Cooperative Housing in Portland: 
Development Alternative in an Uncertain Market 

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Recent market and financial conditions demand that developers think creatively about any approach to new projects. This holds true in most markets and Portland is no exception. The cooperative housing model is an alternative to traditional housing models and offers advantages to both residents and developers that similar condominium arrangements do not. Specifically, cooperative housing allows for responsive design, mitigation of market risk, empowered financing structures, and egalitarian operation of services. These and other innate advantages are particularly attractive for adults facing long-term housing decisions, often having recently sold single-family detached houses. Cooperative housing allows

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for flexibility in design, pre-sale requirements, finance, construction, resident control and operation of services that traditional continued care facilities and condominiums cannot.

This article investigates the cooperative housing model, its recent emergence in Portland, and the advantages it offers. Specifically, the article will examine the Sheldon Cooperative, a 62-unit cooperative housing community planned for a 35,000-square-foot site at Northwest 19th and Lovejoy streets, which is designed for residents 55 years and older. It has secured commitments, in the form of $5,000 refundable deposits, from 34 households. It needs 50 non-refundable share purchases to qualify for a 40-year, non-recourse, construction-to-permanent mortgage insured by the Federal Housing Administration (FHA) of the U.S. Department of Housing and Urban Development (HUD). This little-used Section 213 mortgage insurance program is designed to facilitate the construction, substantial rehabilitation, and purchase of cooperative for-sale housing projects. At the Sheldon, members will put up all the construction equity required for the single cooperative mortgage loan and then collectively retire the mortgage as part of their self-assessed monthly fees. For a 1,424-square-foot unit, the initial cash outlays are approximately $262,000 for the membership equity contribution, due at ground breaking, and monthly fees of about $3,844. The monthly fee covers debt service, as well as operational costs such as utilities, taxes, maintenance, reserves, and any services the building members choose to collectively procure, such as health related services. Because the cooperative owns the entirety of the building, items such as individual appliance repair and replacement are included in maintenance budgets. The pro-rata share of the mortgage interest portion of the fees is tax deductible, as are the property taxes.

Equity growth of individual cooperative membership interests at a limited equity cooperative such as the Sheldon is typically limited to two percent per year. This is designed to keep the project affordable in the future and to ensure that residents can quickly, and predictably, recover their equity when they, or their heirs, want to sell their cooperative share. By providing its own equity to build the project, the Sheldon eliminates the need for developers to find traditional equity investors who typically require higher rates of return. This cuts development costs for both the developer and the buyer and reduces pressures on the developer to build the maximum number of units, compromise quality, and maximize sales prices to enlarge profits.
The Sheldon Senior Cooperative Model

The specific impetus for building a cooperative community emanates from Bing Sheldon, founding partner of SERA Architects, his wife Carolyn and their close friends. The Sheldons and their friends enlisted the assistance of former OPUS NW developer Mark Desbrow (a former student of the PSU real estate development program) to manage the development efforts on their behalf. Desbrow met Bing Sheldon while he managed the development of the Park 19 apartment building at NW 19th & Glisan. Following that collaboration, Desbrow and Sheldon decided to investigate cooperative housing as an alternative senior housing model for Portland – at a time when new construction projects are bearing significantly greater risk in the aftermath of the Great Recession. By eliminating many of the speculative incentives of more traditional housing models, cooperatives offer a potentially stronger and more stable choice. The Sheldon takes advantage of the many benefits of cooperative housing (as opposed to condominium ownership or continuing care retirement communities (CCRCs)) in order to capitalize on the increasing number of independent older adults looking for urban alternatives to next-stage living options.

Cooperative buyers enjoy financing and tax advantages, more resale options, equity protection and greater levels of control and predictability. Developers of cooperatives can benefit from equity substitution, lower-cost financing, greater levels of strongly secured presales and a reduction of the need for speculative investment. Most seniors also perceive additional social advantages. At the Sheldon, the emphasis is on building community from formation forward based on aligning interests “created by a shared purpose and a common investment.”1 The Sheldon adheres to cooperatives’ key principles of democratic governance, while allowing members more initial flexibility in choosing floor plans, design elements and the cooperative’s collective services.

Housing Cooperatives

A housing cooperative is a model of home ownership in which a cooperative corporation owns the land, the building, the units and all common elements, with the residents collectively owning 100% of the corporation.2 Residents (or members) purchase shares in the corporation in exchange for a proprietary lease (or, alternatively, a membership certificate, shares of stock, or perpetual use and equity contract, depending on the arrangement) that provides the exclusive right to occupy, use, and sell shares in the corporation, to which the lease for a particular unit within the cooperative has been assigned (typically evidenced my a membership certificate or similar document). Members are then responsible for a proportionate share – as determined by the corporation’s

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1 Green Light Cooperative: http://www.greenlightcooperative.com/your_lifestyle.html

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controlling bylaws or operating agreement – of the cooperative’s carrying charges, which include mortgage payments and all operating costs, on a weighted, pro rata share basis.

