RURAL DEVELOPMENT NETWORK

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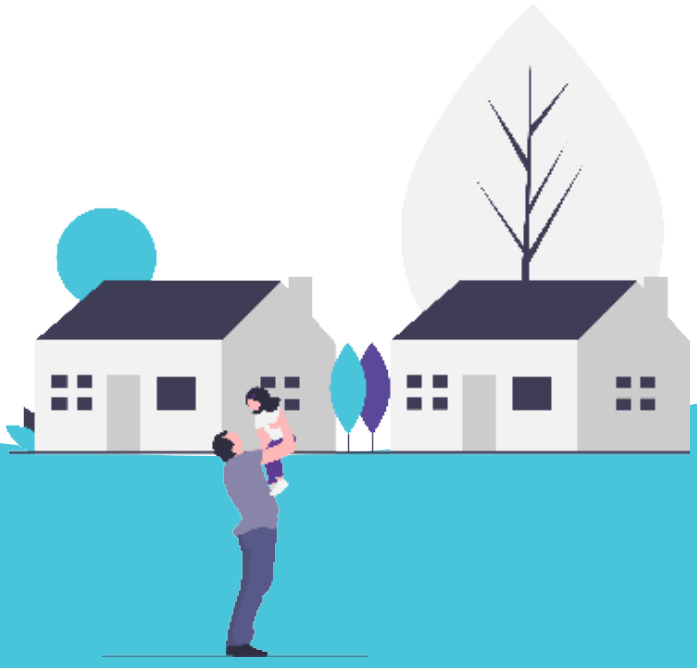
# Paths for Housing Co-ops

## Research Report

SUPPORTING THE GROWTH OF
NORTHERN ALBERTAN CO-OPS



# Contact


### RURAL DEVELOPMENT NETWORK

11443 - 143 Street, NW
Edmonton, AB T5M 1V7
780.964.2736
info@ruraldevelopment.ca

### ALBERTA COMMUNITY & CO-OPERATIVE ASSOCIATION

8429 - 24 Street, NW
Edmonton AB T6P 1L3
780.504.7850
info@acca.coop

### NORTHERN ALBERTA CO-OPERATIVE HOUSING ASSOCIATION

#102, 12120 - 106 Avenue
Edmonton, AB T5N 0Z2
780.482.6128
info@nacha.ca


ALBERTA REAL ESTATE FOUNDATION

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# Glossary

Please note that all definitions are in the context of this project.

## Co-operatives

An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. (Source)

**This document is strictly discussing housing co-ops (defined below). Any mention of "co-op" is in regards to a housing co-op.**

## Housing co-operatives

Referred to in this document as "co-ops", a legal association, incorporated as a co-operative under the provincial co-operative act. In Alberta co-ops are democratically controlled by their members, and strive to follow co-operative values and principles. Co-ops have no outside landlord. Housing co-ops in Alberta do not operate under the landlord and tenant act. CMHC provides some more detail here.

- Housing co-ops come in many forms. Some co-ops are townhouses and small buildings with just a handful of units. Others are large apartment-style buildings with hundreds of units.
- Co-ops are different from private rental housing because the residents decide how the co-op is operated, as members. Every member gets a vote in approving annual budgets, electing directors and setting policies on the co-op's overall direction.
- Because it is member-owned and member-controlled, co-operative housing has many advantages:
    - **Affordability:** Monthly housing charges are set by the members to cover the costs of running the co-op.
    - **Security:** A member's right to live in the co-op is protected as long as they're following all of the rules.
    - **Community:** There is a strong sense of community because members actively participate in all aspects of running the co-op.

Housing co-operatives can be divided into categories based on the amount of equity a member holds.

- **Equity:** Often referred to as a "Market Equity" co-op. When a member joins the co-op they buy an equity-share, and live in a unit. This is similar to something like a condo complex, but instead of owning one condo, you own a share in the whole complex. When the member decides to leave the co-op, they sell their share at whatever price the market will pay for. The co-op sets policies which affect all members, and the cost for each member to live in the co-op depends mainly on when they bought a share, and at what price, as they would have a fairly traditional mortgage on their share of the co-op in their own name (Source).
- **Limited Equity:** A limited equity co-operative (LEC) is a homeownership model in which residents purchase a share in a development (rather than an individual unit) and commit to resell their share at a price determined by formula—an arrangement that maintains affordability at purchase and over the long term. The price restrictions built into the resale formula limit the equity that LEC residents can gain when they sell their ownership share; it is this feature that also helps to maintain affordability, especially in strengthening housing markets. Some limited equity co-operatives allow little or no build-up of equity by homeowners, while others adopt a shared equity approach, balancing the twin goals of long-term affordability and individual wealth creation. While LECs are frequently found in multifamily buildings in urban areas, this tool can also be used in townhomes, single-family homes, and mobile home parks (Source).
- **Non Equity:** housing co-operative based on a rental model. Members pay a membership fee to join the co-op, and monthly housing fees that contribute to paying for operating the housing. Members do not build equity within this type of structure.

## Governance

In the context of this project, how decisions are made and who makes the decisions regarding the operation of a co-operative.

## Social

Activities that impact community development or community wellbeing, such as social services and amenities

## Financial

The methods co-operatives use to ensure there is adequate funding for their initial development, operations (repairs, maintenance, services, etc.), as well as their future replacement (new buildings, expansions, etc.).

## Board of directors

Also referred to as the board, board members or directors are democratically elected by the members to guide the co-operative on their behalf.

## Management bodies

Co-ops often hire a third-party to oversee the daily management, maintenance and operations of the property. This could also include other roles, such as procurement, staffing, etc.

## Sustainability

Refers to both environmental sustainability, following green building practices that reduce greenhouse gas emissions, as well as financial sustainability where the co-op generates sufficient revenue to cover costs as well as a healthy reserve fund for scheduled maintenance, and any unforeseen expenses.

## Affordability

Housing that is less than 30% of an individual's income. This could also be relative to other housing options (i.e., market rental rates), which will depend on location, type of housing etc.

## DCR (debt coverage ratio)

The debt coverage ratio (DCR) measures the ability to pay the property's monthly mortgage payments from the cash generated from renting the property. Bankers and lenders use this ratio as a guide to help them understand whether the property will generate enough cash to pay rental expenses and whether you will have enough left over to pay them back on the money you borrowed. The DCR is calculated by dividing the property's annual net operating income (NOI) by a property's annual debt service. Annual debt service is the annual total of your mortgage payments (i.e. the principal and accrued interest, but not your escrow payments (Source).

# Project Overview

Developing housing that considers affordability, attainable homeownership, and building great communities is no easy task. Add economic uncertainty and significant changes in consumer behavior, and investing in new models becomes much riskier. Co-operative solutions have been successful, but too often are limited by their reliance on government subsidies and the capacity of volunteer boards. Despite minimal growth of new housing co-operatives (co-ops) in Alberta, the co-op model has proven effective in engaging tenant-members to make decisions that provide affordable options, a range of community benefits, and be good stewards of the housing stock.

The goal of this project was to support the creation of sustainable, efficient and resilient housing co-ops in Alberta. We did this by investigating how co-ops operate, the strategies they use, and the lessons learned that could be beneficial to those in existing co-ops or for those who want to build a housing co-op. The outcome of this project is a framework of documents, which are highlighted below:

### DEVELOPMENT TOOL

A tool that could be used by existing housing co-ops as well as by housing co-op developers to investigate how to improve the operations of their co-op or prospective co-op development.

### DEVELOPMENT TOOL GUIDE BOOK

A guidebook that would lay out the instructions for usage of the development tool, as well as share information on what strategies both existing and prospective housing co-ops could utilize for better operations.

### THE RESEARCH REPORT (THIS DOCUMENT)

Discusses the process undertaken during this project, as well as the findings of the research conducted. This research report is a companion piece to the Guidebook and can be found on ruraldevelopment.ca.

In this research report, we highlight the key research done in support of this project, which includes:

- A Literature review
- Stakeholder Engagement
- Financial Analysis

Through the research done on the above topics, we were able to develop the Development Tool and Guidebook for the purpose of benefiting existing and prospective co-ops. We are hoping to better inform funders, real estate professionals, and the general public on how co-ops operate, and what role they can play in the broader housing spectrum. The project team will be hosting information sessions with various stakeholders to inform them on the key findings from the project.

# Brief Summary

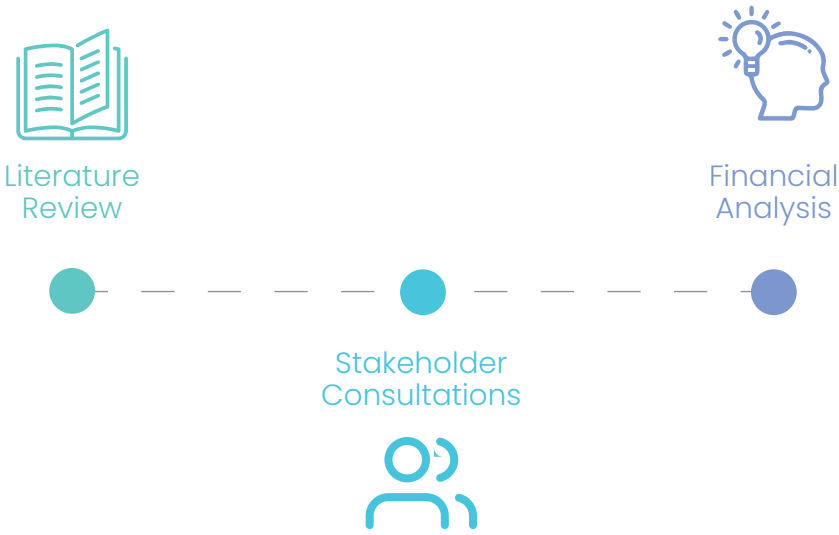
The research revealed how, although there are differences between Equity, Limited-Equity, and Non-Equity co-ops, their success depends on their capacity for financial sustainability, effective governance, and social cohesion. Therefore, our analysis was framed under the following three elements:

- Financial;
- Governance; and
- Social.

