

Leasing Property

Lease Strategy

Lease Logistics

Leasing property is certainly not an ideal in the co-op world. On the surface, it subverts our proud motto, “We own it!” referring to member ownership of the economic means. On a deeper level, to a certain extent, it goes against the grain of the cooperative principles. A persuasive argument can be made that lack of ownership dilutes the democratic nature of the cooperative model.

However, sometimes it is necessary to rent —especially for new housing co-ops. Two primary reasons that groups choose to rent housing before purchasing is that they don’t have funds or cannot find a building that is feasible. Conventionally, banks expect a 20 percent down payment on a building and student groups usually don’t have it. Even when an established student cooperative is willing to lend the down payment to a group, many banks think that lending to students is risky or that co-ops are weird.

Another reason that organizing groups rent instead of own is that it allows a period of time to create a process for functioning as a group and operating as a business. It is a long jump from student organizer to nonprofit manager. A leasing period creates the space for the group to transform itself into a student housing cooperative.

Lease Strategy

In the US and Canada, eighty percent of new small businesses go under in the first three years. Likely, the number is even greater for student businesses because of a relative lack of experience and a high turnover rate. Student cooperatives that are successful learn to think about themselves as economic organizations that will exist well into the future and plan for the challenges it will hold.

An Organizational Step

Leasing a building can provide an organizing group with the opportunity to plan and build an organizational structure and culture. Coupled with the fact that it is difficult to find a building that will be affordable and meet the needs of a student cooperative, it is clear why leasing is a common development method. Living in the same household provides an excellent space for meetings to deal with house issues (such as creating a labor system) and business issues (such as writing the Articles Incorporation, Bylaws, and looking for properties). As well, cooperative living saves time and money for organizers struggling through school.

While an informal cooperative living situation provides a good space to tackle just about any organizing task, particular importance should be given to the task of fundraising because it relates directly to the purchase of property. Small cooperatives do themselves well in creating a development fund to save for the down payment of their first purchase, which is typically 20 percent of the purchase price. If there is no funding outside of the initial member share investment, the down payment must be borrowed, which makes the housing less affordable. A development fund, no matter what size, will subsidize the mortgage and bring down the amount of money borrowed, thus each mortgage payment, and each person's rent. There are many creative fundraising strategies a group can use for the first purchase. See the Campus Organizing section of the chapter on "Organizing a Core Group" for ideas and inspiration.

A Development Model

The lease strategy for student cooperatives can also be viewed as a development model. The model can be characterized as a five to ten year period of leasing a large number of buildings from property owners and managing the buildings as student housing, effectively making it a cooperative management organization. During this period of rapid "lease expansion," the organization is able to hire several staff members and build a sizable development fund.

This development model addresses two prominent problems in the student co-op sector: lack of capital and lack capacity to hire staff. The lack of capital refers to the fact that student groups usually do not have the funds to make a down payment of around 20 percent of purchase price. The lack of capacity to hire staff is another issue. Because there is a high turnover rate in student communities (approximately every four years), student cooperatives experience chronic instability. Such instability, coupled the common challenges faced by new businesses, can lead to the demise of the organization.

Some co-ops have addressed this problem by hiring a staff person to assist in coordinating the affairs of the organization. A permanent staff person ensures that basic tasks such as bookkeeping and new member recruitment get done, and gives the co-op some organizational memory from year to year. However, many new co-ops are unable to afford staff because of low funds. Thus, members of small co-ops quickly learn that money is the root of many problems of the organization.

One means of addressing the lack of staff funding is to lease a large number of buildings, budget for a net income from each project, and use that income to fund a staff position. While, historically, many student cooperatives have leased to further their development, a special example is the cooperative serving students of the University of California at Santa Barbara. (See the text box for an organizational profile.) UHRP, in the early years, did nothing but leasing cooperatives and viewed itself a "cooperative management organization." This example effectively illustrates the power of leasing.

University Options

The University is another leasing strategy for organizing groups. While this option wholly depends upon the attitude of the university towards unconventional means of providing student housing, it is just as worthy as any other possibility for assistance. The University Students' Cooperative Association (USCA), clearly illustrates how a University can support affordable student housing.

The USCA in Berkeley, California is a nonprofit organization that owns most of its buildings it operates. In addition to these buildings, however, the USCA also leases several buildings and plots of land from the university at below market rate, sometimes at only 1 dollar per year. These partnership agreements function as a subsidy that make the housing more affordable. In addition, the USCA gives students from economically-disadvantaged backgrounds priority for membership. See the text box for an organizational profile.

As mentioned in the “Moving Forward” chapter, historically, university involvement with student cooperatives has been a mixed bag. Sometimes they can impose their will on the co-op with effects that would dramatically hinder the organization’s well-being. Other times, seeing co-ops as an educational partner, they can work with them to enhance educational accessibility.

Lease Logistics

In addition to strategic issues related to leasing cooperatives, there are some nuts and bolts issues consider before any agreements are made. The process is actually fairly straight-forward and most of the issues that arise can be addressed through common sense. However, as a primer for further thought, organizers should think about the process of looking for rental properties and signing a lease.

Looking for Property

There are many factors influencing the search for property to lease, most significantly, the group’s vision for the co-op they want. The types of buildings that exist in the typical student market include: apartments, large houses, university dorms, sorority or fraternity buildings, bed & breakfasts, convents, and so forth.

There are many places to look for rental housing, both conventional and unconventional. One factor to remember is that real estate agents deal with rental housing as well as property for sale. Refer to the “Looking for Property” section in the following chapter for a more detailed discussion on the process of looking for property.

One factor that is different for leasing property is rehabilitation. It is not financially wise to invest money in the rehab of a building that a group will be using for only a few years. Groups may sign a “master-lease” for the building that gives them responsibility for minor maintenance repairs, but it should be noted that major upkeep of the building is the owner’s responsibility.

Signing a Lease

It is important to understand the legal issues involved with entering into lease agreements. A lease is a written, legal agreement between an organizing group and a property owner. It specifies the rights of the tenant and the owner’s rights as landlord. The group can either take part as an incorporated organization (which is held responsible) or the actual persons can enter into the agreement and take personal responsibility. If the members do put their names on the lease, they should realize that they are legally responsible for paying all charges related to the agreement.

An important aspect of the lease agreement is the monthly rental rate. Before signing, the group should analyze how many people can legally live in the building. Also, consider which bedrooms will be singles, doubles, and triples. How much will each person pay at the rates that are offered? Will people live in these spaces? Would you?

Create a trial budget. Remember to budget money for things such as food, utilities, business expenses, vacancies, minor maintenance, cooperative education, and development. If the spaces can be realistically rented at market rates (at least), then the project is feasible to lease.

Sometimes owners are willing to negotiate the lease price. Prices are often set above what the owner is really wants in anticipation that the renter will negotiate. To an extent, it depends upon the market conditions. In a housing market that has a high vacancy rate, landlords will set prices higher that what they expect to get in anticipation of picky tenants. Conversely, in a tight market for tenants, owners will not be as willing to negotiate.

Depending on the local market conditions and the housing stock, it may also be possible to negotiate a lower rental price because the group is assuming responsibility for renting the whole building. This is called master-

leasing. Sort of like a bulk discount on housing. Professional property managers normally charge about 6 to 7 percent of a property's income. As a co-op group will be assuming the management responsibilities (filling the vacancies, minor maintenance, etceteras), this percentage can be used to reduce rates and fund an operating budget. It is essential that the group is willing to do the recruitment work necessary to assure that vacancies are low. Otherwise, the cost of empty spaces will be assumed by the members.

Lease agreements are usually contracted for a one year term. However, something called an "option" can be added to the lease, which gives the option to renew the lease next year. This gives the group first dibbs on leasing the following year, contingent on being a good tenant (i.e. paid the rent on time, no maintenance disasters). An option gives the cooperative a some extra room, if it hasn't found a house to buy or is not ready. Renting the same house from year to year can also lend stability to the organization.

Finally, a deposit will be required. There are usually legal limits on the size, which may include any of the following: security deposit, cleaning deposit, utilities deposit, and/or last month's rent. Consult with a local tenant's union to find out the limit for a specific area.

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New Construction

To some people in the cooperative movement, purchasing property is “the point” of organizing a housing cooperative. This position holds that while there are certain benefits of living in a community, the point is really purchasing buildings, acquiring equity, and developing more buildings. While there is no single, monolithic “point” to organizing a student housing cooperative, purchasing property certainly weighs-in heavily on a scale of importance. Of course, the experience of community organizing and democratic living are, perhaps, equally important to owning property.

With the benefits of collectively purchasing property come the challenges of achieving this monumental task. It is no small affair for a group of often overcommitted students to incorporate as a nonprofit organization, formulate a system of operations, find a property feasible for purchase, and obtain financing from conventional and alternative lenders. Furthermore, there is the equally monumental task of successfully operating the cooperative in the long-term (recruiting new members, making mortgage payments, purchasing more properties) as the original organizers go on to other things and the founding energy dissipates.