It is important to note the contrast between the cooperative housing model, condominium ownership and CCRCs. In a cooperative, members own an interest in the cooperative corporation and its property as a whole, as well as an exclusive right to occupy a particular unit. In a condominium, the buyer owns fee title to a dwelling unit as well as an undivided interest in common areas. In a CCRC, residents pay a significant entrance fee, a portion of which may or may not be refundable, occupy a unit through payment of monthly fees but acquire no ownership interest.

In a cooperative – for example the Sheldon – there will be a single mortgage from a single lender negotiated under more favorable terms for all 62 units plus all the common areas. By way of contrast, a 62-unit condominium might have 62 mortgages negotiated under less favorable terms by 62 buyers from 62 lenders at different times. An analogy by developers of the Sheldon is that a cooperative is like a large ship on which all members have decided to set sail, versus a condominium which is like a number of small boats, linked together, setting sail. Cooperative developers argue that the larger ship is a more sea-worthy vessel, with more control, and can handle stormy weather better than a collection of small ships linked together.

Furthermore, because cooperatives are essentially non-speculative (i.e. they require a high, non-refundable pre-sale threshold before construction can start), lower marketing, sales and capitalized operating expense contingencies need be budgeted and financed.

Democratic Control

Both condominium and cooperative owners have voting power and thus participate in a democratic decision-making process. Condominiums operate according to bylaws and the governing declaration of covenants, conditions and restrictions (CC&R) agreements running with the land. Cooperatives operate under the corporation charter allocating the rights and responsibilities of each cooperative member. Both condominiums and cooperatives facilitate decisions made on behalf of their respective owners through a board of directors, elected by the members from the entire membership. The board is delegated the responsibility to oversee operations and ensure that the residents’ goals are achieved.

Unlike condominium CC&Rs, because cooperative members are at the table helping to draft the governance documents from the outset, the content and powers tend to be different and more specific. In contrast to condominium ownership, for example, cooperative members typically have the right to approve incoming members, subject to anti-discrimination statutes. Many condominiums have experienced problems engendered by relatively few, disgruntled, litigious owners who have had difficulties adjusting to communal living. Many cooperatives have avoided problems through fair exercise of their approval rights, analogous to the rights of a landlord of an apartment. It is more difficult for individuals to circumvent the democratic process and board decision-making role in cooperatives whose rules have been structured by members, rather than the developer.
Cooperative Housing Permutations

Housing cooperatives allow a great deal of operational flexibility for residents of varying age groups, income levels, and interests. Examples of housing cooperatives include:

1. **Market Rate Cooperatives**: Shares are purchased at full market value, and shares may be sold for a market-rate return.

2. **Limited Equity Cooperatives**: Shares may be purchased at market value, but resale value is limited according to the cooperative’s bylaws. This model may be advantageous in discouraging speculative investment, and lends itself to long-term community cohesion.

3. **Leasehold Cooperatives**: The cooperative leases, rather than owns, the ground and/or building, and may have an option to buy the leased portion.

4. **Senior Housing Cooperatives**: Housing cooperatives are restricted to residents over 55 years old. The cooperative model is analogous to other age-restricted communities and allows for continued independent living assisted by a variety of chosen services. However, when one compares cooperatives to a more common alternative – continuing care retirement communities (CCRCs) – the differences are substantial. In CCRCs, decisions regarding services and amenities are generally pre-determined. In addition CCRCs are commonly privately owned, for-profit ventures. This means that residents are essentially long-term tenants, subject to higher entrance fees and monthly service fees as well as the potential for increasing fees over time, with no ownership in, and little control over, their living situations.

5. **Student Housing Cooperatives**: Housing cooperatives can offer affordable living alternatives to students. By sharing costs of living, student-housing cooperatives are able to operate more efficiently and pass the savings on to its residents.

6. **Artists Cooperatives**: Typically leasehold or limited equity housing cooperatives, artist cooperatives help ensure affordable, communal housing and workspace.