Some of the main findings from the research are listed below:

- There was a general trend of recommending Equity models, direct government support, a greater diversity of financing options, as well as the creation of a strategy to enable the creation of more co-ops, and further support existing ones
- Strategies for stronger governance could arise from involving a third-party regulator, a board elected by co-op members, a large-scale co-op board, or a multi-stakeholder board in the decision-making process of your co-op
- Co-ops have implemented non-residential uses, such as commercial and service space, to diversify income sources and ensure services are closeby to members. Community-run commercial services could be applied to diversify income sources, and to offer wrap-around services for members in need
- Requirements for achieving financial sustainability are significantly different based on the co-op type (Non-Equity, Limited-Equity or Equity)
- Many different financial strategies can be utilized by co-ops for enhancing financial operations (affordability, equity generation, etc.)

# Research Methodology




## Literature Review

We began our research by conducting a review of the literature to build an understanding of issues being faced in co-ops, methods and strategies used, and relevant topics for the stakeholder engagement. The project team took a scoping review approach to explore cooperative financial models, as well as governance and social strategies. Overall, the team reviewed 39 academic articles and five gray literature/industry resources. Once review of the literature began, it became clear that strategies that co-ops utilized could be sorted into Finance, Governance, and Social elements.

From the completed review, we identified and explored eight financial models, four governance strategies, and three social service strategies. Based on those categories from the literature review, we built the below rubric, which highlights the key co-op types and elements that we focused further research on.

| CO-OP TYPE | CO-OPERATIVE ELEMENTS | | |
|---|---|---|---|
| Non-Equity | Governance | Finance | Social |
| Limited-Equity | | | |
| Equity | | | |

The literature review informed the following stakeholder engagement.

## Stakeholder Engagement

We performed stakeholder engagement through the form of focus groups and surveys to better understand the context of co-ops in Alberta, and to verify and expand on findings from the literature review.

We involved a variety of stakeholders in the engagement, including professionals and those with lived experience in co-ops. The table on the next page details the stakeholders involved.

**For General Co-Op Members**

The Northern Alberta Co-operative Housing Association (NACHA) played a lead role in connecting housing co-op members to the research team so that their feedback could be captured. A pre-engagement survey aimed at co-op members was conducted beforehand to gain insight into the stakeholder groups and to ensure there was more diversity in the discussion groups. Only those who requested to be further involved in the stakeholder engagement in the pre-engagement survey were selected to participate in the focus group discussions. The detailed survey was promoted through NACHA as well as to those who selected they wanted to participate in the detailed survey in the pre-engagement survey.

**For the co-operative managers group**

NACHA also played a lead role as participants in the co-operative managers group engagement. NACHA identified several individuals within their institution involved in the management of co-ops in Northern Alberta.

**For other groups**

We identified participants for other groups through reaching out to existing industry connections to connect with industry professionals in each group.

| STAKEHOLDER GROUP | ABOUT | ENGAGEMENT METHOD | # ENGAGED |
|---|---|---|---|
| **Real Estate Professionals** | Involved in the development, governance, and management of affordable housing (but no co-ops specifically) | 1-hour long online focus group discussion | 2 |
| **Funders** | Financial Institutions and intermediaries who provide funding that can be utilized by co-ops | | 2 |
| **New Model Groups** | Those interested in co-op models such as community land trusts | | 1 |
| **Co-operative Property Managers** | Support the management, operation, and governance of housing co-operatives in Alberta | | 6 |

| STAKEHOLDER GROUP | ABOUT | ENGAGEMENT METHOD | # EN-GAGED |
|---|---|---|---|
| **General Co-op Members** | Individuals who live in co-operative housing | Pre-engagement survey: Used to learn about high-level challenges and to connect with individuals interested in a focus group session | 42 |
| | | Online focus group discussion in private sessions with co-op members to learn from their lived experience regarding the financial, governance, and social elements of their co-op | 8 |
| | | A sequential survey was provided to gain more detailed input from co-op members in Alberta | 11 |

**Data Collection**

- Survey: All surveys were conducted using Google Forms. A variety of open and closed ended questions were asked to General Co-op Members. Personal identifiers were collected only by those who wished to be engaged further or for those who wanted to receive the final project deliverables. Effort was made to create non-leading, neutral questions.
- Focus Group Sessions: Focus group sessions were conducted using Google Meets. Anonymity was not guaranteed in these sessions, as participants were able to see each other's video feed and username. Discussions were organized by the three elements, and we included a wrap-up section to collect final thoughts. Discussions were not recorded, but we ensured all main points were taken down in a google document, which was later cleaned up and submitted to participants for validation.

## Financial Analysis

Once the literature review and stakeholder engagement were completed, we performed a financial analysis on the different co-op types and strategies we identified through the literature review, This allowed us to examine the financial implications of these strategies and their outcomes.

For financial analysis, the RDN Financial Model was utilized. It was used to identify the performance of each strategy and co-op type. Financial outcomes such as operational sustainability, equity generation (if relevant), required funding, etc. were reported on.

Some key financial metrics investigated and compared between different financial strategies were:

- Cumulative Cash Flow / Surplus
- Replacement Reserve size
- Debt Coverage Ratio
- (if new build) funding required for self-sustainability

The RDN Financial Model itself was utilized to assist in the creation of the Development Tool, allowing for users to easily investigate the financial performance of an existing or prospective co-op.

## Limitations of this Research

Although effort was made to minimize research limitations, there are several key limitations that we believe are important to acknowledge. Future research should aim to alleviate these limiting factors:

- **COVID-19:** COVID-19 was a limiting factor preventing meeting in person, or connecting with larger groups. A visit to a housing co-op, and the ability to see the structures and interact with members would offer more context and insight.
- **Types of Co-ops:** Only one co-op type, Non-Equity co-ops, were engaged in the general co-op member stakeholder engagement. There are only a few examples of Equity or Limited Equity co-ops in Canada, and none were available to participate in the survey or focus group sessions.
- **Co-op Member Diversity:** The focus group and survey engagement with general co-op members was done on a volunteer basis, and demographic information for participants was not collected. This is a limiting factor as there may have been voices missed due to a lack of diversity in the engagement. Future research should ensure representation from a diversity of voices, including Indigenous People, LGBTQ2S+ people, racialized individuals, women and persons with disabilities.
- **Geography:** It is important to consider that the scope for this project was limited to Northern Albertan co-ops. While information in this guide may be useful for co-ops across Canada - engagement and focus was targeted only towards co-ops located in Northern Alberta.
- **Period of Relevance:** We performed this research in 2020/2021. Therefore, findings are based on findings from research and perspectives up to 2021. Our recommendations may include reference to specific resources and contexts that may become less relevant or outdated as time progresses.

# Literature Review

## Summary

The literature review summarized key findings from existing research on housing co-ops. Through a review of 39 academic articles and 5 industry resources, we were able to identify how housing co-ops handle their finances, governance and social development.

At a high level, the literature review found the following:

- Regarding financials, each housing co-op type and strategy identified had its unique pros and cons. Overall, the literature points to the adoption of equity models, direct government support, various financing options, and national cooperative organizations as a means to support growing the cooperative housing supply in Canada.
- Regarding governance, research suggests effective governance models involve members contributing to co-op operations, ensuring long-term affordability for successive generations. Additionally, research also points to poor co-op governance leading to poor financial and social outcomes, such as repairs not being able to be made or debt no longer being serviceable.
- Regarding social development, it was found that housing co-ops provide a sense of community - and it was argued that this sense of community is crucial in ensuring a co-op's long-term sustainability. It was also found that housing co-ops can offer a sense of place and empowerment as well as an ownership opportunity to gain housing equity for individuals who may typically be excluded from the housing markets. It was also mentioned that social strategies do not directly result in financial benefits, and so cost-benefit analysis for implementing certain social strategies would be required.

## Background

In Canada, experts describe housing as a 'national disaster' (Bryant, 2003). With the growing rates of homelessness and insecurity Canadians are experiencing, there is an urgent need for affordable housing solutions (Bryant, 2003; McStotts, 2004). To address the significant shortage of affordable housing solutions, many researchers have suggested implementing more cooperative housing models in Canada, as the very small number of cooperative housing projects have resulted in successful affordable housing programs (McStotts, 2004).

Housing cooperatives are used in many locations around the world to address a multitude of housing and social issues, as well as offer a feasible solution to affordable housing (Turner & Canning, 2016; Canada Mortgage Housing Corporation [CMHC], 2018). Housing cooperatives are complexes in which individuals buy a share or membership, entitling them to a lease or right to occupy a unit (Gray, Marcus, & Carey, 2005). Members pay a monthly fee to cover maintenance, operation costs, and mortgage payments (Gray, Marcus, & Carey, 2005). These housing complexes address a large number of housing-related concerns, meet social and economic needs, provide a sense of community, offer a sustainable and affordable housing solution, and security of tenure (Turner & Canning, 2016; CMHC, 2018).

There are many types of organizational models for cooperatives, such as for-profit cooperatives, owner-occupied housing, and affordable housing co-housing, to name a few (Reynolds, 2018). In countries around the world, cooperative housing is widely used and also acts as a viable option in providing affordable housing solutions (Turner & Canning, 2016). For example, in Sweden, cooperative housing makes up 22.8% of the housing market (CMHC, 2018). However, in Canada, cooperatives make up less than 1% of housing (CMHC, 2018). The most predominant model of cooperative housing in Canada is non-equity housing models, which were encouraged by social housing programs. In contrast, it was found that countries that promote an equity model have a much larger cooperative housing market (Sousa & Quarter, 2003; CMHC, 2018).

## Financial Models

Various financial models are used across the world in order to create affordable housing solutions. The project team explored models in Norway, Sweden, the United States, Germany, Australia, Kenya, Spain, and more. Researchers note that when considering the financial market, housing cooperatives are less competitive due to the fact that they are not driven by profit maximization and are mostly inefficient (Mwangi, Ochieng, & Lishenga, 2019). In turn, this leaves cooperatives vulnerable to policy changes and regulation as they rely on government funding. Mwangi and colleagues (2019) recommend that housing cooperative boards need to build capacity, reduce operational costs, maintain cash balances, and invest in income-generating projects for success.