This chapter addresses the critical technical challenges that an organizing group will tackle during their struggle. Issues such as the property search, real estate professionals, financing, and signing the agreement are discussed in a manner that makes them understandable and accessible to people who are just learning. Once a group begins this process, the *Handbook's* earlier emphasis on research and organization will become crystal clear. Such preparation is critical to understanding the issues involved with purchasing.

Looking for Property

Before an organizing group begins the property search, participants should establish the characteristics they are looking for in a building. A productive group exercise is a brainstorm session to create a profile of the ideal building. The following questions will bring the right issues to the table and may inspire further discussion:

- How many people will live there?
- Should the building have a group kitchen or at least a big kitchen?
- How much common area should there be?
- Is space for parking necessary, both in practical and legal terms?
- What is the ideal mix of singles and doubles?

The next step after the ideal has been created is throw it away. Not literally, but organizing groups should be aware that the building they find will probably not be their ideal because of the difficulty of finding feasible buildings suited for cooperatives. Nonetheless, it is useful for group members to know their preferred characteristics so they are able to recognize them during the property search.

There are certain kinds of buildings that organizing groups should consider because they well-suited to meet the needs of a group house. Sorority and fraternity houses tend to make good student cooperatives because most are large and well-suited for group living. Other possibilities include: rooming houses, convents, bed & breakfasts, and houses that have been subdivided into apartments. Redesigning such buildings into a group house can make rates more affordable. Choosing one central kitchen and turning remaining kitchens into bedrooms will increase the number of people paying for the total mortgage and, consequently, each individual's rent will be lower. Places to check are the university housing office, newspapers, flyers on campus, and property management firms.

Relating to group's ideal living situation are the various zoning laws must be taken into consideration. Zoning laws are regulations concerning the way in which property may be used, such as group housing, multi-family, single family, retail, office, etceteras. Refer to the Community Research section of the "Doing the Homework" chapter for a more thorough discussion on this subject.

Real Estate Agents

An effective tool in the property search is a real estate agent, who can help by guiding organizers through the housing market. Groups can communicate their property needs to the agent, who will come up with a list of properties which generally adhere to those specifications. Real estate agents can also provide information concerning the general market, and are some of the most likely people to know about the availability of appropriate student properties. If sympathetic, she or he may prove to be a good teacher of the ins and outs of local real estate. Compensation is commonly provided in the form of a commission once a purchase is made and will ultimately be added to the total amount of the mortgage.

It is important to note that while real estate agents are licensed by the state and fairly closely regulated, they are agents of the sellers of property. Principally, their interest rests in getting a high selling price for the properties they are showing because the commission is based on a percentage of the selling price. Thus, while real estate agents may be more or less friendly and helpful, it is worthy to be mindful of the relation of competing interests.

Nevertheless, both for reasons discussed above and because obvious suspicion is insulting, it is appropriate to maintain a professional working relationship with a real estate agent. An advisable approach is to take what is said with a grain of salt and critically examine the situation in later discussion. In addition, members of an Advisory Committee could prove useful in analyzing the situation.

Finding a real estate agent is not very difficult. Because they work by commission, agents are usually interested in potential new clients, which has both advantages and disadvantages. It means that cold calling an agent will almost always get a response, but also that the agent may not know much about student or cooperative housing. However, real estate agents do exist who specialize in commercial rental property or perhaps even group housing.

While they are integral to the property search, it is important not to rely purely on real estate agents. Proactive organizers who have built a support network will use it as the extended eyes and ears of the property search. Administrators, nonprofits, community people, and friends supportive of the organizing group can play a very productive role. Other places to look might include the office of Greek life, a current or former landlord, and, of course, the newspaper. Owners who don't want to pay a real estate commission often advertise in the paper.

Devising a Search Method

A method for examining potential building should be devised by the organizers. This method might include dividing responsibilities among group members such as: making a floor plan to keep track of how many rooms are singles, doubles, triples; keeping a special eye out for maintenance considerations, such as leaky roofs, critters, cracks, loose bricks, and the like; and calculating quick feasibility check. Another member responsibility is researching building codes, ownership, and the value other buildings in the neighborhood.

In addition to whether or not it is a desirable place to live, each building should be examined for maintenance problems and financial feasibility. Successful organizers are curious, critical, and talk to as many people as possible. The following is a list of questions to consider when looking for property:

- Is it in good condition? Roof? Foundation? Paint job? Heater?
- Is the water pressure good?
- Is the house weather-proofed?
- Are there mice, rats, bugs, or other critters?
- Does the layout of the house lend itself to building a sense of community?
- What size is the kitchen? If sharing food is an aspect of the cooperative, it will require a large preparation and storage area.
- Does the kitchen adjoin to a common room?
- What is the neighborhood like?

All of this information is useful in determining whether a building is feasible to be used as a student housing cooperative. While there are many factors affecting whether a building will work as a cooperative, feasibility is the most important. In order to work with CCDC and be eligible for most student co-op funding sources, it is standard for staff to come to the site to examine the building and perform a detailed feasibility analysis, called "crunching the numbers." Often it takes years for groups to find a building that is feasible to purchase.

After looking for properties for an extended period of time, organizers develop an eye for good cooperatives. In fact, many begin to see the world in terms of potential co-op buildings. They stop each time they find a large building, map out which neighborhoods would work for multiple developments, and know that because a building is not officially on the market does not mean the owner won't consider. Property records are kept at city hall or the housing department, where one can research the owner or property management firm. A tour can be arranged through an agent or property owner.

Negotiation

After a desirable building is found, the next step is negotiating a price. The negotiation process begins with the submission of a purchase offer, also known as a sales agreement. The purchase offer is an offer to buy a piece of property under certain conditions, with certain stipulations. It is submitted to the seller of a piece of property for consideration. They may respond by accepting the purchase offer, or, more likely, by submitting an edited version of the offer, known as a counter-offer.

Purchase offers and sales agreements are accompanied by *earnest money*, which is typically about two to three percent of the purchase price. Earnest money serves as a deposit with the seller, establishing a serious intent to purchase the property. It differs from a down payment in that down-payments are part of the actual purchase. If the purchase happens, the earnest money usually becomes part of the down-payment.

Aside from these technical considerations, though, is the fact that an organizing group must supply this earnest money in advance of the purchase. Again, this is a situation in which building a strong network of community contacts can pay off: supporters often have the resources to provide a loan or grant for part or all

of this money. In some situations, CCDC can arrange a loan from an established student cooperative for the earnest money.

Purchase offers, if accepted, make certain commitments to the seller. In summary, a purchase offer states:

- The amount the group is willing to pay
- When it would like to take possession
- The type of financing being sought
- That taxes and utilities will be pro-rated (appropriately divided)
- Protects the buyer against partial ownership claims and unspecified repairs on the property

Purchase offers also contain various contingencies. These contingencies are items that the buyer and/or seller must have resolved before the purchase can go forward. The most common contingency is for financing, which gives the buyer a period in which it has to find a source willing to lend money to buy the building (usually 60 days). Other contingencies might include: approval by the cooperative's Board or general membership, approval of the agreement by an attorney, a thorough inspection by contractor, a valid Certificate of Occupancy, termite inspection, or other factors that may affect the feasibility of the project.

If the purchase offer is accepted and signed by both parties, it is important for organizers' to be cognizant of their obligations and ensure they are fulfilled. An important obligation is the stipulation that the buyer keep the seller informed of efforts to obtain financing. Purchase agreements have this stipulation to protect sellers from people who are not serious in making an offer on their property and to be fair by keeping them aware of difficulties which may make compliance with the agreement impossible. This requires that the real estate agent be notified, in writing, if there are significant changes in the financing as planned, or in the timeline initially projected. As CCDC is normally responsible for arranging the financing, it takes much of the responsibility for informing the seller of changes.

Finally, it is important for organizers to keep CCDC informed of any on-site developments which may effect the purchase agreement, even though staff usually maintain a high on-site presence. However, this does not guarantee that CCDC has knowledge of everything that transpires. Generally, the more effort invested into healthy communication, the less mistakes that are made.

Inspection and Appraisal

The first stage in obtaining financing is assessing the value of the property, which is done through a property inspection. As stipulated by the buyer in the purchase agreement, the inspection insures that the property is in satisfactory physical condition. It also identifies what kind of rehabilitation will need to be done to the property. Hopefully, the inspection will not find anything unexpected. If major problems are discovered, the feasibility analysis should be modified. Depending on the situation, the group may need to submit a new offer.

