

Housing Cooperatives

A **housing co-operative** is a legal entity, usually a [corporation](#), that owns [real estate](#), one or more residential buildings. Each shareholder in the legal entity is granted the right to occupy one housing unit, sometimes subject to an Occupancy Agreement, which is similar to a lease. The Occupancy agreement specifies the co-op's rules

Legal status

As a legal entity, a co-op can contract with other companies or hire individuals to provide it with services, such as a maintenance contractor or a building manager. It can also hire employees, such as a manager or a caretaker, to deal with specific things that volunteers may prefer not to do or may not be good at doing, such as electrical maintenance. However, as many housing cooperatives strive to run self-sufficiently (and recognize the economical efficiency of doing so), as much work as possible is completed by its members.

A shareholder in a co-op does not own real estate, but a share of the legal entity that does own real estate. Co-operative ownership is quite distinct from [condominiums](#) where people "own" individual units and have little say in who moves into the other units. Because of this, most jurisdictions have developed separate legislation, similar to laws that regulate companies, to regulate how co-ops are operated and the rights and obligations of shareholders.

Ownership

Each resident or resident household has membership in the co-operative association. Members have occupancy rights to a specific suite within the housing co-operative as outlined in their "occupancy agreement", or "[proprietary lease](#)" which is essentially a lease.

In some cases, the co-op follows [Rochdale rules](#) where each [shareholder](#) has only one vote. Most cooperatives are incorporated as [limited stock companies](#) where the number of votes an owner has is tied to the number of shares owned by the person. Whichever form of voting is employed it is necessary to conduct an election among shareholders to determine who will represent them on the board of directors (if one exists), the governing body of the co-operative. The board of directors is generally responsible for the business decisions including the financial requirements and sustainability of the co-operative. Although politics vary from co-op to co-op and depend largely on the wishes of its members, it is a general rule that a majority vote of the board is necessary to make business decisions.

See also [Strata title](#)

Management

In larger co-ops, members of a co-op typically elect a [board of directors](#) from amongst the shareholders at a general meeting, usually the [annual general meeting](#). In smaller co-ops, all members sit on the board.

The board typically elects its own officers, such as a president, vice-president and so on. Usually, the directors are [volunteers](#), or are paid an [honorarium](#). The board may then establish standing committees from among the shareholders, who usually also volunteer their time, to either handle the business affairs of the co-op or make recommendations to the full board on such issues as its finance, membership and maintenance of its housing units.

Finance

A housing co-op is normally [de facto non-profit](#), since usually most of its income comes from the rents paid by its residents, who are invariably its members. There is no point in creating a deliberate surplus -- except for operational requirements such as setting aside funds for replacement of assets -- since that simply means that the rents paid by members are set higher than the expenses. (Note, however, that it's quite possible for a housing co-op to own other revenue-generating assets, such as a subsidiary business which could produce surplus income to offset the cost of the housing, but in those cases the housing rents are usually reduced to compensate for the additional revenue.)

It is relatively difficult to start a housing co-op because if the idea is, for instance, to build a building or group of buildings to house the members, this usually takes a significant [mortgage](#) for which a financial institution will want assurances of responsibility. It may also take a year or more for the members to organize the design and construction, as well as time and foresight to establish even basic organizational policies. It is rare that these kinds of skills of organization are available in a random group of people who often have pressures on their existing housing. It may be somewhat easier to organize a group of closely related housing units. This opportunity may arise, for example, if an existing apartment building's owner is thinking about selling it.

There are housing co-ops of the rich and famous - [John Lennon](#), for instance, lived in a housing co-operative, and most apartments in [New York City](#) that are owned rather than rented are held through a co-operative rather than via a [condominium](#) arrangement.

There are two main types of housing co-operative financing methods, market rate and limited equity. With market rate, the share price is allowed to rise on the open market and shareholders may sell at whatever price the market will bear when they want to move out. In many ways market rate is thus similar financially to owning a condominium, with the difference being that often the co-op carries a mortgage, resulting in a much higher monthly fee paid to the co-op than would be so in a condominium. The purchase price of a comparable unit in the co-op is typically much lower, however.

With limited equity, the co-op has rules regarding pricing of shares when sold. The idea behind limited equity is to maintain [affordable housing](#). A sub-set of the limited equity model is the no-equity model, which looks very much like renting, with a very low purchase price (comparable to a rental security deposit) and a monthly fee in lieu of rent. When selling, all that is re-couped is that very low purchase price.

In the USA

In the [United States](#), housing co-ops are usually categorized as corporations or LLC's and are found in abundance in the Greater [New York metropolitan area](#), and more precisely within [New York City](#) itself, [Westchester County, New York](#) (which borders the city to the north) and towns in [New Jersey](#) that are immediately across the Hudson River from [Manhattan](#), such as [Fort Lee](#), [Edgewater](#), or [Weehawken](#). Unlike in other parts of the world, most of these housing co-ops did not develop as a result of social engineering. Apartment buildings and multiple-family housing simply make up a more significant share of the housing stock in the New York City area than in most other US cities, and the cooperative form of ownership has dominated over the condominium form. Reasons suggested why cooperatives are relatively more common than condominiums in the New York City area are:

1. Cooperatives appeared at least as far back as the 1920's while a legal basis for condominium form of ownership was not available in New York State until 1946¹ (Passage of the Condominium Act then opened a wave of construction of condominium buildings²)
2. The cooperative form can be advantageous as a building mortgage can be carried by the cooperative corporation, leaving less financing to be obtained by each coop owner. Under condominium ownership only the separate condo owners provide financing. Particularly when interest rates are high, a conversion sponsor may find unit buyers more easily under the cooperative arrangement as buyers will have less financing to arrange on their own; the apparent purchase price of a unit in a cooperative building holding an underlying mortgage is lower than a condo purchase. Cooperative unit buyers may not accurately weigh their share of the building's mortgage.³
3. Also, later in a building's life after conversion, major new investments required to repair or replace building systems can be raised by a new central mortgage in a cooperative, while in a condominium funds could only be raised by onerous assessments being required of each individual unit owner.⁴ However, the New York State's condominium law was amended in 1997 to allow [condominium associations](#) to carry building mortgages.⁵
4. A coop building's board can impose restrictions and legally discriminate in their selection of new tenant owners.⁶

This information is from Wikipedia at this address found on January 18, 2007

http://en.wikipedia.org/wiki/Housing_cooperatives