From the literature, we identified various different co-op types and organized them into three categories (Appendix A). The first type was the equity co-op type which included a basic equity model, a limited equity model, a developer/builder model, and a shared equity home ownership model. It is noted that Scandinavian countries

have moved towards an equity model, which encouraged private investment but also introduced affordability challenges for low-income populations (CMHC, 2018). The second type identified was a non-equity type which included a basic non-equity model, a case study of the Andel model, and a multi-stakeholder model. The third and final type included two unique models which encompass a mutual home ownership society and a public housing conversion. Although not specifically financial models, strategies for securing funds for housing cooperative startups were identified, such as community land trusts and multiple finance mixes for initial mortgages including money from government, CMHC, and private investors. The breakdown of the three cooperative financial model types, as well as each of their advantages and disadvantages, can be found in appendix A, B, C, and D, respectively.

Although each of these models have their own unique advantages, overarching challenges of the explored models included some limitations in affordability resulting in a lack of housing solutions for low-income individuals, the small cooperative housing market in Canada, and difficulties to sustain cooperatives over time (CMHC, 2018; Cabre & Andres, 2018; Miceli, Sazama & Sirmans, 1994; Sousa & Quarter, 2003). CMHC (2018) recommended full equity models, direct government support, various financing options, and national cooperative organizations as a means to help support growing the cooperative housing supply in Canada.

## Governance

Research suggests effective governance models involve members in managing the property, ensuring long-term affordability for successive generations (Lang & Roessl, 2013). Alternatively, research also points to struggles with housing co-op governance boards that lead to poor financial and decision making outcomes. Sousa and Quarter (2003) offer that oftentimes there is a lack of high skill and knowledge among volunteer board members, ultimately leading to financial and social implications within the co-op. As a result, outside support is needed and required, increasing operational and overall costs (Svedova, Penfold & Buczkowska 2009). Muyingo (2016) found a variety of concerns with co-op housing governance, including a lack of accessible information to support members in making effective decisions.

There is also the perception amongst housing co-op members that board members are making decisions for personal gain and interest, and that members are not aware of their personal responsibilities leading to a major challenge of multi-owned housing within co-ops (Muyingo, 2016). Lastly, both Lang and Roessl (2013) and Sazama (2000) argue that the governance concern is that there is a major lack of a long-term perspective when making decisions due to the turnover rate. This can

relate to managing maintenance costs, investing in energy efficient technology, as well as long term savings plans (Sazama, 2000). It is suggested that there is a major need to develop long-term governance structures to maintain appropriate decision making (Lang & Roessl, 2013).

We explored different governance strategies, including a board with a third party regulator, a board elected by co-op members, a large-scale co-op board, and a multi-stakeholder board. Board decision-making processes regarding selection of co-op members was also explored and included a point system based on core housing needs, as well as selection by board members only. The governance strategies identified, along with their advantages and disadvantages, can be found in Appendix B.

## Social Strategies

Lastly, the project team explored social aspects of housing co-ops. Housing co-ops can provide a variety of positive social outcomes, such as providing a sense of community (Reynolds, 2018; Ehlenz, 2018). Ehlenz (2018) argues that this sense of community is crucial in ensuring the long-term sustainability of housing co-ops. Other social outcomes include the ability for the elderly population to live amongst younger generations, people with disabilities to integrate with others, new members to find initial shelter in a geographic location, the creation of a sense of place and empowerment and an ownership opportunity to gain housing equity for individuals who may typically be excluded from the other housing markets (Reynolds, 2018; Ehlenz, 2018; Turner & Canning, 2015). Although the social benefits are clear, major concerns include the requirement of a long-term investment into specific social strategies, as it has been found that these investments do not directly result in reducing operational costs and improving efficiency (Reynolds, 2018;  Lang & Novy, 2014).

As such, we identified and explored social components such as community-run commercial services to diversify income sources, wrap-around services to provide full-time permanent services to members, as well as part-time social services. The identified social strategies, along with their advantages and disadvantages, can be found in Appendix F.

# Stakeholder Engagement

## Summary

After the completion of the literature review, stakeholder engagement was done to expand on the findings from the review and to gain new insights from stakeholders in Alberta.

In this section, we first summarize the overall findings of the stakeholder engagement. Next, we detail the pre-engagement and detailed survey results for general housing co-op members. Lastly, we detail the results from the focus group sessions with various professionals.

Some findings from the engagement are provided below:

- Regarding Governance:
  - » Training, on-boarding, and education increases the capacity of the board and increases involvement of the board and committees
  - » Reliance on volunteer members to take on operational roles without clear expectations or adequate support can lead to burnout - this can be further detrimental with a lack of communication
  - » Effective communication between members, boards, committees, and staff is essential for success, but this can be a challenge
  - » Committees play an important role in decision making and implementing decisions made by the board. Alternatively, housing managers can also play this role
- Regarding Financials:
  - » The ability to provide subsidies, below market rents, flexibility, internal subsidies, and ensuring there is an adequate reserve fund to address any short-term issues and long-term maintenance are a source of pride for many co-ops.
  - » Use of team approach with volunteers and paid staff to handle co-op operations
  - » Decision making often pits monthly housing expenses and planning against each other, as many co-op improvements often require higher housing charges.

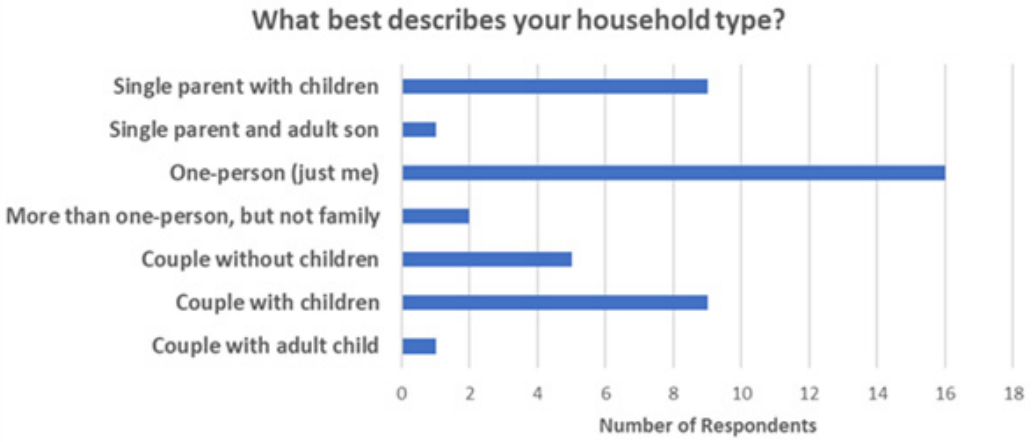
    - Member engagement is essential to ensure co-op cohesion and success
- Regarding Social Environment:
    - Co-ops offer numerous resources (meeting spaces, sport-courts, playgrounds) and programs (classes, social gatherings) that make them great places to live while also supporting the broader community
    - The response to COVID-19 showed how co-ops have capacity to address the social needs of their members by providing programming and services to members in need
    - Social committees rely heavily on volunteers and can often become a stressor when there is a lack of support
    - The social aspects of co-ops are crucial for co-op cohesion
    - Being involved in one's co-op, whether through activities or serving on a committee, builds a strong sense of ownership.

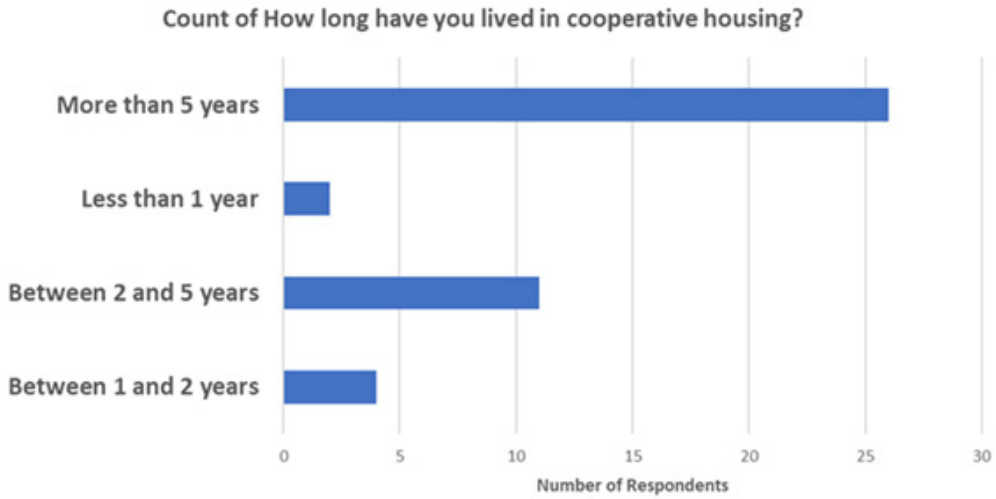
    In addition to the above themes, it was also found that the co-op industry is less understood by the broader housing community, including funders and investors.

## Pre-Engagement Survey

Prior to the general housing co-op member focus group sessions, forty-two co-op members from different housing co-ops in Northern Alberta participated in a pre-engagement survey. Following the initial pre-engagement survey, eleven indicated they would be interested in providing more information through a second survey. From there, eight individuals agreed to take part in discussion groups.

The following two figures provide a breakdown of the pre-engagement survey participants based on household type and years lived in their co-operative:




Next, the following table details the degree of participation of respondents in their housing co-op - most respondents were highly involved in their co-ops. Based on a scale of 1 to 5 (1 being not involved at all to 5, highly involved) the average response indicated a high level of involvement amongst respondents.

| AVERAGE RESPONSES ON PARTICIPATION IN ONE'S HOUSING CO-OP (N:42) | | |
|---|---|---|
| On a scale of 1 - 5: | How would you rate your involvement in your current co-op? | 4.38 |
| | How would you rate your involvement in the decision-making process in your current co-op? | 4.16 |

The overwhelming majority of respondents participated in their co-op board. Only 3 respondents had not served on a board in some capacity, and within that group only one person had never served on a committee. Overall, most respondents felt their co-ops were financially sustainable.

Last, when respondents were asked what their housing co-op does well from a list of options, the most frequent answer (27 of 42 respondents) listed Financial Sustainability (Ability to maintain operation and collect funds for future replacement housing). What is also of interest is that only 5 respondents mentioned Maintenance (maintenance is done in a timely manner and there is enough funding to meet maintenance standards) as something their co-op does well. 3 listed Inclusivity (your board and co-op are inclusive to a diversity of people) as being something their co-op does well.

