
Living in a Co-op

How does a housing cooperative work?

A housing cooperative is a legal corporation. Members of the cooperative live in the cooperative and run the cooperative – from organizing social activities, to maintenance, to handling finances and landscaping. Members set the bylaws and elect, from among themselves, a board of directors. The board ensures that the cooperative runs smoothly, in accordance with the cooperative's bylaws and operating agreements. The board organizes a membership meeting at least annually and hires staff to run the day-to-day business of the cooperative.

What is a housing cooperative?

A housing cooperative forms when people come together to own and control the property they live in. They form a cooperative corporation, to which they pay a monthly amount to cover operating expenses. The cooperative owns the land, the buildings, and any common areas. Members buy shares in the cooperative.

Who owns the cooperative itself?

Cooperative members each own a share in the cooperative corporation. All members combined own the cooperative, which is comprised of the land, building, and any common areas. A member's right to reside in a specific unit is governed by a proprietary lease or occupancy agreement.

What does a member of a housing cooperative own?

Each member owns a share in the cooperative, which is comprised of:

- An ownership interest in the corporation, represented by a certificate of membership or a corporate share
- An exclusive right to occupy a particular dwelling unit that is owned by the cooperative corporation

An occupancy agreement or proprietary lease governs this relationship.

How are housing cooperative units bought and sold?

Before selling, the seller must obtain approval from the cooperative's board of directors. This approval process prevents 'flipping' by unscrupulous investors and ensures that a new member pledges to abide by the cooperative house rules. Selling a cooperative housing unit typically involves lower closing costs. The purchaser assumes the seller's obligations for pro-rata taxes, etc., under a new occupancy agreement.

How are cooperatives governed?

Cooperatives are governed by a board of directors that are elected democratically by the membership, from the membership, with one vote per member.

Who manages and maintains the cooperative?

In cooperatives under 20 units, the members generally manage the cooperative themselves, and perform their own maintenance. In larger cooperatives, the board of directors may select an individual or outside firm to provide management services. In both cases, members develop and maintain the house policies, including criteria for screening, evicting, and foreclosing on problem members.

How is the purchase of a housing unit financed?

A new member buys a cooperative corporation share at closing, which represents ownership in the cooperative and the right to occupy a specific space in the building. The new member also agrees to pay the cooperative a monthly amount to cover operating expenses.

How is the cooperative itself financed?

One or more lenders will provide the cooperative with a blanket mortgage, used to purchase, build, or rehabilitate a building. Part of each member's monthly fee is used to retire the blanket mortgage. Typically, members do not need to individually qualify, nor are they individually liable for the blanket mortgage.

What tax benefits are available to a housing cooperative member?

In most instances, cooperatives and their members receive the same benefit as single-family homeowners. Members can deduct the pro-rata share of the cooperative's mortgage interest and real estate taxes on their tax return, along with any interest paid on a share loan. In some states, homeowners receive favorable property tax treatment, compared to commercial and industrial uses.

What is the difference between owning a condo and a cooperative?

A cooperative member owns an interest in the cooperative, which in turn owns the building, and includes the right to occupy a specific dwelling unit. A condominium owner owns fee simple title in the air space to the back of the paint on the walls of a dwelling unit, plus an undivided interest in the common property of the condominium. See the table on the next page for details.

Why is being a cooperative member better than renting?

Because cooperatives operate at cost, cooperative carrying charges are often below rental market rates. Other advantages include:

- Tax deductions – For income tax purposes, cooperative members are considered homeowners. As such, they can deduct their share of real estate taxes and mortgage interest paid by the cooperative, in addition to any interest paid on a share loan.
- Home equity – In a market equity or limited equity cooperative, members can accumulate equity in their dwelling unit.
- Limited liability – Cooperative members have no personal liability and need not individually qualify on the cooperative blanket mortgage. The cooperative corporation is responsible for paying the blanket mortgage. This arrangement enables persons who normally do not qualify for an individual mortgage to buy a membership in a cooperative.
- Overall savings – Cooperative members benefit from economies of scale inherent in cooperative operating costs, as well as participation in a non-profit enterprise. Bulk purchasing of major building improvements provides members with substantial savings. In a low-income setting, cost sharing among members cushions the economic shock of emergency repairs that sometimes lead to mortgage delinquency or foreclosure for single-family homeowners.
- Community building – Cooperatives provide homes for members and build a community within the cooperative as well.
- Security – Tenure is secure, within the guidelines of the law, cooperative bylaws, and occupancy agreements.

What do housing cooperatives look like?

A housing cooperative can be a high-rise apartment building, a garden-style apartment, a townhouse, a single-family home, a senior housing complex, or a manufactured home park. In a manufactured home park, the cooperative usually owns the land, utilities, and community facilities, while the members own their individual manufactured homes.

How do cooperatives contribute to stronger communities?

Cooperatives are a natural vehicle for social and civic organizing. They encourage neighbors to become acquainted, and form mutually beneficial enterprises such as block clubs, childcare cooperatives, buying clubs, and energy cooperatives. Studies have shown that higher levels of civic and community participation and lower levels of crime correlated with the presence of housing cooperatives in neighborhoods.