperative may require the co-op, at least initially, to hire a property management company to manage operations. What is right for a particular co-op will depend on its size, population, financing and regulatory requirements, and (in the long run) the experience, needs, and wishes of the cooperators themselves.

TYPES OF MANAGEMENT

Self-Management: There are two types of self-management. In the first kind, the cooperative directly hires maintenance and administrative employees to manage daily operations. This usually includes a senior employee (property manager) who reports directly to the board and supervises all other employees and operations. In the second scenario, cooperative members perform the functions of maintenance and administrative personnel. No outside people are employed.

Management Consultant: The cooperative can hire a management consultant to administer some of the management responsibilities (such as collections and accounting) and handle other responsibilities itself (such as maintenance). Management consultants are often used in combination with one of the two forms of self-management.

Management Company: The cooperative hires a management company to administer all of the management functions, including collections, disbursements, and financial management, as well as supervising employees and maintenance.

How to Determine Which Management Form Best Suits Your Cooperative

The style of management which best suits a particular cooperative is dependent on several factors:

- *Size* — A 10-unit cooperative may be financially unable to hire a full-time management agent. Much of the work may have to be handled by members.
- *Experience* — A board composed of relatively new members with little cooperative experience and no prior management experience may find self-management too much of a challenge and not cost-effective.
- *Time* — Self-management of the second sort (i.e. without employees) will only work if board members have ongoing, consistent time to devote to cooperative operations.
- *Legal or Contractual Requirements* — By agreement, the cooperative's lender or a regulatory agency such as HUD may require that the cooperative retain professional management. Legislation creating government social investment programs may also impose some sort of management requirement.

ROUNDING SECOND BASE: *ORGANIZATIONAL DEVELOPMENT*

The organizational process is broken down into seven steps:

STEP 1: Creating the cooperative corporation
STEP 2: Preparing an owner handbook
STEP 3: Marketing the cooperative
STEP 4: Owner education
STEP 5: Purchasers become owners
STEP 6: Transition to owner control
STEP 7: Board of directors' training

The process will be profoundly influenced by the degree to which residents initiate or take an active role in cooperative development. Nevertheless, the steps described will help in understanding the process itself.

STEP 1: Creating the Cooperative Corporation

The first step in organizational development is the formation of the cooperative corporation. Once it is formed, proposals can be written and financing inquiries can be made on behalf of a viable corporation. The articles of incorporation and bylaws must deal with both the development period and the ongoing operations of a mature cooperative.

In cases of conversion or where residents have been involved in establishing the cooperative, it is important to have them as involved as possible during the development phase, even before the cooperative corporation has been formed. In conversions, the sponsor/developer appoints an initial cooperative corporation board to represent the resident perspective throughout the development process, but which will allow the sponsor/developer to control the development process.

Care must be taken to comply with both federal and state laws when writing cooperative document provisions and setting up long-term contracts in the name of the cooperative during the development period.

Control of the board by the sponsor/developer does not mean that existing residents and/or subscribers (individuals who have signed agreements to purchase cooperative interests prior to the completion of the construction or conversion process) are to be left out of the decision-making process. In a resident-initiated conversion, the initial board may even contain one or more representatives of the residents. Appropriate resident involvement will heighten commitment to purchase, generate, and maintain interest through a sometimes lengthy period of physical development, improve design choices, and greatly strengthen the effectiveness of post-development cooperative governance.

STEP 2: Preparing the Owner Handbook

The purpose of the owner handbook, often called Offering Statement or Prospectus, is to inform prospective purchasers of cooperative interests of just what it is that they will be purchasing. Solid legal advice is of critical importance here, as state and federal corporate, securities, tax, and consumer protections laws all come into play and the legal requirements vary somewhat from state to state. In several states, a cooperative corporation cannot sell shares until these plans are filed, reviewed and approved by the state.