An inspection should be performed by an independent housing inspector who will do the type of inspection desired by the buyer. Independent inspections commonly cost several hundred dollars, and the findings are not public. Inspections usually focus on the following:

- grading, drainage, landscaping, fences, paved areas, retaining walls, recreational facilities, garage
- exterior walls, insulation, doors, windows, porches, decks, steps
- roofing, vents, hatches, skylights, gutters, downspouts, chimneys
- crawl space or basement: construction, settlement, water penetration, termites, rot
- attic: access, ventilation, insulation, signs of leakage, fire safety
- interior: walls, floors, ceilings, fireplace, stove, stairs, closets, fire safety
- electrical system
- plumbing system
- heating and cooling systems
- kitchen and bathrooms

An inspector is hired by the buyer to inspect anything of concern in addition to the standard list. Inspectors should also be asked to estimate what it will cost for each repair that needs to be done. It is smart to get more

than one estimate for major rehabilitation projects. A feasibility analysis is not solid until after the inspection and rehab estimate, which makes the viability of any project uncertain.

An appraisal is an estimate of the value of the property by a certified expert. It is information that financial institutions will need to know in considering loans. Appraisers commonly estimate the value of a building using the methods listed below. The appraiser considers these options and estimates the market value accordingly.

- Replacement Cost: How much would it cost to replace the current facilities?
- Market Data: How much are comparable properties in the local market selling for?
- Income Approach: What value will a property with this income support?

Feasibility

An important step in housing development is establishing that a property can be put to economic use as a housing cooperative. This applied research is aimed at producing information which you can use to decide whether a building meets the needs of your group (in terms of affordability), as well as to convince banks and other sources of financing that a property is feasible.

Occupancy

Can the building be legally occupied and used for the purposes that you desire? Key sources of information for assessing occupancy issues include:

- How is the building currently used? If it's a group house for students, that's a good indication. How many people does it currently house?
- Zoning and building departments - go to the City and ask for information on a particular property, its zoning, and what legal uses are eligible under that zoning designation (you're probably looking for something in the multiple-family/apartment/rooming house range). You'll also want to find out if there is a maximum number of people who can live in the building - that'll be key when it comes time to look at the financials.

Other factors that might impact legal occupancy of a property include lot size, number of off-street parking spaces, rules on use of basement spaces, and requirements for adequate light and ventilation of sleeping rooms. You will also need to find out whether your municipality has restrictions on the number of "unrelated persons" who can live together, as this will affect the occupancy of some properties.

Sources and Uses of Funds

Also known as a "Development Budget", this is where you come up with the ticket price for purchasing the building. A quick way to do this is as follows. Taking a piece of paper, :

- On one side list of all of the costs that are involved with turning the building into a working student coop house. Include an estimated purchase price, any rehabilitation work that you think might be necessary, furniture and appliances, anything else that seems relevant, and then add 10% for miscellaneous contingency items. Only count the one-time expenses involved with purchasing and starting the co-op. Total these items - they are known as the **uses** of funds.
- On the other side, list all of the sources of financing and their terms. An easy place to start is to assume that you'll need a bank mortgage for about 75-80% of the cost of the project - so take 80% of the total ticket price from the other side (the terms of a bank mortgage are usually a loan for 25 years or so at about 9-10% interest right now). The remainder is risk financing that you'll have to drag up from somewhere. Does your organization have cash in the bank (no terms there)? How much of your current building can you use as equity (what do you owe on its mortgage vs. what it is worth - you can count that as cash in hand when it comes time to go to a bank)? Are there City programs to help affordable housing

(the terms of these will vary)? Will the University consider financing part of the cost? Could you get a loan from an existing cooperative (possibly up to \$50,000 as a loan)? Total these - they are the **sources** of funds.

The sources and uses need to match!! If they don't you probably don't have enough funds, and need to find some more. Or you need to evaluate the uses for your capital, to see whether you need to negotiate a lower purchase price or perhaps change the amount of rehabilitation that you are planning for the building.

Finding sources of funds is often the largest hurdle which a student housing cooperative needs to tackle in starting or expanding. Don't let this stop you from analyzing properties; try making some assumptions about sources of funds, and then work later on

Cashflow (aka an Operating Budget).

Finally, you need to see if the building can generate enough money to cover the costs of running it. Take another piece of paper and:

On one side total up all of the revenue that you can expect from the building in the space of one year. For housing co-ops, this is almost entirely rent. Look at each space in the house, and determine what you could reasonably charge for it. Total the rent for each month, and come up with a gross figure for the whole year. If the summer housing market is significantly different, you will need to do two different sets of revenue, one for school year and one for summer.

On the other side, total up all of the expenses that you can expect to incur in a single year. Look at two separate types of expenses:

- i) Debt Service - if your Sources of Funds includes borrowed money (loans, mortgages, etc), and it will, you need to calculate and itemize the annual payments that each loan will require (there are amortization books or programs that can help with this, or your spreadsheet can do it).
- ii) Operating expenses. Usual categories of expenses include: property taxes, heating, electricity, water, and maintenance. You can either get figures from the previous owner, or try and estimate them based on your current building.

Only worry about accuracy to the degree that you can. Try to estimate costs in a way that you can defend if you need to, but don't worry about having every single cost pinned down just yet.

Subtract total expenses from total revenue. If the amount is positive, you're probably looking at a building that will work as a co-op. If the amount is negative, you need to look closely at how you can make this building support itself. Possible strategies include increasing the number of people in the building paying rent, eliminating unnecessary expenses, or changing the structure of the sources and uses of funds to lower the debt service expenses.

If all three of these elements come into place (occupancy, sources & uses, and cashflow), then the building is probably feasible. Don't be surprised if it's not, though. It can take a long time to find a building which will work as a student co-op.

Financing the Project

Financing new student housing cooperatives is one of the most difficult aspects of the development process. Obtaining loans from conventional lenders is often impossible, even when a group has obtained the funds for a down payment. The cooperative movement, however, is in the process of creating a pool of resources to finance new co-ops.

Mortgage Financing

Financing the purchase of property is generally done through a mortgage loan. A mortgage loan is a loan that is made "against" the property which the group is purchasing. This means that the property being purchased serves as collateral which can be repossessed if the new cooperative defaults on its loan payments.

Mortgages typically provide a maximum of 75 percent of the financing for any given purchase. This gives banks protection in the case of defaults: they are very likely to get 75 percent of the value of the house through a resale after repossession. As well, the remaining 25 percent of internal capital and subsidiary financing, tells the bank that other people have enough confidence in the buyer's ability to pay, to risk their own money. The 25 percent is considered the cooperative's down-payment.

Another attribute of mortgage financing for new student cooperatives is that, almost without exception, it is at a variable rate, which means that the interest rate of the loan is tied to prevailing market rates and subject to go up and down. This is unlike a typical home owner mortgage which is fixed and has the same payments throughout the loan. The rates can change monthly, yearly, every three years, five years, etceteras.

Loans also have two lengths attached to them. The first is the amortization of the loan. This refers to the length of time it would take to pay off the loan in monthly installments, which is commonly 20 years. The longer the amortization the smaller the monthly payment—but more payments are scheduled to be made and therefore the more total interest paid.

The second length of time is the term, which is the length time that the buyer will be paying off the loan (is not necessarily the same as the amortization). For example, the loan might have payments figured on a 30 year amortization, but with a term of 5 years and so it will need to be paid off at the end of 5 years. This is done because the lender does not want their money committed for an extended period of time or is unsure of the buyer's ability to be consistent in loan payments. Usually, the cooperative will either extend the loan or get a new one.

Subsidiary Financing

Historically, obtaining subsidiary financing, the remaining 25 percent of the loan, has posed a difficult problem for student cooperatives, which is discussed in the previous section. In CCDC projects, subsidiary financing is most successfully obtained from the limited resources within the cooperative movement: established student cooperatives, the Kagawa Fund, local co-ops, and member shares.

Other options for subsidiary financing are local supporters and organizations: local businesses, nonprofits, universities, cities, and philanthropists. Though these are not likely to produce loans for a significant portion of the subsidiary financing, every piece of the financing package is important.

Member Investment

A common element of subsidiary financing is member investment, which serves several purposes. With respect to the organization, it is one of many ways in which members create and maintain a commitment to the cooperative. This sense of ownership creates an incentive to care for the buildings and the organization. Furthermore, the contribution to the purchase of the building makes the project attractive to mortgage and subsidiary lenders. Also, the member investment reduces the size of the mortgage payments and, thereby, adds to the affordability of the project.

If the cooperative defaults, and the property is sold, the mortgage and subsidiary lenders want to recover their money. A return of 95 percent of project cost is used as a standard, in case the property must be sold quickly. Therefore, lenders generally look for around 5 percent member share investment to cover the loss. The member shares effectively function as a built-in incentive for member participation.