## Detailed Engagement Survey

Examining these areas further, respondents were asked to rank how effective their co-op was in addressing challenges, or excelling, in the following categories. For the most part respondents felt their housing co-op was 'able to manage with no major issues' in these areas or had 'room for improvement'. However, when respondents were asked what areas their co-ops are 'Not Able to Manage', it revealed where support could be provided.

- 42% answered that their co-op is not able to manage Succession Planning (Q: There are clear processes in place to ensure roles are filled and membership levels are maintained)
- 28% answered their co-op is not able to manage Governance Style (Q: The decision-making process in your cooperative is effective)
- 31% answered their co-op is not able to manage Education and Training (Programs and training opportunities are provided by the cooperative)
- 26% answered their co-op was not able to Manage Strategic/Long-Term Planning (You feel there is a long-term plan for the operation of your cooperative) or Community Support (There is minimal support for those who need it in your cooperative)

These findings point to a mutually reinforcing challenge. First, a lack of capacity to train and onboard board members, which undermines succession and governance, which then makes it difficult to plan for the long-term. This echoes similar board

## Co-op Member Focus Group Sessions

The housing co-ops engaged in the focus group sessions shared much in common; they were all non-equity co-ops that were located in the Edmonton Metro Region. The differences become more apparent in examining the governance, finance, and social elements of each co-op participant. This speaks to how the non-equity co-op type is applied to adapt to meet the needs of its members. Like communities, every co-op is different, and so even with the similarities in co-op structure and location, different co-ops in the stakeholder groups had noticeable differences. For instance, one of the co-operatives represented in the stakeholder group was unique in that it consisted of a group of single-dwelling homes, where members had private rooms and shared common space. Another co-op had a security guard and rented space to a homecare agency, for those who need extra support to live independently.

The following summarizes the responses from general co-op members in the focus group sessions, based on the research categories: governance, finance, and social.

**Governance**

*Do you think there are any benefits/disadvantages to how your cooperative makes decisions and governs itself? If so, please explain.*

Most respondents took a Churchillian approach to board governance[2]. Building from this point, most pointed to the need for board education, mentorship, staggering of board terms, and having a process to train the board president over several terms. On the other hand, a lack of turnover and burnout undermined the effectiveness of the board. The ability to participate and to learn were considered important benefits. Conversely, poor communication and a lack of these elements led to weaker boards.

*How does your cooperative decide what repairs, maintenance or projects need to be done?*

When it came to making decisions regarding repairs, maintenance, or projects, housing co-operative boards followed a similar approach. Decisions were made by a maintenance committee, which often would work with staff, volunteers, or housing members, and had a clear budget and terms of reference. The maintenance committee would interact with (provide guidance to or be guided by) the co-operative's operational plan.  In some co-operatives, members would make recommendations at an annual general meeting, which if accepted, would then become a priority for the maintenance committee.

Decisions by the maintenance committee need to fit within the existing budget for replacement of building systems, ongoing maintenance, and while ensuring there is an adequate reserve to address any emergencies. One participant explained how they "Prioritize based on urgency, property conditions, how much it will impact people's lives; If not, it is usually not done right away." One can picture the challenge of damaged windows or broken water heaters during an Edmonton winter to understand the significance of the maintenance committee.

Related to this, a strong relationship between the maintenance committee and the board is essential. One maintenance committee member mentioned the lag between receiving a quote and deciding on a contractor, and the board deciding how to proceed. As a result of the delay, members had to deal with a leaky basement for an extended period.

**Finance**

*Do you think there are any benefits/disadvantages to how your cooperative operates its finances?*

Several respondents mentioned they are proud of how well their housing co-operative operates its finances, with one individual mentioning they joined the board because they were impressed with its financial position. The ability to provide subsidies and below market rents, while being flexible and having a reserve fund to address any short-term issues and long-term maintenance, all point to the merits of economic democracy when applied to housing.

Respondents also mentioned the use of a team approach and having policies in place (checks and balances) to ensure proper stewardship and oversight, without overburdening one volunteer. The use of committees and enlisting paid staff to manage funds has proven to be a successful approach to managing a housing co-operative's finances.

Combining these two elements, using effective committees and paid staff, some housing co-ops mentioned how this enabled them to apply community ethos in operating their finances. This has led to the creation of a form of geared housing charge, where lower-income households pay lower housing charges - supported by the higher income earners paying higher housing charges.

Some of the challenges and disadvantages regarding finance have been the reliance on volunteers, resulting in poor reporting, which has caused issues when accessing grants and loans. In addition, the initial reliance on grants to subsidize

housing charges for those on social assistance can become a challenge once those subsidies are removed.

Another challenge is the balance of communicating how monthly housing charges and the cost to members relate to the overall financial capacity of the co-op. Take for instance a housing co-op that has paid off its mortgage (a huge success). Its members may expect a reduction in monthly charges. However, that is not always the case, as the mortgage is only one part of the equation. Decision making often pits low monthly housing expenses with long-term planning, often requiring higher housing charges. General behavioral economics tends to favor the former. Related to the previous section, member engagement and communication become very important.

Advice on getting the most out of the model aligned with the governance section, with an emphasis on education and building awareness of this aspect of managing a co-operative.

**Social**

Community Development opportunities, social services, and amenities are an important feature of a housing co-operative. They improve quality of life and reduce costs for members. Within the eight co-operatives represented in the stakeholder engagement sessions, there was a range of services offered, including:

- Basketball court
- Choir practices
- Clean-up days
- Community gardens
- Games and activity nights
- Meeting rooms
- Member orientation sessions
- Mobile fire pits and BBQs
- Carpenter Shop - built by members and with donated equipment (furnished by community volunteer donations and work)
- Movie nights
- Open spaces and gazebos
- Outdoor activities
- Parties
- Playground
- Soup night
- Tai Chi classes
- Yearbook

Some social benefits can be as simple as neighbors looking out for each other and offering help where needed. In one of the housing co-operatives, there is an onsite Home Care Agency, and another is connected to community social workers. These supports became very evident during the COVID-19 pandemic, with ad hoc committees being formed to provide mutual aid, and meetings and events being delivered remotely using Zoom and Skype.

These offerings are typically led by a volunteer committee. Some have clear mandates around member orientation and organizing volunteers for spring cleaning and related care of common areas. The level of use of these amenities varies by committee, co-operative, and seasons.

*Do you think there are any benefits or disadvantages to the social opportunities, services or amenities your cooperative provides?*

Although there was a great deal of support and interest in the social aspect, challenges were evident. There is always a varying level of participation in activities as well as committees. This often leads to relying on a core group of volunteers, which can lead to burnout. Social committees also tend to have a lot of visibility and have to deal with complaints from other members (i.e. their neighbors).

Despite these challenges, most stakeholders saw the value in this aspect of their co-op and would like to see more of it wherever possible. Others mentioned how it helped to build a pride of ownership in their co-operative.

**Overall Perspective**

The final discussion question asked housing co-op members to provide their overall perspective when it came to living in a housing co-operative. This broader perspective also provides insight into why, for instance, someone may want to volunteer for a committee or run for the board. The bigger picture also speaks to some of the broader benefits of the co-op structure.

There was a lot of consensus within and between discussion groups regarding the larger benefits of housing co-operatives. All 8 participants mentioned that they wanted to continue living in co-op housing. However, it was also mentioned by some that this was related to their co-operative's ability to provide adaptive and barrier free living to meet the needs of an aging population.

The most frequent responses to these open-ended questions regarding living in a housing co-op align, for the most part, with the goals of co-op housing.

| QUESTION | MOST FREQUENT RESPONSE |
|---|---|
| What is the main appealing (or unappealing) aspect of co-ops? | • Community<br>• Affordability<br>• Decision-making structure |
| If you were to give advice to an organization wishing to start a housing cooperative, what advice would you give to ensure the co-op runs successfully in the long-term (10+ years)? | • Strong financial planning<br>• Like-minded individuals who can work together<br>• Common vision |

## Professionals Focus Group Discussions Summary

In this section we summarize the focus group discussions from the professional stakeholder groups: Funders, Real-Estate Professionals, Co-op Managers, and New Model groups. These groups were asked similar questions. These questions were like the co-operative member group but given their varying levels of experience and understanding of the model additional, clarifying or specialist specific questions were included.

The first set of questions asks for opinions on the different co-operative models (equity, limited equity, non-equity), and then asks them to weigh in on the advantages and disadvantages of the social, finance, and governance aspects. A list of the discussion questions is provided in Appendix G.

**Knowledge of Different Housing Models**

The real estate professionals had limited knowledge of housing co-operative structures, however, were familiar with one example. They mentioned their work in the affordable housing space had become more collaborative. Although their knowledge of housing co-operatives was limited, they had a good understanding of board governance and their role in both not-for profit housing and condominiums. On the other hand, Co-operative Managers, Board Members, and General Members of co-operatives all lived in and interacted with non-equity models. The Funder Group had experience providing financing for housing co-operatives and were familiar with a variety of different models.

Those looking at New Models for co-operative housing were also better acquainted with non-equity co-ops but had also explored equity models. They observed that across the housing co-op sector there is a great deal of variance in capacity, especially in financial literacy.

Some of their assumptions regarding the different models included:

- Limited equity and equity are the most financially sustainable
- When you have individual co-ops, each co-op's ability to manage things depends greatly from co-op to co-op, as it depends on individual skill sets
- Single entity co-ops may find more challenges in getting loans, funding, etc.
- Economies of scale can be found when you manage multiple co-ops
- As most co-ops use non-equity financial models, they usually face challenges in gaining or growing equity

**Governance**

There was a great deal of consensus in discussing governance. Personalities and personal dynamics are factors that can undermine the effectiveness of any board, especially when it involves decisions that impact people's housing. It was found that investing in training and education, and a more robust on-boarding process could address some of these elements. The Funders offered some keen insight that relying on volunteers means also dealing with time constraints and other priorities. The stakeholder from the New Model group also mentioned that decision making will be impacted by the type of co-op (i.e. equity or non-equity).

## DO YOU THINK THERE ARE ANY ADVANTAGES / DISADVANTAGES REGARDING HOW YOUR GROUP MAKES DECISIONS AND MANAGES ITS CO-OPERATIVES?