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4 For example, the Students’ Cooperative Association in Eugene, OR lists double rooms for $890 per term, which includes “room, food, utilities (including wireless internet), laundry detergent, and some toiletries.” Students’ Cooperative Association, available at [http://www.uoregon.edu/~asuosch/index.php](http://www.uoregon.edu/~asuosch/index.php).
Cooperative Housing Versus Condominiums & CCRCs

Cooperatives offer residents and developers alternatives over condominiums or CCRCs:

1. **Taxes:** Members are entitled to the same tax benefits of homeownership through mortgage interest and property tax deductions. This occurs because the cooperative corporation passes through the benefits to its individual shareholders. Unlike private CCRCs, no profit is needed for the cooperative corporation. Property taxes are assessed on the cooperative corporation’s real property. Members’ monthly payments include a pro-rated portion of the real estate taxes, and can be deducted (along with mortgage interest) from tax returns.

2. **Finance:** A master, blanket mortgage allows for coordinated leverage if refinancing is needed to pay for major repairs and upgrades to individual units and common spaces. For condominiums, special assessments typically are used to improve common areas, leaving individual owners to find their own financing strategies for paying common assessments as well as for improvements to individual units. The effect may be that cooperatives may be better able to ensure maintenance and improvement throughout their existence.

3. **Closing Costs:** Since there is only one blanket mortgage, individual cooperative share buyers need not find and obtain their own mortgage loans, and need not pay the financing fees and closing costs typically required of condominium buyers.

4. **Equity:** Unlike CCRCs, no entrance fee is paid and all cooperative share purchases retain equity value. In a CCRC, there is no ownership of a unit, as in a condominium, nor is there a proprietary lease, as in a cooperative, nor is there a transferable ownership interest in the CCRC. In a cooperative, shares are transferable to heirs and other parties and the cooperative itself usually has a right of first refusal so there is a market for transfer. Also, when there are

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transfers, only the out-going member’s equity must be financed by the incoming member. Transfers of shares are subject to fewer settlement costs.6

5. Carrying Costs: Members who desire lower monthly costs may make additional down payments to the cooperative when construction is complete. This is commonly done in senior housing co-ops elsewhere in the nation. Households that opt to do this would typically have a total of up to 80% of their home value purchased via share price. The resulting equity (along with the additional equity received during construction via the final sales of the last 20% of the units) is used to pay down the balance of the share mortgage.

6. Default: Because the cooperative corporation pays the master mortgage, failure by one homebuyer to pay monthly dues does not cause a mortgage default. Instead, the co-operative covers the shortfall by using its reserves while simultaneously placing a lien on the defaulter’s co-op share. The cooperative has strong leverage because the defaulter loses the right to occupy their unit if they fail to make monthly payments, as agreed to in their occupancy agreement. Should the situation not be remedied immediately, the reserve fund is replenished when that share is resold as it is holds a priority position.

7. Share Loans: However there can be disadvantages for buyers who need personal financing. In a co-op, since the buyer is actually buying a share(s) in a corporation rather than real estate, s/he gets a type of loan called a share loan from a lender. A share loan is like a mortgage. It provides the buyer with borrowed funds to buy the share(s) from the seller. The buyer then makes monthly payments on the share loan to the lender and monthly carrying charge (maintenance) payments to the co-op. Like mortgages, share loans are secured loans. In addition to a promissory note, lenders also require a security agreement and file a lien against the borrower’s property in public records. This lien is created by filing a UCC-1 Financing Statement with the county clerk. Since fewer lenders are familiar with cooperative share loans, their availability is more limited. These disadvantages may be offset in the case of senior coops because of the larger equity holdings of senior buyers and therefore lower loan-to-value required for the share loan. Commonly, share prices are paid from members’ equity, and are not financed. Share loans, although popular in New York where there are many co-ops, are not currently available in Oregon.

8. Share Price Appreciation: Because the co-operative exists for the benefit of its members, the cooperative developer does not collect any profit from the sale of units. When limited equity co-op members sell their co-op shares, there is a fixed formula for recouping their share price and appreciation. While this restriction would not apply if a traditional private loan is utilized, the HUD Section 213 loan results in the resale of shares being priced at their original share

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6 See http://www.thepepper.com/cooperative_housing.html
purchase price, plus, (i) the loan principal the buyer paid down while occupying their unit and (ii) a fixed annual appreciation on their share purchase price as allowed under the HUD financing, (approximately 2% increase per year.)

9. **Limited Liability**: Members have no personal liability on the co-operative mortgage. The cooperative association is responsible for paying off any mortgage loans. This can make it possible for people whose income might not qualify them for an individual mortgage to buy a membership in a limited equity co-operative.