The concept of member shares is common throughout the movement, even in, say, a food co-op. Members purchase shares in the cooperative, and the shares are the source of initial capital for the venture. They are equity contributions which last through the member's term of involvement. The sum is paid upon entering the cooperative and is refunded when the member leaves: it also functions as a security deposit. Usually, the share is not any more than the area's average deposit.

Another kind of member investment is a loan, which either comes from a member or a relative. These investments are unique in that they are socially-responsible by supporting a good cause and personally-responsible by supporting one's education. While the terms of loans depend on circumstance, the interest rates can be set to make them attractive investments.

A strategy for member loans which has been used before in low income housing is through credit union membership. If a credit union will not lend directly to the co-op, perhaps they will consider lending to the members, who in turn will lend the loan to the co-op. If organizers are members of a credit union, they can take out loans for the amount of their member loans to the cooperative. The interest paid to the member on their loan would be equal to or greater than the interest of the credit union loan. Thus, the member loan would have no direct financial costs, while still providing a form of member-loan investment.

Movement Resources

The student cooperative movement has responded to the difficulties in obtaining financing by developing a pool of resources which it can draw upon when necessary. One strategy has been to lobby the government for the use of public funds. In both Canada and the United States, all levels of government have provided low-interest loans and grants for the capital needs, operations, and rehabilitation of student cooperatives. The problem has been that government support is not consistently reliable, fluctuating with the political climate.

The principle of cooperation among cooperatives is a movement-building force that has helped in overcoming financial barriers. Many established student cooperatives are willing to loan money to organized groups with feasible projects. Even better, local cooperatives are sometimes willing to provide loans and play the role of sister organization. However, cooperatives are not obligated to provide loans, which means that it comes in waves just as with government support.

A model which addresses the problem of wavering support is the creation of a revolving loan fund that is controlled by participants within the cooperative movement. A revolving loan fund is a pool of money which loans initial capital to projects and re-uses the repaid money by loaning again. It grows by charging interest, soliciting depositors, and fundraising. The initial capital could be provided by established cooperatives or through public funds.

The Kagawa Fund for Student Cooperative Development is a revolving loan fund named in memory of Toyohiko Kagawa. The initial capital was provided by the Japanese cooperative sector and is currently controlled by CCDC and the Cooperative Development Foundation. The current funds (as of early-1997) are only sufficient to provide for part of the subsidiary financing of one project every per year. However, a fundraising effort focused on established cooperatives and co-op supporters is in the making, which will make the fund more effective.

Getting Loans

While banks do not have fixed loan requirements, there are certain items which they will look for in deciding whether or not to approve a loan. Other than the overall soundness of the project (ability to pay and adequate management arrangements) banks look at how much the organization budgets in reserves. Safe numbers are as such: two percent for operating expenses, three percent for repairs and replacement, and five percent for vacancy. Also, banks look for a net income of around 10 percent.

Loan Applications

The loan application is, essentially, a summary of all of the development data obtained or created through the development process. The basics of the application are as follows:

- organizational mission, purpose, and goals
- description of the organizational structure
- need for the loan
- type of loan
- property information: value, condition, and existence of liens, or debts owed
- substantiation of the organization's ability to pay the loan back

As well, the loan application should include a business plan that articulates the next three to five years of operation. Most of the information for the business plan is generated in the financial projections, so it is not difficult to put together.

The amount of information that banks require for loan applications makes them fairly detailed documents. The bank is in the business of loaning money and has a long list of specific requirements; loans from other sources will likely require a lot less information. When lenders are treated in a professional manner, they are likely to feel better about the loan. While this may seem inconsequential, lending decisions (to an extent) are based on a subjective intuition, in addition to the financial details of the project.

Loan Evaluation

Once the loan application is complete and submitted to the bank, the application will be evaluated by a loan committee. A loan officer will be assigned to the project and will be the main contact during the loan evaluation process. He or she will take the application before the loan committee, which will evaluate it on the aforementioned criteria.

The loan committee, through a loan officer, will probably want additional information which can be supplied by the organizing group, CCDC, real estate agents, building appraisers, and housing inspectors. The committee will then make the decision to approve or deny the loan.

Closing the Deal

The day on which someone actually purchases a building is called Closing Day. It is the day when the title to the property is transferred from the seller to the buyer. It is not the same as the day in which the members move-in or "take possession" of the property. Possession of the property is sometimes arranged before or after Closing Day.

The closing normally occurs at a title company, which is a firm that specializes in property transfers. They are responsible for preparing all the relevant documents and issue the "Title Insurance" that guarantees the buyer gets title to the property. There are a number of people present at the closing, including:

- owner
- co-op member
- CCDC staff
- lawyers of both parties
- real estate agents
- representatives from the lenders
- other parties, such as the building inspector or appraiser

Sometimes there will be an independent lawyer who is there to coordinate the affair and draw-up some of title transfer documents. Papers are passed around and signed by both parties. This is the time when the down-payment to the bank is made, consisting of member shares and subsidiary financing. Usually the contractors and lawyers will receive fees for their services at this meeting and lending-related fees will be paid. Others involved will inform the buyer of when they expect to be paid.

Rehabilitation

Very seldom will an organizing group find a building suited perfectly to their needs. It is often the case that the building is in need of rehabilitation in order to make it livable or to conform with local fire and health codes. Frequently changes in a building need to be made because of increased occupancy or the previous owner's neglect. Generally, members work closely with CCDC staff to insure that things proceed properly.

Even entering into a property with all the necessary rehabilitation fulfilled, it is often desirable to upgrade in other ways which will improve its functioning. Possible renovations could be something that a member can facilitate, such as converting a garage to a bicycle shed. More complex projects require hired labor: installing skylights, replacing the roof, or adding additional living space to the building.

Developing a Rehab Plan

As mentioned, much of the renovation work will be required by local fire and safety ordinances. To learn about what changes will be required of the group, it is necessary to make contact with the city housing building

inspector. Often it is advisable to have the city inspector tour the house personally, because his or her interpretation of the code is most relevant.

Plans for major renovation should incorporate the assistance of an architect, who will be able to apply the local housing code to the new cooperative. As with other professional help, it is advantageous to create an advisory committee that can provide sympathetic and affordable advice. A sympathetic architect can give relevant assistance to a rehabilitation plan.

After the city inspector has compiled a list of requirements and the plans have been completed by the architect, the rehabilitation should be carefully planned. To begin with, work that can realistically be performed by willing members is noted. Next, a schedule is developed which includes priority renovations and work coordination. Further, bids are solicited for repairs and construction: generally three bids per work project. Members can play a key role in finding contractors who are recommended by people in the area and checking on the reputation of others. Factors in choosing a contractor are:

- Experience: Has the contractor worked with the cooperative or neighbors on another projects and done a good job?
- Time: Will the contractor be able to complete the project when needed?
- Guarantee: Is the work guaranteed and how do different bid guarantees compare?
- Work included: Is the bid of one contractor more complete than another? Will subcontractors need to be involved?
- Price.
- Cooperation: Is the contractor willing to work with some members?
- References: Does the contractor have good references or work to be displayed?

Organizing a work committee is helpful, if the co-op wishes to reduce its rehabilitation costs through “sweat-equity,” or member volunteer labor. CCDC can help establish what tasks are doable by members and how long tasks may take. Such decisions should be made when the rehab schedule is developed. When it comes time for members to begin certain tasks, everyone in the group should be clear about their responsibilities. Informing a contractor that rubbish will be cleared out of an attic, and not having it done when he or she arrives with the work crew increase the overall cost of the project.

CCDC usually advises groups to appoint a development liaison who is responsible for being the on-site coordinator. If there is room in the budget, provisions can be set aside for a development intern to paid for the large amount of work that is required of the liaison. The liaison is responsible for informing the work committee of its responsibilities and checking-up on the work that contractors perform. Not only is the final product important in this case, but being aware of work which is falling behind schedule can be of crucial importance. Delaying one job can have a domino effect on the renovation and cause the cooperative added inconvenience and expense.

The NASCO Properties Option

The primary strategy outlined in this chapter for acquiring property to be run as independent cooperative systems is seen by many in the movement as the most desirable development process. However, it is still based upon the support of traditional banks for the mortgage portion of the finance package. Such support cannot always be counted upon.

Even if the project is able to attract loans for a down payment through movement resources and alternative lenders, many banks are still not willing to lend money to student cooperatives. This added dimension to the movement's financial barriers has necessitated innovation beyond the movement resources discussed earlier.

NASCO Properties (NP), a tax-exempt nonprofit organization, was created for the purpose of saving an existing student cooperative from financial ruin. The Inter Cooperative Council in Austin (ICC-Austin), Texas was suffering from the effects of a real estate crisis caused by the Savings and Loan scandals of the late-80s, and NP was created to purchase one of their buildings to provide a much-needed cash infusion to the

ICC-Austin. In addition to saving an existing co-op system, NP was created for the larger purpose of addressing the mortgage finance barriers faced by organizing groups.

