

Cooperative Property Ownership

What is a housing cooperative?

A housing cooperative is formed when people join with each other on a democratic basis to own or control the housing and/or related community facilities in which they live. Usually they do this by forming a not-for-profit cooperative corporation. Each month they simply pay an amount that covers their share of the operating expenses of their cooperative corporation. Personal income tax deductions, lower turnover rates, lower real estate tax assessments (in some local areas), controlled maintenance costs, and resident participation and control are some of the benefits of choosing cooperative homeownership.

What do you actually own?

The main distinction between a housing co-op and other forms of homeownership is that in a housing co-op you **don't** directly own real estate. But if you don't own real estate, what exactly are you buying? You are buying shares or a membership in a cooperative housing corporation. The corporation owns or leases all real estate. As part of your membership (being a shareholder) in the cooperative you have an exclusive right to live in a specific unit (this is established thorough a occupancy agreement or proprietary lease) for as long as you want, as long as you don't break any of the rules or regulations of the cooperative. As part of your membership, you also have a vote in the affairs of the corporation.

What does the share or membership purchase price involve?

When you buy a share or membership in a housing cooperative, you are paying for just that—a share of the cooperative housing corporation. The purchase price will vary depending on what kind of neighbourhood it is in, how big the unit is, whether the co-op limits resale prices, and whether the co-op has an underlying mortgage for the entire property

What is a share loan?

Let's say you were going to buy a \$100,000 home. Most likely you would not be able to pay the seller \$100,000 in cash for the house. Instead, you would pay a down payment, and you would get a mortgage from a lender to cover the rest of the purchase price. In a co-op, since you are actually buying a share(s) in a corporation rather than real estate, you get a type of loan called a share loan from a lender. A share loan is like a mortgage. It provides you with borrowed funds to buy the share(s) from the seller. You then make monthly payments on the share loan to the lenders and monthly carrying charge (maintenance) payments to the co-op.

How do I accumulate equity?

Good question. It actually depends on what type of cooperative you are buying into. There are three different types of housing cooperatives as far as equity is concerned.

Market-rate housing cooperatives

In a market-rate cooperative you can buy or sell a membership or shares at whatever price the market will bear. Purchase prices and equity accumulation are very similar to condominium or single-family ownership.

Limited-equity housing cooperatives

In a limited-equity housing cooperative (LEC) there are restrictions on what outgoing members can get from sale of their shares. These are usually imposed because the co-op's members benefit from below-market interest rate mortgage loans, grants, real estate tax abatement, or other features that make the housing more "affordable" to both the initial and future residents for a specified period of time. In some co-ops these limitations are voluntarily imposed by the members. These restrictions are usually found in the cooperative's bylaws. The documents may also establish maximum income limits for new members to further target the special benefits of the housing to families who need them the most.

Leasing cooperatives (or zero-equity)

In a leasing cooperative, the cooperative corporation leases the property from an outside investor (often a non-profit corporation that is set up specifically for this purpose). Since the cooperative corporation does not own any real estate, the cooperative is not in a position to build up any equity (just as a renter doesn't build any equity). However, as a corporation, the cooperative is often in a position to buy the property if it comes up for sale later and convert to a market rate or limited-equity cooperative. And some leasing cooperatives allow outgoing members to take with them at least part of their share of the cash reserves built up by the cooperative corporation while they were in occupancy.

What are the monthly charges for?

Almost all co-ops charge residents a monthly carrying charge (often called a monthly maintenance fee). The amount of the monthly charge varies from co-op to co-op. The charges cover your proportionate share of operating and maintaining the cooperative, which can include blanket mortgage payments, property taxes, management fees, maintenance costs, insurance premiums, utilities, and contributions to reserve funds.

Do I pay real estate taxes?

Taxes are assessed on the cooperative corporation, as owner of the property. Your monthly payments to the co-op are, in part, used by the co-op to pay the real estate taxes. Even though you don't pay real estate taxes directly, federal tax law allows you to deduct your share of the co-op tax payments, as well as your mortgage interest payments, on your personal income tax return.

What do most housing cooperatives look like?

Co-ops can be almost any type of housing, and there is a wide variety in terms of what housing cooperatives look like. Housing cooperatives can be high-rise apartment buildings, garden-style apartments, townhouses, single-family homes, and senior housing.

There are other kinds of housing cooperatives. Mobile home park cooperatives usually own the land, utilities, and community facilities; their members own the individual "mobile homes." Some other housing cooperatives own land and community facilities and use legal documents including recorded covenants as the basis for maintaining the desired cooperative controls over functioning of the cooperative community.

What questions should I ask before buying into a cooperative?

Remember, since you are buying a share of a corporation that owns real estate, you will want to find out about the financial health of the corporation. You will also want a clear understanding of what your financial obligations to the cooperative will be. Be sure to find out what all the rules and regulations of the community are. Here are some sample questions to ask before making your investment:

What is the share price?

Where can I obtain share loan financing?

How much are the monthly carrying charges?

What is the underlying mortgage?

What is your pet policy?

What is your subletting policy?

What is the policy for making alterations to my unit?