10. **Control**: Member participation gives residents the ability to control rental composition of the cooperative. In order to protect their investment, residents may limit the number of units in the cooperative that may be rented to outside parties, as well as demand approval of individual renters, or future purchasers, thus ensuring a high proportion of owner-occupied units on the one hand, and increasing the likelihood of compatibility with future shareholders on the other. A cooperative may allow its members to have landlord-like control of who can purchase shares. Members must follow anti-discrimination laws but can choose tenants on the basis of their histories. 7

11. **Predictability**: Greater control over the day-to-day functions of the cooperative, versus a condominium or CCRC, enables members some greater predictability over their investment. Similarly, members in limited equity cooperatives can plan for long-term financial decisions without having to speculate as to the value of their investment.

12. **Privacy**: No public record of ownership for cooperative shareholders means increased privacy and security. When there are transfers, only the out-going member’s equity must be financed by the incoming member, since the debt is part of a single blanket cooperative loan. Transfers of shares are subject to fewer settlement costs.

13. **Risk**: Housing cooperatives typically have high pre-sale requirements; therefore, the risk inherent in being an early buyer, as in condominium properties, especially during the recovery from the Great Recession, is significantly reduced. Furthermore, housing cooperatives typically do not require any contribution from its prospective members until the budget has been agreed upon and the developer has guaranteed development costs and completion dates.

14. **Maintenance & Services**: Cooperatives also differ from condominiums because the co-op also is responsible for maintenance of the insides of the units, including the repair and replacement of appliances, just as is the case in rental apartments. In condominiums, the owner must perform all internal repairs.

Developers may also be intrigued by the unique advantages cooperative housing offers them. Among them are:

1. **Finance**: Developers discouraged by the lack of funding for new construction projects will find attractive non-recourse options for the cooperative housing model. This includes equity advantages, described below, as well as HUD-insured mortgages with very attractive terms.

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7 See [http://www.seniorcoops.org/metz.html](http://www.seniorcoops.org/metz.html)
2. **HUD Financing**: Section 213 provides for a mortgage limit of up to 98% of the FHA estimate of total project cost. However, it should be noted that per unit limits typically prevent such leverage from being attained. Depending on costs of construction (urban vs. suburban cost structures), leverage is more typically 50% to 75%, respectively. Interest rates are typically locked before construction, the construction loan automatically converts to a permanent loan and payments (P&I) are amortized over 40 years. The non-recourse program is able to eliminate much of the risk involved with traditional financing methods by first establishing a vetting process for eligible projects. First, each sponsor of a project must participate in a pre-application conference, submit a site appraisal and market analysis (SAMA) application or feasibility application (for new construction projects or substantial rehabilitation projects, respectively), arrange for an environmental assessment, and check with the state to determine other requirements – all before the project sponsor is allowed to submit a firm commitment application through a HUD-approved lender.

Second, HUD sets the per-unit loan amount limits for the loan (based on unit sizes, with some adjustments) and requires that the difference between this amount and the total cost of the project be supplied at closing. Developers can therefore demand a relatively high down payment (at a minimum, 3% of total project costs) from prospective members in order to close the loan. This process allows for-sale cooperative developers to bridge the financing gap with equity from the members of the cooperative, thus reducing the developer’s exposure and providing for seamless project financing.

3. **Equity**: A substantial amount of equity is provided via share purchases in the pre-sale period, and the balance is funded through a blanket mortgage. This is especially important to note in the case of the growing population of empty nest baby boomers – as well as other aging adults – who in many cases have recently sold a single-family home and realized up to $250,000/$500,000 of tax-free equity gains through their capital tax exemption.

This can be particularly favorable for the Sheldon’s target market in which 95% of West Hills householders over age 55 own their homes; 55% have lived there for over 10 years, and over 87% for over 5 years. Home values for these age 55+ owners have purportedly increased about 80% since 2000. Their homes are worth $778,900, on average, which is 169% more than the City’s average. And 32% of these owners have incomes (not including investments) over $100,000.

4. **Risk**: Developer risk is mitigated by several factors. Minimum out of pocket equity requirements, high pre-sale requirements, attractive non-recourse financing options, low turnover rates, and increased interest in cooperative housing from seniors in the 55-70 age

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group – especially in urban settings – create an attractive, relatively low-risk investment for cooperative developers.\textsuperscript{10} It should be noted, however, that considerable pre-development risk does exist, as all capital required to get a project to the point of construction (the point at which members purchase their shares) must be provided by outside/developer investment.

5. \textit{Construction:} HUD financing provides a blanket, non-recourse loan for both construction and permanent financing. This eliminates the need for the developer to negotiate a separate construction loan as well as the need for individual buyers to negotiate and obtain their own mortgage loans, which should make sales easier, less expensive and faster.