**Co-op Managers**

- Boards can bring personalities and personal issues into the equation.
  - » Can impact the effectiveness of the board
  - » Can cause tension with managers and staff
- Requires a high level of skill to be a board member. Board capacity in finances and governance will determine the success of the co-op
- The lack of understanding of board roles and the ability to delegate operational tasks can be a challenge
- Personal dynamics and influence of members can be expressed at the board level

**Funders**

- Members of co-op boards have a life outside the board, need to balance their time with other commitments
- Co-operative members directly see the impact and importance of changes made by the board
- Boards can access support where they lack capacity, such as in administrative processes, finances, etc.
- As people live in the space, they are considerate as to how the space is used, they want it to be a wonderful place to live
- It is harder to move quickly on projects and applications, as the board members are usually part-time and have other time commitments

## DO YOU THINK THERE ARE ANY ADVANTAGES / DISADVANTAGES REGARDING HOW YOUR GROUP MAKES DECISIONS AND MANAGES ITS CO-OPERATIVES?

| | |
|---|---|
| **New Models** | • Having a board, having a vote, and the autonomy that gives, can help people feel empowered, build confidence in working with people in power or managing a group. It can also help build up skills for individuals<br>• Members may be more in touch with what decisions will impact the people who live there, which impacts what decisions they make.<br>• Since co-ops are often personal, being people's homes, members are often very passionate about the decisions being made<br>• Exception is when there is very little knowledge and co-ops are being managed poorly, some of these benefits may be harder to realize<br>• The fact that it is really personal can also be a negative. People become attached to how things are, may be against change<br>• Lack of expertise can lead to mismanagement<br>• Everybody knows what you are doing, everyone who wants to say something can say something, which can make it difficult to make decisions<br>• In equity co-ops, decisions might be made that disproportionately impact those making decisions more than the general membership |

| DO YOU THINK THERE ARE ANY ADVANTAGES / DISADVANTAGES REGARDING HOW YOUR GROUP MAKES DECISIONS AND MANAGES ITS CO-OPERATIVES? | |
|---|---|
| **Real Estate** | • There is an element of self-interest vs the interest of the whole<br>• When it comes to recruiting talent, the board is limited to who lives in the cooperative<br>• Multiple perspectives and ideas on these problems<br>• "The people who get elected are often the people you don't want on these boards"<br>• Beneficial to have chances for the overall membership to voice opinions and concerns, but a more professionally run, smaller group of people who do what they need to do to ensure the cooperative is running sustainably<br>• Lack of encouragement or opportunities for other equity investments to foster growth |

### Finance

This section provided some interesting insight. The funders and real-estate professionals offered more detailed responses on what they would require to finance a co-op project. The next table focuses on the responses from Co-op Managers, which has a bigger focus on the management of operational costs.

| WHAT ATTRIBUTES OF A COOPERATIVE MAKE FUNDING THEM APPEALING? WHAT ASPECTS MAKE THEM MORE/LESS FINANCIALLY VIABLE? | |
|---|---|
| **Funders** | • Social inclusion is a huge priority for the federal government. Co-ops provide opportunities for members to work together, build on strengths. Co-ops are also often multi-generational. All of these elements make co-ops appealing from the federal government perspective and is a strength when it comes to reviewing applications.<br>• A big challenge from the federal perspective, is the different cooperative rules and regulations between regions. For example, all co-ops in Alberta are typically on leased land. This makes it more difficult for co-ops to take out loans for projects, and also requires more consultation with different entities, such as municipalities.<br>• As most co-ops use non-equity financial models, they usually face challenges in gaining or growing equity<br>• Many co-ops are operating from a break-even level, in order to maximize affordability for members. This can limit the opportunity to raise funds for projects.<br>• Board turnover and lack of succession planning can impact funding decisions/the capacity of the board to access funding |

| WHAT ATTRIBUTES OF A COOPERATIVE MAKE FUNDING THEM APPEALING? WHAT ASPECTS MAKE THEM MORE/LESS FINANCIALLY VIABLE? | |
|---|---|
| **Real Estate Professionals** | • Non-equity is more appealing (to a developer), as it more closely resembles their current rental model<br>• There is an opportunity to provide social benefits, but the scale and impact of those benefits are limited to the number of units available<br>• As housing co-ops are built for the long-term, they could benefit from a longer amortization period (40 years compared to 25), which results in smaller monthly mortgage payments<br>• Co-ops need to have a strong understanding of their debt load to meet target DSCR (ability to finance debt)<br>• Important to ensure there is adequate capital replacement reserves |

**Social**

The perspective on the social aspects of housing co-ops by the stakeholders echoed those of the general co-op members; especially for co-op managers. Housing co-ops build strong communities and member engagement is something to be fostered over the long-term to increase the social aspects. They also agreed it can be difficult at times, and often results are only seen in the longer-term.

What was of particular interest in this section is the perspective of funders, real-estate professionals, and new model groups. They saw a clear opportunity for co-ops to position themselves as a provider of social services, which could then provide access to other funding streams. The summary below elaborates on these aspects in the responses to the discussion questions.

## ARE THERE ANY COMMUNITY DEVELOPMENT INITIATIVES OR SOCIAL AMENITIES/SERVICES THAT WOULD STRENGTHEN A COOPERATIVE'S FUNDING APPLICATION?

- A lot of the application comes down to planning, confidence, and the team
- A lot of the projects are developing multiple kinds of housing and offering community spaces as well - to build community
- Important to be clear about the population you're looking to support and how you're going to help them
- When talking to contractors about the development of a new co-op, it has to be clear that certain spaces are essential
- Social benefits are realized more in housing co-ops. Culture of using common spaces in co-ops as an example

## WHEN REVIEWING A FUNDING APPLICATION, DO YOU MAKE ANY SOCIAL CONSIDERATIONS REGARDING A PROPOSAL?

- Affordability
- For the main funding program for co-ops, co-investment, the social considerations have a huge factor on eligibility and breakdown of how funding is provided
- The more socially inclusive a project is (serving key priority groups, accessibility, proximity to services), the more grant funding is received
- Both social aspect within the co-op (supports they provide members like monthly workshops for members to build capacity) and where they are within a community matter to co-investment
- Investors want to see enough units are received for the amount of money they're putting in
- Having social features and innovative strategies are more interesting for funders, including commercial spaces
- Co-op housing may not be doing enough to reach out to marginalized groups
  - » May be giving a feeling of unwelcoming
  - » May be because marginalized groups are not aware of co-ops
  - » Important for co-ops to be a community to their neighbors as well, need to integrate into the surrounding community

### Overall Perspective

There is a great deal of support for housing co-ops from the professional stakeholders, as evidenced in their general thoughts and comments from the discussion. There was a general consensus that co-ops can play a role in the affordable goals of the housing market.  Like the discussion with housing co-op member groups, we summarized common answers around two broad questions.

#### WHAT DO YOU FEEL ARE THE OVERALL ADVANTAGES AND DISADVANTAGES OF BEING INVOLVED IN THE COOPERATIVE HOUSING INDUSTRY?

- Making decisions for themselves on what they need within their housing, and the community support element.
- Lack of understanding about co-ops, differences between regions, it is harder to bring forward a co-op application as there is a bit of an unknown element to them. Challenge is to get more information, educating funders and peers.
- Housing co-ops can be a safe place, can be a place where you can learn and be supported, can be a family
- Have seen people come in who were broken but were able to see (by contributing, sitting on committees, etc.) that they have a lot to offer and become inspired
- Some people go back to school, choose professions that they didn't initially see themselves in

## ADVICE TO GROUPS STARTING A CO-OP

- Co-ops are based on the members, but they need oversight. For a co-op to survive, there has to be a way to stop boards who are not doing the right things
- Needs to be an independent party to manage these issues and uphold standards
- If starting up a co-op, need to have good governance and a solid financial plan
- Built form is important, need to make sure that what's being developed makes sense (i.e. consider universal design, aging in place)
- It's all about education - especially with the Community Land Trust (CLT) model
  - » Make sure people know what a housing co-op is
  - » What their role is in the co-op
  - » Ensure that the co-op community is created
- Co-ops don't really start by themselves anymore
  - » Hard to get the financing needed to develop new properties if working alone
  - » Used to be that a group of people would lead the project, those people would have strong bonds that would be in place once the co-op is formed
  - » It's more financially sustainable doing it the CLT way - don't need to worry about ongoing funding

# Financial Analysis

## Summary

The financial analysis conducted explored not only the main types of co-ops and their financial implications, but a variety of financial strategies found from other research. This information provides insight into what to expect based on your co-op type, and also highlights financial strategies that can be used to better your financial situation.

As a quick summary, the three types of co-ops are Non-Equity co-ops, Limited-Equity co-ops, and Equity co-ops. Details on these co-op types are on the next page.

Primarily, the review of the financial performance of the three co-op types was conducted under set conditions. The conditions and outcomes of that review are provided below:

**Conditions**:

- 30 unit builds
- The following bedroom mix:
- 10 one beds @ 650 sq ft
- 10 two beds @ 800 sq ft
- 10 three beds @ 1,000 sq ft
- Rental rates based on the CMHC market rates for the Edmonton area
- Operational costs based on information provided by NACHA and other sources
- Construction costs (if applicable) estimated by the RDN using various sources
- New builds, with a mortgage from the CMHC Co-Investment Fund if applicable
- If applicable, 1 share per unit

## EQUITY CO-OPS

Co-ops, which allow members to generate wealth through the equity growth of their home. This form of co-op is typically the one with the highest ceiling for entry, as memberships can be in the hundreds of thousands of dollars. This co-op is also one of the most appealing to many prospective members, as the money spent to join the co-op is also an investment that can potentially pay back in the future.

### MEMBER GOALS

- Home ownership
- Return on Investment in housing
- Living in community
- Protect and grow investment

### MEMBER COSTS

**$$$**

## LIMITED EQUITY CO-OPS

Follow the same general concept as the Equity co-ops, allowing members to generate wealth through the equity growth of their home. However, for Limited Equity co-ops, the amount of equity growth the member can claim has a ceiling - with the remaining wealth being directed back into the co-op. This structure allows members to grow equity through their investment into the co-op, but also has a lower ceiling for people to join the co-op

### MEMBER GOALS

- Attainable housing. Moving from being a renter to building equity in housing
- Living in a great community

### MEMBER COSTS

**$$**

## NON-EQUITY CO-OPS

Do not offer any equity gain through being a member of the co-op. The dues members pay to join and live in the co-op are not investments that return equity. However, these co-ops are much more affordable for members and have the lowest ceiling for entry. In our research, we found Non-Equity co-ops to be the most popular form of co-op in Alberta - likely primary due to co-op construction in Canada being focused on increasing the supply of Affordable Housing.