NASCO Properties' creation in 1988 was immediately followed by the provision of assistance for an organizing group in Chicago in '89. The group had been unsuccessful in finding conventional financing, even with the help of the student cooperative movement. This problem was resolved by NP purchasing one building, and then a second, and leasing it to the local cooperative.

Today, NP seeks to poise itself as a reputable national property owner in the financial industry, with the intention of assisting student groups unable to access conventional financing. The organization seeks to empower the local co-op to the point that it is able to purchase property on its own. While NP has produced a development statement, it has not agreed upon specific policy or process concerning the future ownership of properties.

As CCDC and NP are cooperative development organizations, they are committed to overcoming financial barriers and making projects work by any means necessary. The philosophy is that, as much as possible, student cooperatives should expand due to their own efforts. Yet, due to financial challenges experienced by new student cooperatives, total autonomy is not often possible, and tools such as NASCO Properties are a necessary alternative.

New Construction

Another strategy for establishing a cooperative is new construction. The construction process is dramatically different from purchasing existing housing stock, involving elements such as hiring an architect for design, agreeing on design, hiring and advising a construction firm, obtaining building permits, and so forth. However, there are similarities as well: primarily, obtaining financing. While this handbook focuses on purchasing buildings, new construction is, in many cases, an effective means of providing community-oriented, affordable housing.

Democratic Design

Sometimes organizing groups decide that the buildings in the local market are not conducive to the student cooperative model, which traditionally requires a large building to maximize the group's labor power by creating an economy of scale. Similar to cohousing, which incorporates the concept of resident-developers, new construction gives student organizers democratic control over the design of their future home.

Constructing a new building allows the group to create a structure that enhances their objectives. Such a design may include a centralized food area, plenty of common space for hanging-out, private dwellings for alone-time, and thick walls for study-time. It is difficult to find a building in the private market that incorporates all the right elements for cooperative life. New construction provides an ideal basis for a healthy community.

New construction also provides an opportunity for experimenting with new innovations in ecologically sustainable design methods. Conventional housing development is often based upon leveling undeveloped land and building new structures with unsustainable methods. New (or not so new) environmental design methods incorporate concepts such as energy efficiency, recycling of waste, community gardening, bike storage, solar, and wind energy.

Relief in Tight Markets

The existence of students can affect the housing market in negative ways. For instance, if a new university is built or enrollment is increased and new student housing is not constructed, then students, who then rely upon the local market, have a negative impact on local renters. In classic economic terms, an increase in demand without an increase in supply will drive the price of housing up and make life difficult for low-income tenants.

For organizing groups motivated by the provision of affordable housing, new construction is sometimes more socially-responsible than purchasing existing housing stock. One reason for this is that by creating more housing, the impact of students on the local community is lessened, non-student-specific housing is freed-up, and a downward pressure is exerted on the local market. This is what makes student cooperatives beneficial to the entire community. Furthermore, new construction allows for the maximization of space.

Affordable housing is different from housing designed for middle- or upper-income people in that the former is densely populated and the latter is low density.

Subsidies

A final justification for new construction relates to the previous subsections. Because they have the potential to improve the accessibility of higher education, the larger community, and the well-being of the planet, new construction projects are more eligible for public and private subsidies than purchased property.

City governments are sometimes interested in providing affordable housing to low-income people. Because student cooperatives indirectly benefit low-income communities, cities may be willing to provide low-interest loans or grants. Likewise, universities are often responsible for providing a certain amount of student housing and may be willing to provide loans or land subsidies to fulfill this responsibility. A land subsidy is a piece of land provided to a cooperative for significantly lower than market rate that, in effect, functions as a subsidy.

As consciousness of the environmental destruction of the planet becomes more widespread, private foundations and other funders will be more willing to support innovations in sustainable design. While sustainable methods are often more costly than conventional development, a grant to subsidize the project could even things out. A student cooperative project might be attractive to funders because it involves young people learning about alternatives, who, in turn, will incorporate such lessons into their lives.

One criticism of new construction is that when all the costs are added-up, the project is not feasible unless it is subsidized in some manner. This support may come in the form of low-interest loans, grants, or university land at no cost. Thus, before a group invests too much time and hope into a project, the first step is researching the available programs.

Working with a University

Establishing University Motivation

University Requirements

Developing a Bargaining Position

One development option which is different from either renting or owning property involves working with a University. This option is similar to rental, in that it does not require the rigours of purchasing property. However, as it can also open a whole other set of issues, it deserves special treatment.

Universities normally provide housing as part of their package of services to students. However, much of the housing that they provide is expensive and not responsive to student needs. Cooperative housing can offer Universities an opportunity to provide for different students interests and needs without having to administer it themselves; it is affordable, educational, and innovative - qualities that are sometimes attractive to administrators.

Typically, student housing cooperatives which work with Universities lease buildings which are University-owned, either on or off-campus. The terms of the lease vary widely, as do the terms of occupancy. Key issues in successful leases have been the value of the lease (how much the co-op has to pay on a monthly or semesterly basis); whether the residents have to be students at the University in question; the division of responsibilities in key areas such as maintenance; and the terms for termination and renewal of the lease.

However, be forewarned - University commitment to student cooperative housing can be transitory. University politics are complicated, especially when it comes to real estate. In recent years, co-op systems at Cornell and Brown Universities have been reduced in size because the Universities in question decided that their resources needed to be concentrated elsewhere - away from the needs of students. If you are planning on approaching your University administration, it is important to do your homework and understand what the University's motivation is going to be to support co-op housing, what terms they will likely set for their involvement, and what your bottom line is going to be.

Establish University Motivation

Identify an appropriate unit in the University administration to approach and make a presentation to. It is important to identify arguments in favor of student cooperative housing which appeal to the interests of these administrators. Key arguments are likely to include:

- *Student Life Development:* A lease-arrangement with a cooperative can provide Universities the opportunity to allow students to experience a community theme. They may view this as a key factor in the development of students' overall educational experience.

- *The Benefactor:* Some Universities may desire to aid students in a "good cause". They may feel that cooperative management corporations, provide students with good non-profit business experience.
- *Demand:* If there is a demand for cooperative or affordable housing, a University may simply be interested in quickly and easily responding to a student demand.
- *Lower-cost:* The University may be interested in providing housing at a lower-cost than its overhead may permit.
- *Better up-keep:* Occasionally, a University may contract with a management corporation because it does not have the maintenance resources or abilities to satisfactorily maintain its own buildings. This is not usually a reason why a University will contract with a student cooperative.

University Requirements

In addition to motivating factors, the University will have requirements, as property-owner, which any leasing organization (student cooperative or not) must meet in order to independently rent or lease facilities. As property-owner, the University has certain responsibilities, to itself, to its students, to its lenders, and to the community, which it wants to be sure to fulfill. Those requirements include:

- *Assured income:* The University must be sure that it will collect the income due to it from the leasing organization. This means that the leasing organization must be soundly organized in its collection and management of funds; and that it should provide for the high-occupancy of its managed buildings. Note: Consistent and on time lease payments go a long way towards keeping a University satisfied with a lease arrangement.
- *Proper upkeep:* The University will be interested in the proper upkeep of buildings. This includes minor maintenance, major maintenance, and occasional rehabilitation work. The leasing organization must be able to deliver regular and reliable minor maintenance, and appropriately provide major maintenance and rehabilitation. The leasing organization should not allow the rapid deterioration of its managed buildings, even if repairs are swift and complete. Note: Funds invested by a leasing organization are generally worth the expense, if it means savings on chargebacks from University-performed maintenance.
- *Sound operation:* The University will be interested in the orderly and appropriate operations of properties. This includes the programming of social functions and activities, the clean and sanitary operations of the premises, and the healthy operations of any food service. Note: The existence of successful education programs and the design of "systems" for operating
- *Low conflict:* The University is interested in a management of the property which is favorably received by its residents. Resident dissatisfaction or conflict will worry a University.
- *Responsible negotiations:* The University is interested in quiet and productive negotiations. Note: High profile protest and positioning may be appropriate for emergency situations such as a co-op closing or skyrocketing chargebacks, but could backfire in the long-term -- a University may not feel that it can work amicably with a leasing organization, and therefore wish to end the relationship.
- *Public image:* The University will be interested in its property being well-received in the larger community. If not being perceived as an asset to community, at least it should not be perceived as

a liability. Note: Phone calls from neighbors and parent, even about low priority issues, will prompt the University to take a more active role in management. This can translate into more restrictions and higher charges for a co-op.