6. \textit{Market:} There is a growing market for the cooperative model of ownership, especially among seniors desiring more control over their next-stage living decisions. Traditional risks associated with residential condominium projects are minimized through high pre-sale requirements as well as the ability to market and create affinity communities through word of mouth during the pre-sale period.

Going Forward

The cooperative housing model offers many flexible alternatives that may prove valuable to both developers and buyers in the current difficult real estate environment. The results of the development of the Sheldon cooperative may demonstrate that model in Portland.

\textbf{Housing Comparisons}\textsuperscript{11}

<table>
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<th>Ownership</th>
<th>Market Rate Cooperative</th>
<th>Limited Equity Cooperative</th>
<th>Condominium</th>
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<td>Member/residents are the sole owners through a corporation, which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.</td>
<td>Member/residents are the sole owners through a corporation, which in turn owns the land and buildings. Each member has the exclusive right to occupy a particular dwelling unit in perpetuity.</td>
<td>Unit owners take fee simple title to a dwelling unit plus an undivided interest in the common elements (the land and common areas of the buildings).</td>
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| Monthly Cost | Members pay monthly carrying charges to the cooperative — a pro-rata share of actual operating costs, blanket debt principal and interest, | Members pay monthly carrying charges to the cooperative — a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, | Unit owners pay monthly condominium fees to the condominium association — a pro-rata share of actual operating costs, blanket debt principal and interest, property taxes, |

\textsuperscript{10} Eli Research: Independent Seniors Flock to Co-Ops, available at http://www.seniordo.coops.org/eli2.html
\textsuperscript{11} Excerpted from More Than Just Housing: Co-Op Housing, University of Wisconsin Center for Cooperatives, available at http://www.uwcc.wisc.edu/info/uwcc_pubs/coophouse02.pdf
<p>| Maintenance &amp; Repairs | Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual members and cooperative as a whole. Many limited equity cooperatives assume most or all responsibility for dwelling unit maintenance and repair, in order to even out and reduce costs to their members. | Cooperative is responsible for exterior maintenance. Cooperatives can choose how they allocate responsibility for dwelling unit maintenance and repair between individual members and cooperative as a whole. Many limited equity cooperatives assume most or all responsibility for dwelling unit maintenance and repair, in order to even out and reduce costs to their members. | Condominium association is responsible for exterior maintenance. Individual unit owner is responsible for all dwelling unit maintenance and repair. Limited common element repairs are performed by the Association and charged to the unit owner. |
| Purchase/Move-in Cost | Purchaser pays market price for shares or membership. Pro-rata share of cooperative’s blanket loan remains in place. Purchaser assumes seller’s obligations under occupancy agreement. Few closing costs. | Purchaser pays low price for shares or membership. Pro-rata share of cooperative’s blanket loan remains in place. Purchaser assumes seller’s obligations under occupancy agreement. Few or no closing costs. | Purchaser pays market price for condominium unit. Purchaser is obligated to pay monthly condominium fees. Closing costs include title insurance, tax pro-ration, etc. |
| Financial Liability | Members have no personal liability on cooperative’s blanket loan. Members are obligated under their occupancy agreements to make monthly carrying charge. | If financed via the HUD Section 213 program, members have no personal liability on cooperative’s blanket loan. Members are obligated under their occupancy agreements to make monthly carrying charge. | Unit owners are obligated to pay monthly condominium fees to the condominium association. Unit owners with mortgages are personally liable to their... |</p>
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<th>Community Control</th>
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<td>Tax Benefits</td>
<td>Cooperative members enjoy all of the income tax benefits of homeownership. In most states, cooperatives and their members receive whatever property tax benefits are available to other homeowners.</td>
<td>Unless the cooperative has given them up in exchange for tax-exempt financing, cooperative members enjoy all of the income tax benefits of homeownership. In some states, there are additional property tax benefits or savings due to the limitation of resale prices.</td>
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<td>Home Equity</td>
<td>Cooperative members build equity as the value of their cooperative interest increases and as their share loan is paid down.</td>
<td>Growth in equity is limited through a limitation of resale prices. Generally, a formula determines the portion the selling member will receive of the increase in value of her cooperative interest and the pay-down of the cooperative mortgage.</td>
<td>Unit owners build equity as the value of their unit increases and as their mortgage is paid down.</td>
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Payments to the cooperative. Members with share loans (if any) are personally liable to their share lenders for the amount of the loan. Member share purchase, is at risk and in a second position to the blanket mortgage. Charge payments to the cooperative. Members with share loans (if any) are personally liable to their share lenders for the amount of the loan.