### MEMBER GOALS

- Affordability
- Mutual aid
- Participate in community

### MEMBER COSTS

**$**

The financial performance of the different co-op types is listed below:

**Equity co-op:**

- Surplus + Replacement Reserve By Year 5: $328,077.95
- Surplus + Replacement Reserve By Year 20: $1,594,390.27
- DCR by Year 5: N/A (no debt)
- DCR by Year 20: N/A (no debt)
- Average Housing Charge (not including personal financing fees for equity stake): $405.00

**Limited-Equity co-op:**

- Surplus + Replacement Reserve By Year 5: $396,565.35
- Surplus + Replacement Reserve By Year 20: $2,388,682.90
- DCR by Year 5: 1.21 (Loan Balance @ $2,370,112.69)
- DCR by Year 20: 1.75 (Loan Balance @ $1,942,756.48)
- Average Housing Charge (not including personal financing fees for equity stake): $761.21

**Non-Equity co-op:**

- Surplus + Replacement Reserve By Year 5: $458,554.00
- Surplus + Replacement Reserve By Year 20: $1,696,665.82
- DCR by Year 5: 1.21 (Loan Balance @ $4,873,752.13)
- DCR by Year 20: 1.76 (Loan Balance @ $3,789,871.47)
- Average Housing Charge: $967.57

As can be seen above, the greatest amount of surplus + replacement reserve is generated by Non-Equity co-ops, but they also have the greatest loan balances and housing charges. The primary reason behind the lower surplus + replacement figures for the Equity and Limited-Equity co-ops is because of lower average housing charges. These lower charges are a result of lower debt needing to be taken on by the co-op due to the equity contribution from members. This can be seen by the lower loan balance in Limited Equity co-ops compared to Non-Equity co-ops, and the co-op not needing to take out a loan in the case of Equity co-ops.

Of course, the downside to Equity and Limited Equity models is that not many people will be able to afford to join the co-op since membership is not usually affordable for those with lower incomes. Additionally, the Limited Equity co-op as set up above requires a large amount of non-debt funding to be feasible.

Focusing on sustainability, we can see that regardless of the higher loan balance and housing charges - the Non-Equity co-op is still able to maintain a healthy DCR (debt coverage ratio) well into Year 20 of operations. This showcases that even a co-op with an affordability focus can be sustainable.

## Financial Strategies Identified

**Compatible with All Co-Op Types**

### MULTI-STAKEHOLDER MODEL

This model has more than one stakeholder class, namely, both a supporting class and a resident class. It allows for supporting members to purchase shares even if they do not reside at the property. Most prominent in Quebec, mainly for seniors housing. This membership base tends to include the residents, supporters, and workers. "Services offered by these co-ops include meal services in a cafeteria, laundry and cleaning services, programming/organized social activities, and security services via security cameras and volunteer residents." (MS Co-op Housing for seniors in Quebec).

| PROS | CONS |
| --- | --- |
| • Affordability - the model makes it easier to attain strong financial backing as members can strengthen the governance of the housing co-op<br>• Has potential for housing seniors, or those with some capital for investment, who want an affordable home<br>• Both classes select representatives for the board | • Often requires certification to become a 'seniors' or 'private care' facility to benefit from provision of care activities |

### DEVELOPER/BUILDER PARTNERSHIP

A builder/developer constructs the housing infrastructure, then sells the units as a new co-op. Similar to a condominium strategy.

| PROS | CONS |
|---|---|
| • Upfront costs and risk are taken on by the builder<br>• Offers more options for builders to provide mixed income, attainable, and affordable options<br>• Both classes select representatives for the board | • Builder-led, less control by the co-op |

### PRIVATE FINANCING OF NEW CO-OPS

Programs to encourage private investors to create co-ops. Rents would be for breaking even on the project or for a government-approved rate of return. In return, the private investors could access low-cost mortgages.

| PROS | CONS |
|---|---|
| • Creates new affordable housing<br>• Involves private market partnerships | • Rents may not be affordable even at break-even rates<br>• Private groups have an incentive to maximize profit and so may work against the interests of households in need |

**Most examples in Canada reveal this model to be most compatible with non-equity co-ops.**

### COMMUNITY LAND TRUST

Homeowners own their buildings, the CLT retains ownership of the land and enforces permanent affordability via the ground lease.

| PROS | CONS |
| --- | --- |
| • Offers stability and support to low-income homeowners<br>• Reduce financing needs for the co-operative<br>• Aligns housing goals with community revitalization initiatives and other stakeholders<br>• Can support limited equity models significantly in the early phases of development, where they can act as a lead in project feasibility assessments, rehabilitation or construction, and establishing LEC documents and selling shares.<br>• They can also act as an educator. After this, the CLT usually shifts to a support role. CLTs can also act as a third party, which can help long-term sustainability of the development, ensuring logical decisions are made.<br>• CLTs can help keep LECs secure and accountable. CLTs can also become more involved if community participation decreases in the future<br>• Land acquisition is a leading determinant of affordability, and this provides an affordable solution | • Often requires certification to become a 'seniors' or 'private care' facility to benefit from provision of care activities<br>• Requires households to satisfy conventional lending criteria<br>• Lack of awareness by financial institutions and regulators<br>• Added complexity of combining two innovations and governance structures |

### ANDEL MODEL

The Andel Model is a private initiative for not-for-profits to develop and manage housing for their members. It uses a 'right to use' model, which is an entry fee

(returned when members leave the co-op) and then an affordable monthly fee to cover costs of construction/maintenance/debt. This is an example/case study of a non-equity model with a community land trust.

This model can be used with 'cessation of use' OR 'surface right of public land' for a long period of time. These are considered the best arrangements as they don't force public administration to lose their land assets.

| PROS | CONS |
|---|---|
| • Relies on existing social networks; uses volunteer model to actually help build and design building (saves on costs)<br>• Non-speculative model that takes housing as a basic right rather than a commodity<br>• Social advantages: long-term affordability is a core pillar of the model<br>• Financial advantages: stem from economies of scale that derive from the fact that mortgages are held by the cooperative rather than by individuals<br>• Relies on self-management from members coupled with professionals that offset the limitations of co-op members in terms of knowledge and availability<br>• Fosters communal living model - prioritizes common space over private dwelling space<br>• Sustainability: low environmental impact on project construction and sustainable usage of the building are promoted (hired environmental consultants) | • Often requires certification to become a 'seniors' or 'private care' facility to benefit from the provision of care activities<br>• Requires a common ideology by members that housing is a human right and not a commodity or asset<br>• Catalan credit cooperatives have limited funding capabilities, so these organizations depend exclusively on members' resources<br>• Needed a partnership to finance and monitor the project. Necessary funds came from loans, participatory bonds, fees from residents, and voluntary contributions/subsidies<br>• Affordability is dependent on access to financing, legal conditions for development of publicly owned land, and development/management costs of the project |

## HISTORICAL GOVERNMENT FINANCING OF NEW CO-OPS

Housing was funded mostly by CMHC, provinces contributed 10-25% of capital, RGI system and operational gap were subsidized between federal and provincial governments (sometimes municipalities).

| PROS | CONS |
|---|---|
| • Creates new affordable housing<br>• Partnership between different levels of government<br>• RGI ensures affordability | • Expensive program to fund<br>• Reliance on subsidy for viability - meaning held to changes in government policy |

## SUBSIDIZED NON-EQUITY CO-OP

Co-ops receive subsidized mortgages either from the federal or provincial governments and implement an income mix.

| PROS | CONS |
|---|---|
| • Housing is affordable<br>• With an income mix, stigma is reduced, and operations are more viable | • Projects likely unviable without subsidy<br>• Reliance on government subsidy means having to adhere to changes in government policy |

**Compatible with Limited or Equity Co-Ops Only**

### MUTUAL HOME OWNERSHIP SOCIETY

In this strategy, affordability is defined as no more than 35% of net household income going to housing. Rents are typically above social but below market prices. Ownership and management of the homes and land is with the MHOS, where each member has a leased suite. There is democratic control over housing, and the cost of building is financed through a long-term mortgage loan.

Each member makes monthly payments to the MHOS to pay loans and debts. The cost of the project is divided into equity shares with an initial value of $1. Equity is then allocated to each household and each member in that household is levied a monthly member charge equal to 35% of their net income. Each member pays a deposit equal to 10% of the equity shares they can afford to finance through their monthly payments, which depends on their income and cost of their home (including shared costs of shared facilities).

If a member's income decreases, rather than lose their home, they can sell equity shares to another member, use the reserve fund, or convert to a standard rental tenancy. If a member leaves the co-op in less than 3 years, equity shares that covered capital repayments are repaid at the same price, less deductions for depreciation. If a member leaves after 3 years, the same is done, but in addition, equity shares are revalued. For any increase in value: 75% goes to the members and 25% goes to the society. Increased values are determined by the changes in average national incomes.

| PROS | CONS |
|---|---|
| • Equity returns depend on national average income, which can reduce speculation on property investment<br>• Model allows members to choose their level of equity<br>• Projects likely unviable without subsidy | • It seems like a very complicated model, which can be a potential barrier |

## PUBLIC HOUSING CONVERSION

Conversion of subsidized public housing to tenant-owned housing co-op that remains public and subsidized.

| PROS | CONS |
| --- | --- |
| • Reduces costs<br>• Subsidy ensures affordability | • Reliance on subsidy for viability<br>• Managerial freedom more constrained than typical co-ops |

# Conclusions

For this project, we set out with the aim of identifying strategies and methods that existing and prospective housing co-ops could utilize for better operations and sustainability, with the ultimate goal of increasing the number of housing co-ops in Alberta.

The research done included a literature review, stakeholder engagement, and financial analysis. Findings from the literature review helped frame some basic concepts which were then carried forward into the later parts of the project.