- *Responsible admissions:* The University will be interested in the fair admission of residents. Note: Selective admissions can lead to complaints to the University administration and increased scrutiny.
- *Independent operations:* The University will be interested in a leasing-organization which can operate without University assistance (even if the University plans to offer a significant amount of management through the lease agreement). An independent leasing organization means that the University has flexibility in its leasing arrangements, and it can trust the leasing organization to properly manage the premises. Note: A co-op using paid management or accounting services helps to lay to rest many University fears.
- *Working Relationship:* The University will be interested in establishing a good working relationship with a leasing organization. Continuity, low-conflict, and flexibility are some of the qualities that a University will look for in a leasing organization. Note: The more the University feels that there are shared goals, the more flexible the University is likely to be.
- *Coherent Organization:* The University will be interested in working with an organization which it understands. Understanding the management corporation will allow the University to credit it with trust in operating its property. Note: This translates into providing a consistent contact person and ease of communications. Unanswered phones and unreturned phone calls damages a sense of responsiveness.

Developing a Bargaining Position

Developing a bargaining position with the University, in Rent Contract or Lease negotiations, begins with developing a sound business organization, one with articulate goals, a management capacity, and plan to meet its goals (see Doing your Homework). While a student cooperative management corporation may not be able to, or desire to, be responsive to all of a University's desires, the cooperative must be able to live up to its requirements.

The best rent contracts or lease agreements will promise the delivery of certain results (regular lease-payments, proper maintenance, sanitary kitchens...) in return for the use of buildings. The University needs to be convinced that it can expect those results from the student cooperative in order to negotiate a favorable lease.

The more the University perceives that the student cooperative may not be able to provide certain results, the more the University will be interested in an unfavorable lease-agreement (involving operational interference, University-control of capital reserves, shorter lease-terms). In this case, the University's motivation in negotiating the lease agreement will be, partially, to design the cooperative's management structure through the lease. If the University shapes the management structure (or controls certain operations), it will guarantee certain results. However, it will also involve itself in the management of the property, losing some the benefits of leasing its property.

In designing its negotiating position the University will look at the following considerations:

- *Finance:* Can the management cooperative adeptly budget income and expenses, manage its cash-flow, bill its members, and collect its income? If the cooperative cannot perform any of these tasks well, the University has reason to worry that it may not receive its lease-payments on

time (or in full), and it has reason to worry the the cooperative may poorly treat its members by having them subsidize substantial member debt, or by creating "surprise" increases in charges in order to make expenses. Similar, poor financial organization and operation will give the University reason to believe that the cooperative should not manage the capital reserves for the improvements on the buildings.

- *Maintenance:* Can the management cooperative provide low-deterioration and good up-keep of buildings? High wear-and-tear on buildings will alert the University that the management cooperative is poorly run. If its member-residents are destroying its fixtures at a swift rate, the management corporation should be discouraging these activities to save its members money. Similarly, the management cooperative should have a good repair system, so that the University can be assured that small repairs will be quickly identified and repaired -- and repaired properly. High levels of maintenance, especially involving member labor, can assist in convincing a University (or other private parties) to help pay for some repairs or even furniture and equipment donations.
- *Operations:* Can the management cooperative quickly and adequately respond to the needs of its member-residents and the University? If the decision-making processes are too slow or cumbersome (discouraging their use, or prohibiting their efficient use) the University will worry that the management cooperative does not have the ability to deal with crisis situations. Similarly, the management cooperative must provide for its administration by skilled and trained individuals, so that decisions and administration are sound.

By developing and communicating the existence of these capacities, student cooperatives can put themselves in a position to bargain for more autonomy and generally more favorable terms in rent contract and lease-negotiations.

The Beginning and the Future

It has been said that cooperativism is an economic movement that uses education; we can alter that definition, affirming that it is an educational movement that uses economic action.

— Jose Maria Arizmendiarieta,
founder of the Mondragon
Cooperative Corporation

A social movement is a process of building collective strength to bring forth social change. Movements are a means of gathering people together that reach beyond the bounds of a formal organization. Contemporary progressive movements address issues such as: civil rights, labor, environmentalism, socialism, feminism, and, of course, cooperatives. These movements are integral to democracy because they mobilize people to voice concerns and affect society from the bottom-up.

Cooperatives are inherently movement organizations. Many co-ops blossom from the efforts or assistance of people already involved in a movement. Others arise independently to further the interests of their members and realize that their mission can be better fulfilled by working with other cooperatives. In any case, the larger task of democratizing the economy is such a massive task that it can only be achieved by working as a movement.

The third part of the *Handbook* addresses the challenges that arise once the cooperative has been established. On a microcosmic level, in order for the co-op to be successful as an organization, it is necessary to invest time, thought, and research into designing a system of operations. Likewise, on a macrocosmic level, in order for the movement to be successful, it is necessary for the co-op to participate on the local, regional, national, and international levels.

Opening the Co-op

Interim Management

Recruitment

Getting it Done

Labor Systems

Orientation

Purchasing or leasing a building is not quite as simple as: find house - purchase house - occupy - and *shazaam* it's a co-op. Although that is the basic sequence of events, there are a few details in-between that will keep the new owners busy. Some of the responsibilities are geared towards preparing the cooperative for the members, and others take place after the cooperative has opened. It is important to give special attention to this work because it can make the difference between a smooth first year and one that is muddled with problems.

Once a building is purchased, organizers should pay close attention to all the tasks involved in preparing for the opening. Building renovation needs to be coordinated by a co-op intern or building committee to ensure that progress is moving forward properly. If it will not be operated as a co-op right from the start, organizers should devise system to manage it in the interim period. Also, new members should be recruited and thought should be invested into how the house will operate. Once the co-op opens, experienced members should host an orientation for newcomers to introduce them to the organization, the cooperative movement, and make them feel at home.

Interim Management

The members of the new cooperative might be able to occupy their building immediately or soon after purchase. However, this is dependent upon who is currently living in the building, the length of their leases, and what is best for the members. Usually, there is a variable period of time between the purchase and when it becomes an actual cooperative household. During this period, it is advisable to have a plan for the interim management of the building.

One of the primary issues that should be dealt with during an interim period is the current tenants. Will they be asked to leave so the organization can start anew? Will they be invited to join the co-op? Sometimes tenants have been living in a building for a long time and may feel that it is their home. The prospect of leaving can produce feelings of sadness or anger, which necessitate sensitivity in dealing with the situation. Furthermore, if the tenants have a long-term lease, the co-op may have to honor it by allowing the tenant to stay. The decisions that organizers make in these situations depend almost entirely on the context from which the issues arise.

Another issue to be dealt with is collecting rent during the interim period. As the new owner of the building, the cooperative is responsible for paying the mortgage payments. No payments can be missed. This requires insuring that the tenants are paying the correct amount of rent.

Likewise, organizers should be clear with tenants about when they are scheduled to move out. Standards for maintaining of each room and cleaning it upon departure should be enforced by the interim manager(s). Lastly, deposits that each resident put forth upon entering the building, which are usually transferred on closing day to the co-op, need to be available returned once rooms and debts have been cleaned, which is usually one week to one month. Money should be subtracted for damage done to the rooms and cleaning that was not done. The residents should not be allowed to subtract their last month's rent from the deposit, as this money may need to be used to cover other expenses.

Interim management may not feel very "cooperative" for the organizers, who could feel like they are sacrificing their moral principles by playing the role of a more traditional landlord. However, each of the tasks listed above are a standard part of any management program; co-op members will need to handle such responsibilities once the organization becomes an actual cooperative. The primary difference might be that interim residents are not as willing to work with the management as future members will be, which can cause friction.

Recruitment

In many cases, for both leased and purchased buildings, the cooperative will need to recruit new members to fill the empty spaces. However, it is important that potential members understand the cooperative and what is involved. Organizers should begin to think about the details of policy and practice before recruiting begins; constructive dialogue should be invested in the following issues:

- **Meal Plan:** If the cooperative is going to eat meals together, the details should be considered beforehand. How many meals will be provided each week? Will there be food at other times? What type of member labor will the meal plan require? Food is an excellent catalyst to bring the community together.
- **Cost:** Perhaps the first question that will be asked by potential members is, "How much does it cost?" An initial cost projection should have been created for the feasibility analysis. Likewise, estimates for utilities and food should be created if applicable.
- **Member Share:** If the building is purchased, part of the down payment was likely a member share. Member shares function similarly to a deposit, as deductions for damages or lack of cleanliness are subtracted upon departure. How much does the potential member have to put down?
- **Labor:** How many hours and what kind of work is expected of each member? The meal plan usually requires the bulk of the work in a student cooperative.

Member contracts, incorporating the above information, should be created. A standard residential lease is probably not appropriate, although it's a good start. Most residential contracts have the same standard clauses, which will protect the cooperative from legal or financial hassles. Issues covered in a standard contract include but are not limited to: damages, late payment charges, length of contract, and so forth.

Once these details have been mulled over, and possibly decided, organizers should design a recruitment strategy. A good place to start is to consider what qualities a prospective member should have. What places does the prospective member likely frequent? What kind of publicity would attract attention?

