



PROSPECTS FOR NEW HOUSING COOPERATIVES

Feasibility Study for Housing Cooperatives in the
Northern Rockies

Prepared for:
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I. EXECUTIVE SUMMARY

Rural and small town residents in the Northern Rockies are in need of a broader array of housing options, particularly to address affordability considerations, rental shortages, and lack of opportunities for households seeking entry-level opportunities to build equity.

This study examines the feasibility of developing housing cooperatives in the three states of Idaho, Montana, and Wyoming. It considers opportunities to facilitate the development of housing cooperatives to meet housing needs in rural areas and small communities, especially when other forms of housing may not be suitable or achievable.

The components of the feasibility study:

- An online survey to solicit feedback from various stakeholder groups in the three-state region;
- Focus groups with selected survey respondents;
- Technical resources on issues related specifically to housing cooperatives;
- A literature review to identify general housing trends (detailed in the study's appendix); and
- Case studies of housing cooperatives and related shared equity housing models (summarized in the study's appendix).

NeighborWorks Montana and the Montana Cooperative Development Center (MCDC) partnered on this feasibility study to serve a shared goal of strengthening rural communities across Montana and adjacent states. Grants from United States Department of Agriculture (USDA) - Rural Development and NeighborWorks Montana supported this tristate feasibility study, which was completed with guidance from a steering committee.

A. Overview: Housing Cooperatives

Housing cooperatives can address a variety of housing needs, such as developing below-market housing units; preserving the existing affordable housing inventory; creating new, high-quality, senior housing suitable for downsizing households; and providing alternatives to renting.

Benefits of housing cooperatives include flexibility in the types and structure of housing cooperatives, financial benefits for co-op members, a sense of community, pride of ownership, and stability in the housing market. However, effective governance and ensuring adequate reserves for maintenance are typical challenges in cooperative housing.

The main distinction between a housing co-op and other forms of home ownership is that in a housing co-op, residents don't directly own real estate. Instead, cooperative members each own a share in the cooperative. Together, the members own the cooperative, while the cooperative owns the building, land, and any common areas. Forming a cooperative must consider the challenges such as sustainable leadership, effective governance, and budgeting for maintenance and repairs. Three basic types of housing

co-ops can be categorized by the method in which members can accumulate home equity: no-equity (including leasehold), limited equity, and market equity.

Best practices for a successful housing cooperative include knowledgeable developers and lenders who also know the local community; strong background in management, operational and financial aspects of cooperative housing; access to technical support and expertise; and educational outreach to prospective members.

Housing cooperatives, particularly limited-equity or no-equity models, are often considered as part of an array of shared-equity housing models that support permanently affordable homeownership. Shared equity housing includes community land trusts or deed-restricted homes that restrict resale prices to preserve affordability for current and future homebuyers. Other shared-equity models, such as a shared appreciation loan program or a resident-owned community do not restrict the resale price of the home.

B. Stakeholder Input

147 respondents participated in the online survey conducted for this study. Of these respondents, 62 percent were from Montana, 32 percent were from Idaho and 6 percent were from Wyoming. Half of the respondents were from towns with populations of less than 10,000.

The focus group discussions and interviews indicated that communities in Idaho, Montana and Wyoming are facing a variety of housing needs. Shortages of housing were noted in resort communities, entry-level workers, seasonal employees, and senior housing.

Respondents indicated that low-income households and seniors were the top population groups to target for housing cooperatives. There was also strong support for workforce housing for middle income professionals such as teachers, medical workers and laborers.

However, many respondents noted a lack of familiarity with the housing co-op model and the need for technical assistance. There was widespread interest in education and training on the housing co-op model, financing for housing co-ops, and marketing to build support for potential co-op models. Respondents indicated a need for more research and education regarding financing and legislative barriers.

While there is a lack of information about housing cooperatives in the study region, people are familiar with the other models such as electrical and food producer cooperatives. These existing cooperatives might be tapped to help foster the development of housing co-ops.

There was significant interest in a pilot community program, particularly from selected communities in Idaho and Montana.

B. Market Analysis

A market analysis to evaluate housing need in the study area considered population and housing trends. There was significant variation in growth rates within the different regions of each state. While some counties have seen declining population over the last five years, other counties have been experiencing

double digit population growth. High growth counties often experience housing shortages as new construction lags behind demand for new housing units. Counties with a larger population base are more likely to support a housing cooperative development and would be more attractive to developers and financing agencies.

1. Population Trends

- In the study area, Idaho is the most populous state and also experienced the highest rate of growth among the three states. The fastest growing counties in Idaho were generally the more populated counties. Idaho has the highest percentage of the population living in urbanized areas and the highest percentage of population under age 18.
- Montana has the highest percentage of the population living in rural areas and the highest percentage of the population over age 65. High growth areas included small population counties in eastern Montana with growth attributed to the oil boom. Montana counties with outdoor amenities near national parks and other public land also experienced high growth.
- Wyoming had the smallest number of residents and lowest growth rate. In Wyoming, higher rates of growth were typically in the more populated counties.