The literature review provided information on housing co-op financials, governance, and social elements. These three elements were then used to frame the later parts of the project. Common themes included a push towards equity models, the importance of governance, and the unique element of co-ops in the sense of community they provide members.

The stakeholder engagement followed and was conducted with many different groups in both virtual focus group sessions and through surveys. The engagement fleshed out the strategies that housing co-ops tapped into for their operations and sustainability, and also informed the project on what outside stakeholders think about housing co-ops and the co-op space. This included housing co-ops sharing the strategies they utilized for ensuring community cohesion, as well as it being clear that uninvolved stakeholders are often unaware of what housing co-ops are and what opportunities they bring.

The financial analysis took a deeper dive into the financial aspects of each housing co-op type and the financial strategies identified. Through the analysis, we were able to investigate how the same building program operates differently depending on if it's a non-equity, limited equity or equity co-op. We were also able to highlight the pros and cons of each financial strategy identified, as they all have benefits and drawbacks.

Housing co-ops are an important part of Canada's housing market and are a key piece of the affordable housing sector in Canada. It is important to address as many of the issues that co-ops are facing as possible, so that we may sustain the important housing communities co-ops bring - and ideally grow co-op housing to increase the diversity of housing options in Canada. Growth of sustainable co-op housing can not only be a great boon to affordable housing but can also bring forth a new segment of market housing as it does in other countries.

By sustaining, improving, and growing the housing co-op space in Canada we can more readily solve the many issues we face in the Canadian Housing Industry - including those regarding affordability, accessibility, equity, availability and sustainability. It is important to keep co-ops in mind when trying to solve these issues, as they can be a viable solution to many different problems.

## Future Research / Next Steps

**Geographic relevance**: For future research, we recommend similar exercises as done in this project be conducted on various different geographies across Canada - or on Canada as a whole. A major limitation of this project was its specific focus on Northern Alberta. To ensure the findings here in terms of recommendations made are relevant for co-ops across the country, additional research is required to identify the issues and solutions that co-ops outside of Northern Alberta face and implement.

**Feasibility**: The recommendations made in this project are the result of literature investigation and stakeholder consultation. It is important that these recommendations be tested in a real-world scenario to ensure their effectiveness. Future research in this field should include tracking the implementation of the recommendations made in this project, as well as from other research, by co-ops to test their effectiveness.

**Co-op type relevance**: As mentioned in the project limitations section, this project was not able to consult with equity co-ops to gather their perspectives on the issues and challenges co-ops face. It is important to gather their feedback in future projects to ensure that the strategies identified and recommendations made are relevant for all co-ops, and not just a particular type of co-op.

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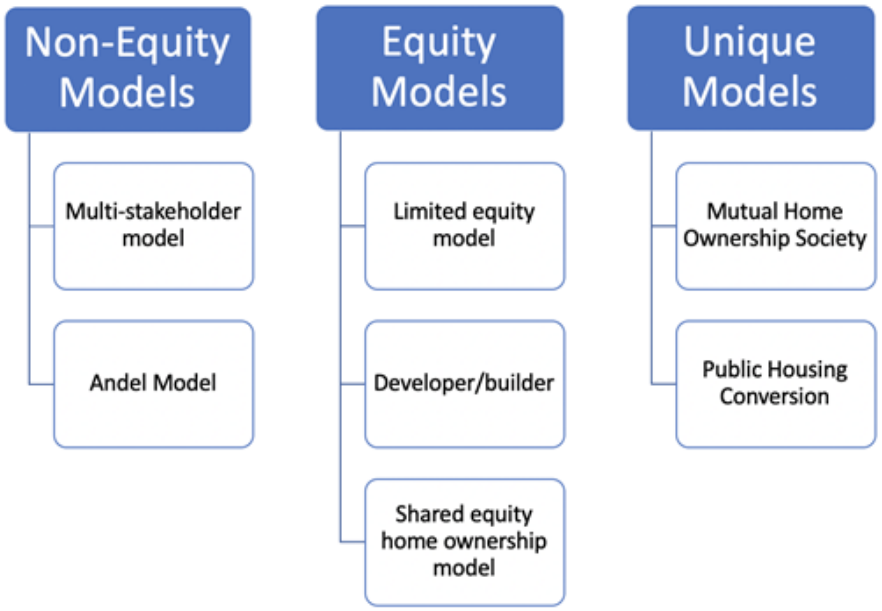
# Appendix A


Non-Equity Models
Multi-stakeholder model
Andel Model
Equity Models
Limited equity model
Developer/builder
Shared equity home ownership model
Unique Models
Mutual Home Ownership Society
Public Housing Conversion

# Appendix B

## NON EQUITY MODEL (CMHC, 2018)

**Description**: Resident's pay a modest fee to join the cooperative and rents are set to ensure the cooperative can undertake required upgrading and maintenance. The member does not receive any money from the sale of his/her unit. All equity on the property is retained by the cooperative.

### ADVANTAGES

- Housing fees are typically less than market rents
- More efficient use of space. Smaller units, with more occupants, create opportunities to generate more revenue
- Volume discounts in group purchasing strategies
- Substitution effect between home ownership and other saving and investment goals
- Greater amounts of social capital (Putnam's definition of exploring the interaction between social connections leading to financial exchanges such as child-care, job referrals, etc.

### DISADVANTAGES

- Rising costs of financing and refinancing required to maintain continuous/perpetual housing,
- Challenges with leveraging existing housing equity for growth
- Compliance and governance costs may undermine efficiencies

## MULTI-STAKEHOLDER MODEL (COTE & JACQUES, 2013; CMHC, 2018).

**Description**: This model has more than one stakeholder class, namely, both a supporting class and a resident class. It allowed for supporting members to purchase shares even if they do not reside at the property. Most prominent in Quebec, mainly for seniors housing.

This membership base tends to include the residents, supporters, and workers. "Services offered by these co-ops include meal services in a cafeteria, laundry and cleaning services, programming/organized social activities, and security services via security cameras and volunteer residents." (Cote & Jacques, 2013; CMHC, 2018)

| ADVANTAGES | DISADVANTAGES |
| --- | --- |
| • Affordability - the model makes it easier to attain strong financial backing as members can strengthen the governance of the housing co-op<br>• Has potential for housing seniors, or those with some capital for investment who want an affordable home<br>• Both classes select representatives for the board | • Often requires certification to become a 'seniors' or 'private care' facility to benefit from the provision of care activities |

## ANDEL MODEL (CABRE & ANDRES, 2018).

**Description**: The Andel Model is a private initiative for not-for-profits to develop and manage housing for their members. It uses a 'right to use' model, which is an entry fee (returned when members leave the co-op), and then an affordable monthly fee to cover costs of construction/maintenance/debt. This is an example/case study of a non-equity model with a community land trust.

This model can be used with 'cessation of use' OR 'surface right of public land' for a long period of time. These are considered the best arrangements as they don't force public administration to lose their land assets.

### ADVANTAGES

- Relies on existing social networks; uses volunteer model to actually help build and design building (saves on costs)
- Non-speculative model that takes housing as a basic right rather than a commodity
- Social advantages: long-term affordability is a core pillar of the model
- Financial advantages: stem from economies of scale that derive from the fact that mortgages are held by the cooperative rather than by individuals
- Relies on self-management from members coupled with professionals that offset the limitations of co-op members in terms of knowledge and availability
- Fosters communal living model - prioritizes common space over private dwelling space
- Sustainability: low environmental impact on project construction and sustainable usage of the building are promoted (hired environmental consultants)

### DISADVANTAGES

- Requires a common ideology by members that housing is a human right and not a commodity or asset
- Catalan credit cooperatives have limited funding capabilities, so these organizations depend exclusively on members' resources
- Needed a partnership to finance and monitor the project. Necessary funds came from loans, participatory bonds, fees from residents, and voluntary contributions/subsidies
- Affordability is dependent on access to financing, legal conditions for development of publicly owned land, and development/management costs of the project

# Appendix C

## EQUITY MODEL (CMHC, 2018).

**Description**: Tenants buy and sell units on the open market at market price (Canada Mortgage and Housing Corporation, 2018). CMHC (2018) recommended this model as a promising best practice in Canada.

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • Encourages private investment<br>• Economies of scale in shared infrastructure (parking garage, solar, etc.)<br>• New pathway to home-ownership<br>• Debt-to equity ratio for accessing institutional financing | • Affordability challenges as the cost to join a cooperative rises<br>• Some limitations on exit<br>• May not necessarily translate to housing for low income populations<br>• Countries that use this model have a larger housing cooperative market |

## LIMITED EQUITY MODEL (MICELI, SAZAMA, & SIRMANS, 1994; LAWTON, 2013; SAEGERT & BENITEX, 2005).

**Description**: Co-op corporation owns the building entirely, while individual households own a share in the corporation. The share secures a dwelling unit and a vote in the co-op governance. A model where residents own shares and have user rights to a unit, however, the share's selling price has a maximum ceiling. LEC share serves as a very modest investment account rather than a serious asset building tool.

The members are given a percentage of the equity, defined in the laws and the right of occupancy agreement, from the sale of his or her unit. The cooperative retains the remaining amount of equity in their property.

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • Offer greater security of tenure and autonomy to low-income households | • Difficult to sustain over time |
| • Ability of households to organize against threats and, in the process, gain collective control over housing represents a benefit | • Require significant stakeholder commitment to make short/ long-term decisions |
| • Engender community and capacity building among typically marginalized households | • As leaders move or pass away, it is difficult to retain institutional knowledge and transition leadership |
| • Shareholders can pool assets for a blanket mortgage | • Self-governance: level of skill, knowledge needed for successful management can be difficult to foster during early years, much less sustain over the life of the project |
| • Typically own the land and building together - no neutral third party to guarantee affordability over the long-term | • Difficult to find lenders willing to finance a collectively owned building |
| • Can offer very low- and low-income households autonomy and modest asset building opportunities | • Often face financial challenges and risk losing their investment |
| | • Shareholders often require fiscal and organizational support |

## DEVELOPER/BUILDER (MUYINGO, 2016).

**Description**: Builder develops the housing infrastructure, then sells the units as a new co-op. Similar to a condominium strategy.

| ADVANTAGES | DISADVANTAGES |
| --- | --- |
| • Upfront costs and risk are taken on by the builder<br>• Offers more options for builders to provide mixed income, attainable, and affordable options | • Builder-led leads to less control by the co-op |

## SHARED EQUITY HOME OWNERSHIP (REISMAN, N.D.; THEODOS ET AL., 2017).

**Description**: SEH is an alternative homeownership model used as a tool that enables the expansion of residential shelter options beyond both standard home ownership and market rental (never been done in BC or Canada). It is a form of homeownership where a second interest group has a share of the equity in the home/dwelling.