Everyone should be involved in the recruitment campaign. Word of mouth is the cheapest and most effective way of spreading the word. Organizers should identify friends and colleagues that might be interested and personally invite them to join. People who expressed interest at outreach events should also be contacted and personally invited. Successful recruitment involves targeting people who are interested in community living and social change, not just cheap rent.

Universities often have resources for student housing that student organizations can take advantage of to recruit members. One is the off-campus housing office: advertising is often free. Another may be a housing brochure that is distributed to incoming students who are unfamiliar with the local housing market.

Taking the campaign one step further, organizers should reach-out to the student community and general public. Perhaps the most common form of outreach is posters. Effective posters are colorful, creative, and expressive of the co-op spirit: pictures, poetry, quotations, descriptions, logos, and slogans all help to achieve this. The visual element should be underscored: large and provocative images draw the viewer closer to take a more detailed look.

An innovative approach to recruitment that is geared toward outreach and public education will help the cooperative develop an enthusiastic and diverse membership and a strong community presence. The following is a list of approaches that can help make an outreach campaign into a public education campaign:

- Hosting a press conference or public event
- Writing a press release and sending it to the student and local press
- Tabling at a public event
- A year-round pamphlet display at the community housing office and student center
- Registering the phone number with an easy-to-remember number, such as 555-COOP.

Innovative techniques to creating a community presence are important not only for the initial recruitment campaign, but for future campaigns. In the long term, it will save the organization time and money.

Getting it Done

Perhaps for the first time, the cooperative is now on a tight schedule with deadlines. If, for instance, the co-op must be ready to open by the beginning of the school year, organizers may have to hustle to stay on time. For larger groups, it may be necessary to create an oversight committee to make timely decisions about rehabilitation, interim management, and member recruitment.

Indeed, there is a lot of work involved during the transition period. So much, that it may not be realistic to expect volunteers to handle it all. Many new cooperatives budget money to hire a development intern to coordinate rehabilitation, management, recruitment, and volunteers. Someone whose schedule is freed-up, is accountable to the co-op and CCDC, and can focus on getting the work done increases the chance of success. In this case, the oversight committee, in addition to volunteering, can supervise the intern.

Labor Systems

Elaborating on a point brought up in the previous section, an important consideration is the member labor system. It may be tempting, in a bureaucratic age such as our own, not to systematize the cooperative and to rely on the trust and good will of each person. However, there are benefits to creating a labor system that is accountable to the democratic will of the group.

One benefit is that the group does not have to reinvent the wheel each term. Another benefit to having a fairly constant schedule is that it addresses all the necessary chores and that members are clear about their obligations.

House Officers

Student cooperative across the continent have a variety of labor systems, developed for their particular circumstances. While no two co-ops are exactly alike, there is a fairly common methodology used in designing work systems. One aspect to a labor system are officer positions: the following list is a fairly standard division of labor between officers:

Chair or President: The cooperative should have one recognized representative. The responsibilities could include: planning and facilitating house meetings, serving as a representative to the community and Board, and checking-in with house officers.

Treasurer: The treasurer collects member charges, prepares a budget for house approval, pays the bills, reports regularly on the status of collections, and compares income and expenses with the projections in the budget. The financial success of the organization depends on the foresight and communication of the treasurer.

NASCO Representative: This person serves as a liaison between the cooperative and NASCO/CCDC, serving to facilitate communication between the two groups. It is easier for NASCO/CCDC to work with a new cooperative when there is a designated communicator. Often, this responsibility is given to the president or chairperson.

Food Steward: This person is responsible for facilitating the purchase of the house food. If the house doesn't have a meal program, a steward is not necessary. The steward's responsibilities may include the following: making the food budget, creating a shopping list based on the needs of the cooks and the general desires of the members, and purchasing food. Furthermore, sometimes this person is responsible for overall welfare of the kitchen.

Work Manager or Labor Czar: The work manager is generally responsible for facilitating the work schedule and ensuring the proper completion of work assignments. The manager may also be responsible for ordering supplies, and assisting with scheduling special projects, including work holidays, maintenance labor, and recruitment activities. The frightening title of "labor czar" is sometimes given because the job often requires disciplining members who are not living up to their responsibilities.

Secretary: Someone to take notes and compile minutes for each meeting is an effective means of facilitating house communication (for those not present) and enhancing organizational memory (over a period of time). The responsibilities of the secretary might include: taking minutes, filing minutes, and posting them in the bathroom or other prominent area, keeping records of alumni, and forwarding mail to former members.

Maintenance Manager: This person oversees the maintenance tasks of the house, coordinates other maintenance workers, schedules labor as necessary, and communicates with contractors. This position is crucial to the long term health of the building.

House officers can be elected by the members at the beginning of each term or each year. Furthermore, it is useful to clearly spell the responsibilities of each position in a house constitution, which furthers a sense of identity and helps things run smoothly.

Some of the house officers (president, treasurer, secretary) may look similar to the officer positions on most co-op Boards of Directors. However, there is a clear distinction between house and organizational operations in multi-house systems. In one-house systems, there is a distinction on paper but rarely is there a distinction in reality. For instance, the Board of Directors may be composed of everyone and house officers become the organization's officers. See the Getting Legal section in the "Moving Forward" chapter for a more detailed discussion of governance.

Fundamental Work

Determining what work needs to be done on a regular basis is fundamental to the smooth functioning of the household. Fundamental work probably includes each of the following: cleaning the bathrooms, kitchen after meals, and common areas; preparing meals; maintaining the outside grounds; taking out the garbage and

recycling; and so forth. It is also nice to have jobs that change from term to term to encourage new ideas. Lastly, whether or not Board members will be counted as labor is an important issue to be resolved.

Once a rough list of fundamental labor has been composed, it is helpful to design job descriptions and estimate the time and frequency required for each task. Often, job descriptions are compiled in a folder and posted at various locations throughout the house: officers in a central location but others by their job location (bathroom cleaner in the bathroom, cooks in the kitchen).

One of the objectives of a labor system is to balance the work load so that each person has a relatively equal amount of work. Some cooperatives assign an amount of work credits for each job based on the time commitments and difficulty of tasks. Jobs that are not considered very pleasant are given extra work credit as compensation (i.e. taking out the trash or cleaning the bathroom). Other cooperatives base work on the amount of time required for each job.

Implementation

The implementation of the labor system begins with establishing a process whereby everyone in the house is assigned jobs. Student cooperatives have various mechanisms for this: elections, lotteries, appointments, or a combination. Different techniques stem from different priorities and goals: for instance, a lottery system attempts to achieve fairness by being totally unbiased.

In the early stages of implementation, the house will likely run into unexpected problems. Members may discover that no one is cleaning the basement or that the hallway is being cleaned twice as often as is necessary. Or that being work manager is more time consuming than was planned for. These problems should be resolved before each new term and job descriptions should be revised as necessary.

The implementation would not be complete without a system for dealing with work-left-undone. It is usually the work manager's responsibility for the acting on policies for missed jobs. The house should be clear about informing the work manager when a job is considered undone and what the procedures and penalties are. Examples of penalties range from strict fines to a "wheel of misfortune" that is spun randomly choose a make-up task: for instance, scrubbing the oven, cleaning under the kitchen sink, baking cookies, and so forth.

Orientation

New member orientations function as an introduction to the organization and the cooperative movement. They are an integral part of the "cooperative education" principle in that they get the relationship between member and cooperative off a good start. Orientations provide members with information about the organization's operations, member responsibilities, and cooperative principles.

An orientation should be useful, enjoyable, and mandatory. Three or four hours should be a sufficient block of time. Two tips that might enhance participation in cooperative education events are as such: provide food and make it look fun and interesting. Also, allow time for informal interaction, so members have a chance to get to know one another. An example of an orientation schedule is as follows:

Introductions

5:00 Round Robin: How did you find the co-op?
5:10 Agenda Review (display on butcher paper)

Cooperative Movement

5:15 Round Robin: What is a cooperative?
5:25 Cooperative Principles
5:35 Cooperative Forms: consumer, worker, agricultural, student, food, etceteras
5:45 NASCO and CCDC
6:00 Project History, Vision, Mission

Break

6:15 Dinner (eat during the orientation)

How things work, or could work

6:25 Governance: Board of Directors, house meetings, decision-making process
6:40 Financial Structure: where charges go, when they are due, etceteras
7:00 Labor System: jobs and responsibilities,
7:20 Kitchen: meal plan, dishes, food system
7:40 House Tour

This sample orientation should be changed to suit a cooperative's specific needs. If the house is just opening, policies likely will not have not been set, nor does anyone know where things are kept. The idea is for old timers to make the new comers feel welcome and to give them a sense of history and ownership. It is important for educators to stretch their brains to imagine where new members are coming from and what would be useful to know. Good orientations have flexible schedules (not too flexible), plenty of room for questions, and a festive atmosphere.