Since the 2000 Census, there has been dramatic growth in the population age 65 and over. In Idaho, the number of seniors increased by 60 percent since the year 2000 and in Montana and Wyoming, the senior population increased by 42 percent during this same time period. This number of seniors is expected to continue to increase over the next 15 years.

2. Housing Trends

There is significant variability within the study area in regards to housing costs. According to the US Census American Community Survey, the median value of owner occupied housing in the study area ranged from \$160,500 in Idaho to \$189,300 in Wyoming. Census data indicates that median monthly rents range from a high of \$778 in Wyoming to \$696 in Montana.

Counties with the highest median monthly rents and highest median home value for each state are typically high growth counties, counties that have a resource extraction economic base, and counties that are high amenity with a recreation based economy. Throughout the study area, there are counties where half or more of rental households are experiencing a cost burden. Idaho has the largest percentage of renter households experiencing a cost burden.

Homeownership rates are generally higher in the three-state region compared to national rates. Homeownership rates in all the region and nationwide, however, have been declining since the economic and housing market downturn in 2008. Some of the lowest rates of homeownership are on the Indian Reservations.

3. Age of Housing

The age of the housing stock is an indicator to determine whether there is an adequate supply of safe and decent housing units. Older houses built before 1980 comprise just under half of the housing stock in the three state region. There is significant variability among counties within each state. In Montana and

Wyoming, older houses comprise around 57 percent of the housing stock. Many rural counties that have experienced declining or minimal population growth, have housing stock with 70 percent or more of the housing units built prior to 1980.

D. Financial and Cost Considerations for Housing Cooperative Development

Financial strategies will vary depending on the housing co-op's organizational structure and target market. In order to identify the appropriate strategies, it is important to clearly define the vision for the project and to conduct a feasibility study that will identify the target market. The feasibility study includes a market analysis, evaluates different build-out scenarios and may include a site selection component. The preliminary cost estimate and projected sales data will help determine if it is feasible to proceed.

While the feasibility study identifies a preferred scenario, a business plan is a separate document that is a detailed blueprint for how the preferred scenario will be implemented. It will include the management plans and a budget for operating costs. The co-op model must be sustainable over time so that member fees/revenue will generate enough funds to cover operational costs and long-term capital improvements.

E. Other Considerations for Housing Cooperative Development

- **Risk analysis:** The study offers a risk analysis to identify potential challenges and suggests strategies to minimize the risks and optimize conditions that lead to a sustainable housing cooperative.
- **Partnerships:** Potential team members that can help bring the housing cooperative project to fruition include a local sponsor, co-developer, lenders and funders, market/planning/business analyst, marketing agent, attorney, and a project architect/engineer/contractor. Successful projects most often result from establishing partnerships with other government agencies, community organizations, non-profit groups and private businesses to accomplish the goals of the plans.

F. Next Steps

The study concludes with several recommendations to pursue the prospect of developing housing cooperatives in the three-state area.

1. Education and Training

Respondents to the stakeholder survey most frequently cited education and training as necessary elements to develop successful housing co-ops. The cooperative development centers that serve each of the three states are candidates to take the lead in organizing these training opportunities or to partner with other organizations to host a workshop or similar event.

To supplement training and educational opportunities, it would be helpful to have an on-line repository for technical resources, such as the sample by-laws, feasibility studies, pro-form spreadsheets and other documents collected as part of this study.

2. Pilot Communities - “Prepare to Launch”

The stakeholder survey and focus groups indicated a high degree of interest from communities in Idaho and Montana to participate as pilot communities to develop a feasibility study for a housing cooperative project in their community. It is recommended that MCDC conduct a multi-day hands-on workshop for those communities that are prepared to proceed with a feasibility study. Interested communities would be invited to submit an application indicating their interest and “readiness” to participate.

3. Legal & Tax Analysis

A number of legal and tax related questions have emerged that require expertise to conduct the necessary research to determine the status of current legislation in each state.

4. Community Housing Co-op Network

Building capacity among communities would facilitate the development of this housing type. The “Prepare to Launch” event described above would provide a valuable opportunity to form a support network among the participants.

5. Advocacy for Rules and Regulations to Facilitate Development of Co-ops

- **Secondary mortgage market:** Fannie Mae has regulations for secondary mortgages in 22 states where there is a demand for co-op shares, but not yet in Idaho, Montana, or Wyoming. It may be necessary to advocate with Fannie Mae in order to demonstrate the demand for secondary mortgages for co-op shares in the study area.
- **Programs for down payment assistance** are typically not available to assist with the purchase of co-op shares. It would require a change in policy to allow these programs to be used for housing co-ops.
- **The comprehensive legal analysis** described above may identify other potential changes in policies and legislation.

6. Collaboration with Lenders

It will be important to identify lenders open to financing housing cooperatives and meet with them to discuss the opportunities and barriers.