### ADVANTAGES

- Accumulate wealth during all periods of the market and still provide affordable housing
- Stays affordable in the majority of markets
- Uses an appraisal-based resale formula to balance ongoing affordability and fair return to seller
- The key benefit of a model working in perpetuity is that there would be a one-time upfront cost that could have the potential to benefit multiple families, as the subsidy is retained
- Strong Loan Performance (possibly due to homebuyer education, financial assistance in case of emergency, and the fact these owners worked hard for homeownership)
- Provide homeownership opportunities to people that would generally be excluded from the market, while generating wealth-building opportunities and sustaining permanently affordable housing portfolios.
- Homeowner is able to purchase the unit and sell the unit at market value.
- Provide buyers with equity loans to lower the cost of down payments, and monthly mortgage payments.

### DISADVANTAGES

- During long-term housing spikes, units can reach higher levels of unaffordability
- Limited equity resale formula enforced by contract that may be transferred from one homeowner to another.
- Usually rely on a mechanism for allocating property value, typically including Ground lease or some type of covenant (Ground Leases Expire)
- The economic circumstances over the last decade have provided a good place to start SEH implementation. More time is needed to research is needed to fully understand the long-term potential benefits and risks of SEH.
- Debate regarding the scalability of the model. SEH programs would need to grow their real estate portfolio to show their financial stability
- In the interviews with SEH reps. They require a portfolio of 300 units in portfolio to generate sufficient revenue to cover annual operating expenses. (Most programs maintain portfolios below benchmark as 29.5 units is the median size of the program)

# Appendix D

## MUTUAL HOME OWNERSHIP SOCIETY (MHOS) (LILAC GROVE, 2019).

**Description**: Affordability is defined as no more than 35% of net household income going to housing. Rents are typically above social but below market prices. Ownership and management of the homes and land is with the MHOS, where each member has a leased suite. There is democratic control over housing, and the cost of building is financed through a long-term mortgage loan. Each member makes monthly payments to the MHOS to pay loans and debts.

The cost of the project is divided into equity shares with an initial value of $1. Equity is then allocated to each household and each member in that household is levied a monthly member charge equal to 35% of their net income. Each member pays a deposit equal to %10 of the equity shares they can afford to finance through their monthly payments, which depends on their income and cost of their home (including shared costs of shared facilities). If a member's income decreases, rather than lose their home, they can sell equity shares to another member, use the reserve fund, or convert to a standard rental tenancy.

If a member leaves the co-op in less than 3 years, equity shares that covered capital repayments are repaid at the same price, less deductions for depreciation. If a member leaves after 3 years, the same is done, but in addition, equity shares are revalued. For any increase in value: 75% goes to the members and 25% goes to the society. Increased values are determined by the changes in average national incomes

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • Equity returns depend on national average income, which can reduce speculation on property investment<br>• Model allows members to choose their level of equity,<br>• Model encourages longer membership as it provides higher returns on equity shares for those who live in the housing for more than three years | • It seems like a very complicated model, which can be a potential barrier |

## CONVERSION OF SUBSIDIZED PUBLIC HOUSING TO TENANT-OWNED CO-OP THAT REMAINS PUBLIC AND SUBSIDIZED (SAZAMA, 2000).

| ADVANTAGES | DISADVANTAGES |
| --- | --- |
| • Reduces costs<br>• Subsidy ensures affordability | • Reliance on subsidy for viability<br>• Managerial freedom is more constrained than typical co-ops |

# Appendix E

## BOARD WITH THIRD PARTY REGULATOR (LANG & NOVY, 2014).

**Description**: The cooperative has its own elected board, but there is a third party, such as a housing agency, that approves certain decisions or requires communication and reporting.

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • Ensures decisions support the long-term operational requirements<br>• Third party regulator often has expert knowledge to support the board | • Less local authority for the board to make their own decisions<br>• Less buy-in |

## BOARD ONLY (SOUSA & QUARTER, 2003).

**Description**: A board is elected by cooperative residents to make decisions regarding the planning and operation of the cooperative.

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • More local decisions<br>• Direct representation on all decisions<br>• Creates a sense of solidarity among residents | • Less resilient to changes in residency<br>• Requires a high skill level and knowledge of members<br>• Strong personalities may dominate the agenda and decision-making<br>• Less likely to investing in large projects that would have longer-term cost-saving implications (e.g., energy efficiency, lower maintenance costs) |

## LARGE-SCALE COOPERATIVE BOARD (LANG & NOVY, 2014).

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • More efficient | • Less connected to the unique needs of the co-op, missing out on some efficiency<br>• Members feel less empowered, less likely to engage in community building or cost-saving features |

## MULTISTAKEHOLDER (LANG & NOVY, 2014).

**Description**: Workers, residents, and supporters of housing related issues (e.g., seniors housing issues) are represented at the board level and are accountable to different yet reinforcing goals.

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • Common understanding and information across different groups<br>• Participation on committee has led to better wellness and community goals. | • Difficult to align differing goals of the various stakeholders<br>• Lack of participation and education of group members undermines capacity and financial sustainability |

## REGARDING SELECTION: CENTRAL GOVERNMENT LIST (SAZAMA, 2000).

**Description**: Selection is from the central government list.

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • Equal selection process | • Does not take into account specific co-op needs or considerations |

## REGARDING SELECTION: POINT SYSTEM (VAN DYK, 1995).

**Description**: Point system (based on core housing need) was allocated to households to determine who needed the housing most. Household would pay 25-30% of income until they reached market levels.

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • Ensures that households in the most need (at least according to data) are given housing<br>• Ensures affordability for households | • Households may take advantage of this system to pay less than market rents<br>• Negative media coverage affected this program, which enforced a rent ceiling<br>• Households who are in need but not according to the data may not get the housing they require (areas with little data are also affected) |

## REGARDING SELECTION: BOARD DECISION (SOUSA & QUARTER, 2003).

**Description**: Selection is by board decision. Typically priority is given to special needs groups.

| ADVANTAGES | DISADVANTAGES |
|---|---|
| • Able to select a good fit for co-ops<br>• Able to service special needs in the community | • Board discrimination may be an issue |

# Appendix F

## RESIDENT TRAINING AND SOCIAL SUPPORT SERVICES (REYNOLDS, 2018).

**Description**: Wrap-around services provide full-time, permanent social services to residents or train residents within the workforce.

| ADVANTAGES | DISADVANTAGES |
| --- | --- |
| • Helps support diversity of residents' needs<br>• Builds long term capacity<br>• More efficient allocation of services | • Long term investment, but does not typically reduce operating costs or unlock other efficiencies in the near/ short term |

## COOPERATIVES CAN DIVERSIFY INCOME SOURCES BY OPERATING COMMERCIAL SERVICES, SUCH AS A CAFE. THESE CAN BE RUN BY VOLUNTEERS.

| ADVANTAGES | DISADVANTAGES |
| --- | --- |
| • Profits can further subsidize rents or go towards operational costs<br>• Can help create a sense of community | • Require significant willingness from the cooperative members<br>• Private business can become a liability<br>• Mission drift |

# Appendix G

**Process Notes** - Funders

**Date** - October 30th, 9:30am - 10:30am

**Location** - Virtual / Remote

**Outcomes for Session:**

- Understand funders' perspective on the governance, finance, and social elements of different cooperative models and how it impacts funding
- Gain information regarding what cooperatives can do to be more successful in obtaining funding

**Other**:

- A Google doc will be running alongside the video call to allow the team to jot notes

| TIME | AGENDA ITEM | NOTES | LEAD |
|---|---|---|---|
| | Onsite Setup | Set-up room space + virtual meeting for session | RDN |
| 5 MIN | Welcome | • Welcome Participants<br>• Overview of Purpose/Agenda of Evening<br>• Understand funders perspective on the governance, finance and social elements of living in cooperative models<br>• Gain information regarding what cooperatives can do to be more successful in obtaining funding<br>• Introduction of Key People | RDN & ACCA |

| TIME | AGENDA ITEM | NOTES | LEAD |
|---|---|---|---|
| 15 MIN | Group Discussions | • Introduction of Facilitator, overview of process (1 min)<br>• Round table introductions: Name, what organization, and why they are interested in this topic (2 min)<br>Discussion #1: Governance<br>• What is your experience working with coops?<br>• Do you think there are any appealing attributes regarding how cooperatives operate that make funding them more appealing/viable?<br>• Do you think there are any negative attributes regarding how cooperatives operate that make funding them less appealing/viable?<br>• For cooperatives you have worked with, have there been challenges in meeting maintenance requirements as per funding programs?<br>• Is there anything else you would like us to know regarding the governance of cooperatives? | RDN |

| TIME | AGENDA ITEM | NOTES | LEAD |
|---|---|---|---|
| 15 MIN | Group Discussions | Discussion #3: Social<br>• Are there any community development initiatives or social amenities/services that would strengthen a cooperative's funding application?<br>• When reviewing a funding application, do you make any social considerations regarding a proposal?<br>• Is there anything else you would like us to know regarding the social elements cooperatives as a funder? | RDN |
| 15 MIN | Group Discussions | Discussion #4: Overall Perspective<br>• What do you feel are the overall advantages and disadvantages of being involved in the cooperative housing industry?<br>• What role do you think cooperative housing should play in the overall housing market and continuum?<br>• If you were to give advice to an organization wishing to apply for funding for a cooperative housing project, what advice would you give to ensure a strong application? | RDN |

| TIME | AGENDA ITEM | NOTES | LEAD |
|---|---|---|---|
| 15 MIN | Group Discussions | Closing Remarks<br>• As we leave here today, is there anything you would like to learn more of about cooperatives?<br>Please provide your feedback on this process and how it can be done better in the future | RDN |

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info@ruraldevelopment.ca