At a minimum, the owner handbook will contain the cooperative documents (such as articles of incorporation, bylaws, purchase agreement, occupancy agreement, and rules) along with a narrative description of ownership, governance, and operations. The nature of cooperative homeownership, its income, and property tax will typically be addressed, as will the financial details of operations, possibly including a detailed first-year's budget. The narrative will also typically address issues of financing and management, and a summary of the building's condition. In the case of a renovation, the age of the major systems is also usually included.

If the cooperative is subject to regulation by a third party, (HUD, for example, where FHA-insured financing is used), then the documents related to the regulatory authority and the respective rights and obligations of the cooperative will also be included. The narrative in these cases will include a discussion of the regulatory design and its impact on individual cooperative owners.

Save the Sales Pitch

The owner handbook is not a marketing brochure. It should carefully avoid making promises or predictions that are less than certain. On the other hand, both the narrative and the legal documents should be written in understandable language. A reasonable resident-owner of the target market should be able to get a clear and substantial understanding of cooperative ownership in general and of their particular cooperative by reading the handbook. A well-designed owner handbook will also become a useful text for much of the ownership training to come.

An Inside Job: *Resident-Initiated Conversions*

A resident-initiated conversion can happen in several ways. For example:

- An owner may have abandoned the building, forcing the residents to assume the responsibilities of paying the bills to maintain services. Those residents may eventually contact a sponsor/developer to help them explore purchasing the property.
- An owner may want to sell the property and will either approach the residents voluntarily or be legally obligated to do so.
- A sponsor/developer may approach an active resident organization to suggest that they jointly explore the group's purchase of the building.

A resident-initiated conversion can differ significantly from one initiated by the sponsor/developer in that the residents may sometimes choose to take a more active role in the entire development process. An active resident group can greatly benefit the project down the road, both when it comes to marketing the cooperative interests and when the responsibility for cooperative operations is transferred completely to the membership. Involved residents tend to be very savvy. They will want the process to be theirs, and rightly so. The development process is about their homes and a home represents a significant emotional investment. A strong sponsor/developer recognizes the emotional component of the development process for existing residents. However, even an engaged resident group needs the expertise of the development team. The relationship between residents and the development team must be a trusting one, if the co-op is to succeed.

Structured Communications

An active resident organization generally has a core of a few concerned residents. Others will be reluctant to join until enough substantive information is available to allow them to evaluate and make choices in their own best interest. Therefore, it is critical that the dissemination of information be consistent, comprehensive, and fully available to all residents. An organized system of communication with the residents can be set up through a combination of newsletters and floor, area, or court captains. This dual mode of communication ensures not only that everyone receives the same information (newsletters), but also that everyone has access to someone who can respond to questions. By involving committed residents more deeply, the resident organization becomes stronger.

Balancing Opposing Values in a Cooperative Conversion

An existing building will usually require some degree of rehabilitation. The goal is to turn over a physical structure to the newly formed cooperative that is sound and unlikely to need major repairs in the near term. The cooperative will then need to accumulate funds in a replacement reserve to pay for future repair and replacement costs. At the same time, existing residents will generally place a high value on ensuring that all residents who want to stay can afford the new monthly occupancy charge, as well as the purchase price of their ownership share. This priority will be especially acute in resident-initiated conversions.

A well-planned rehabilitation will certainly produce long-term savings (e.g. in the form of reduced utility and maintenance costs). Nevertheless, where buildings are in need of substantial rehabilitation, the net result will inevitably be an increase in cost. This, in turn, will be reflected either in the amount of the membership price or the principal amount of the cooperative's blanket loan and its attendant monthly debt service, increasing monthly occupancy charges.

Accumulating reserves will inevitably raise monthly occupancy charges, even as it provides assurance of the cooperative's future viability. Social investment can certainly help fill the gap. But it is rare to be able to find enough social investment to pay for all the rehab needed. The process of finding a workable compromise can be especially arduous in resident-initiated conversions. Effective communications, especially providing a structured opportunity for inquiry and dialogue, will be critical in moving the development process forward. Fortunately, the structure of cooperative financing allows the maximum flexibility in balancing the need for rehab with the need for affordability.