It will be most people's first time learning about the cooperative movement, which is usually an eye opener. NASCO has educational materials and resources (pamphlets, books, videos) which may help communicate the basics of the movement. Yet this is an ongoing process and resources should be provided in a library for further research.

Besides communicating the basics about of the cooperative, the orientation should provide the inspiration new members need to become involved and make a difference. An empowering orientation will help make the house a successful, democratic household.

The Future

Leadership Development

Development Culture

Movement Culture

Once a cooperative comes to life, the struggle is not over, it just takes on a new character. It changes from the work of getting the venture started to building a strong organization and maintaining momentum. There are actually many challenges that new student cooperatives will face that could not possibly be addressed within this text. A separate handbook could be written to help members of new student cooperatives address these challenges. The final chapter focuses on three broad areas new cooperatives should bear in mind as they are setting the tone for the venture.

One is leadership development: efforts to develop new leaders and disseminate knowledge will make the organization stronger and prepare it for future turnover. Building a culture of continuous development will create a strong local network of co-op households, increase the organization's base of resources, and further its mission of providing as much affordable housing as possible. Likewise, maintaining a high level of participation in the cooperative movement benefits the organization through the sharing of resources and helps organizers in communities without cooperatives. Proactive founders understand the serious nature of these challenges, viewing them as opportunities for growth and welcoming the future with open arms.

Leadership Development

After putting in innumerable hours of work, the founding group inevitably would like to see their creation blossom into a healthy community organization for years to come. Perhaps one's gut instinct is that this entity has come to life and now we can sit back and watch it flourish. Perhaps, on the other hand, the founders are worried that when they leave, the organization is so fragile, it's going to fall apart. While the actual situation is dependent upon the particular circumstances, there are some actions that the founding generation can take to help the cooperative thrive.

Perhaps the most basic factor is to remain a member of the cooperative for as long as possible. Often, a crisis period (or at least a challenging adjustment period) will follow when the founding bunch goes on. With organizing experience, a sizable list of student and community contacts, and knowledge of the cooperative movement, founders are in a position to empower new members by disseminating knowledge and building a vision to guide the organization. Founders might consider staying after graduation to help get the organization on its feet.

An on-going issue in all student cooperatives is the constant turnover in the student community. Turnover hinders the organization by breaking continuity and weakening organizational memory, and, at the same time, revives the organization by providing new blood and ideas. Established cooperatives have addressed this potentially devastating problem by hiring staff and budgeting for cooperative education to train new members. However, a new student cooperative does not have those resources, and therefore should address the problem from another angle: leadership development.

One approach to leadership development is touched upon in the previous chapter: member recruitment. When recruiting, founders should target a specific kind of student: those who are already involved in community projects or student activism. These folks, who understand they *can* make a difference in the world, are ideal because in a cooperative, solving problems and running the organization is not a landlord's responsibility, it is dependent on the members. That is a concept that not everyone is ready for or, at least, has a difficult time understanding.

Another approach to leadership development is cooperative education. An empowered, enthusiastic, and informed membership is fundamental to making good organizational decisions and maintaining a proactive vision. A thorough education program includes the following:

- educational materials: cooperative books, an owner's manual, directory of local cooperatives
- orientation: see previous chapter
- retreats: problem-solving and visioning getaways for those interested in improving the co-op
- one-on-one: officers should train future officers and work together as a team
- co-op conferences: regional and bi-national educational gatherings
- tours: regional and local tours of other cooperatives
- networks: making friends in other cooperatives and learning from their experiences

The opportunities for cooperative education should be planted firmly into the organizational culture and operations. An education committee is an effective means of organizing events and maintaining a focus and healthy education budget. Such a committee should have its place in the Bylaws.

Development Culture

One-house co-op systems face challenges beyond their fragility and lack of continuity. They face the problem of isolation. Isolation is perhaps something that a co-op suffers from without even realizing it. Members of multi-house systems understand the variety of ways that a co-op can operate and that it is really just an organization that is defined by the members, whoever they may be.

Steps should be taken to maintain the vision of a multi-house cooperative system by building a culture of development. Understanding the real estate market is one means of achieving this culture: at times the market has nothing feasible and then may suddenly offer-up a fantastic building. Establishing a development committee that is out there looking at properties and keeping in tune with the market is one means of creating

a sense of readiness for development. Other activities the committee can work on is cultivating a relationship with the university and researching city and county programs that could benefit the cooperative. Much of this work is similar to organizing in that it involves finding property and building support.

The benefits of expanding from a one-house system into a two-house system are manifold. One is that it creates a local network of co-op households that are inextricably tied together. In addition to the friendships the network provides, it also functions as a basis for further community involvement.

Another benefit is affordability: as more buildings are purchased by the cooperative and mortgages are paid-off, the equity is reinvested into the organization making it more affordable. This is often a crucial issue for one-house cooperatives that have purchased their buildings with no equity. Borrowing 100 percent of the funds to purchase the building means that the average rent is higher than if the organization had the 20 percent down payment. This makes it difficult to compete with other housing in the private market, even if the landlord is making a profit. As the co-op builds a store of equity, reinvests it in the system, and purchases more housing, a system of affordable housing is created.

Purchasing more housing also creates a broader funding base that allows the organization to hire staff. Needless to say, it is difficult to run an organization with volunteer labor over an extended period of time. Coordinating recruitment, finance, maintenance, education, and development with volunteer labor is difficult to handle in a stable fashion and often leads to burnout. Hiring a staff person that is accountable to the democratic will of members creates a more sustainable situation over the long term. Staff members that understand cooperatives and can relate to students are an excellent solution to the problem of turnover in student cooperatives.

A final argument in favor of maintaining the spirit of expansion is that it is the mission of the student cooperative movement to make higher education more economically accessible by lowering costs. At the local level, student cooperative organizations should seek to provide as much affordable housing as possible. Many believe that all student housing should be run as cooperatives: students have the right to control their living environments! It is the co-op's responsibility to expand whenever feasible.

On the other hand, a valid argument against development is that as cooperatives become larger, they become alienating to the average member. In a one- or two-house system, every member can have input into most the major decisions that are made. Everyone knows everyone else. It's a cozy situation. Many established student cooperatives are large and complex democratic organizations with a political context and process all their own. It is easy for the average member to feel excluded from the goings-on even if opportunities for involvement are available.

Most of these organizations were created during the Great Depression and are over 60 years old. Their organizational cultures developed without any models to learn from. Student cooperatives that got their start during the 1960 and 70s wave of development or getting their start now are in a position to learn from the histories of their predecessors. The challenge of the coming wave of cooperatives is to become a large cooperative, while remaining small: to provide as much affordable student housing as possible and retain a sense of empowerment through avenues of member participation.

Movement Culture

Student and community cooperatives should be also a part of a larger system — the cooperative movement. The problem of isolation is not totally solved by developing more cooperatives at the local level, co-op systems should network with cooperatives in other areas to learn about different modes of operation. Road trips, e-mail discussion groups, and educational conferences give members the opportunity to interact and share stories, problems, and solutions.

For cooperatives in student communities, which are affected by the high turnover rate, a movement culture should be incorporated into the education program. When experienced members graduate they are replaced by new ones who don't necessarily know anything about the movement. Cooperative education addresses this problem by providing the organization with an avenue to learn about the broader picture and cultivate a movement culture as years go on.

Cooperatives that consider themselves partners in a movement are in a better position to practice the principle of cooperatives among cooperatives. Loan money to start-ups and cooperatives in crisis is often the only help available to these ventures, and it is such gestures that make the movement stronger and more widespread. Indeed, it is only as a movement that we can take advantage of the opportunities that the future presents for expansion. As a movement, we can achieve the vision of a co-op on every campus in North America.

What is the Organizer's Handbook?

The *Organizer's Handbook* is a comprehensive guide to creating housing cooperatives in student communities. By explaining the cooperative movement, campus organizing, nonprofit incorporation, financing, and housing development, this important resource demystifies a challenging project. First released in 1991, the Second Edition is even more comprehensive, written with accessible language and an encouraging tone.

Student housing cooperatives are a means of providing affordable student housing that incorporates student participation into a nonprofit structure. Co-ops have provided services on college campuses throughout North America since 19th Century and many organizations that were formed during the Great Depression still exist today. By lowering the cost of student housing, cooperatives are an integral part of a grassroots strategy for making college more accessible.

The *Organizer's Handbook* is an essential resource for the student or community organizer focusing on housing issues. Furthermore, it is an informative and illuminating read for progressive people concerned about affordable housing and college accessibility. While it focuses on student cooperatives, many of the resources will prove useful to people organizing community and non-housing co-ops. Active students, college administrators, faculty, foundations, libraries, concerned citizens, and nonprofit organizations will all find the *Handbook* an excellent addition to their collection of resources.

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