Introduction to Real Estate Development Co-ops

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Meet Leslie & Charlotte

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Session Overview

- About this project
- Real Estate Development Co-ops, explained
- Beta road map for REDC development
- Field Guide and other resources: What’s next?
- Q&A
About this Project
About this Project
What is a Real Estate Development Co-op?

- Cooperative formed in 2011 to address deterioration along the main commercial corridor of Northeast Minneapolis
- Acquired and rehabilitated first building in 2012-2013, leased to a brewery and a bakery
- Project #2 completed 2019-2020, leased to a home repair/renovation company
- $1000/membership
- Currently 293 member-owners and $500K+ in equity
What is a Co-op?

“[A]n 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.”

--International Cooperative Alliance statement of the cooperative identity
Real Estate Development Co-ops, Explained
Real Estate Development Co-ops, Explained

What is a **Co-op**?

A business *owned* and *operated* by the people who *use its products and services* and who benefit from what it has to offer.
Real Estate Development Co-ops, Explained

What is a Co-op?
Real Estate Development Co-ops, Explained

What is a Real Estate Development Co-op?
“Flavors” of Real Estate Development Co-ops
Flavors of Real Estate Development Co-ops

- **“Investment Club”:** A small, focused group with ability to aggregate its own resources
  - *Example:* Sangudo Opportunity Development Co-op

- **Community DIY:** Membership drawn from the broader community, with focus on DIY capital from members
  - *Examples:* Northeast Investment Cooperative & Beatrice, NE

- **Member wealth-building:** Focus on providing member-occupants with stable access to space and opportunity to build equity
  - *Examples:* Housing Co-ops, Resident-Owned Communities

- **Community wealth-building:** Development of land/building that seeks to decouple capital and community control, for benefit of the entire community
  - *Example:* East Bay Permanent Real Estate Cooperative
Flavors of Real Estate Development Co-ops

Depending on the “flavor,” many things will vary:

- Vision and purpose (benefit)
- Member benefit
- Development process and timeline
- Communication and outreach strategy
- Organizational culture and governance
- Financing strategy and capital requirements
- Long-term sustainability and stewardship
Yet every flavor requires certain similar ingredients:

- Commitment and time
- Leadership and collaboration
- Knowledge and learning
- Friendly state law
- Members
- Money
- *The need for a plan*
Inspiration for a REDC Roadmap:

FOOD CO-OP DEVELOPMENT MODEL

VISION

Organize

TALENT

Assess Feasibility & Plan

Implement

CAPITAL

SYSTEMS

FOUR CORNERSTONES IN THREE STAGES
Visual Roadmap:

**Phase 1:** Organizing

**Phase 2:** Planning

**Phase 3:** Implementing

**Phase 4:** Sustaining
Phase 1 - Organizing

Identify Need
- LEARN: Co-ops, Real Estate, Community Needs
- Build the team
- Initial Community Engagement
- Articulate initial vision

Build Organizational Capacity
- Regular "task force" Meetings
- Outreach Plan
- Admin

Assess Preliminary Feasibility
- State Law
- Entity Options
- Resources - (back of the envelope)

Incorporate

Bylaws
- Establish Board of Directors
- Establish Member Program
Phase 1 - Organizing

- Identify Need
  - LEARN: Co-ops, Real Estate, Community Needs
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- Build Organizational Capacity
  - Regular "task force" Meetings
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- Assess Preliminary Feasibility
  - State Law
  - Entity Options
  - Resources - (back of the envelope)

- Incorporate
  - Bylaws
  - Establish Board of Directors
  - Establish Member Program
Phase 1 - Organizing: Need + Vision
Phase 1 - Organizing: Need + Vision
Phase 1 - Organizing: *Need + Vision*
Phase 1 - Organizing: Need + Vision
Phase 1 - Organizing: Need + Vision

BIPOC-owned small businesses among hardest hit by pandemic challenges | COMMENTARY

BY RON BUSBY, RAMIRO CAVAZOS and CHILING TONG
FOR THE BALTIMORE SUN  |  APR 20, 2021 AT 1:09 PM

‘Total reimagining’ of downtown Baltimore? Yes, please! | COMMENTARY
4h

Is ‘banned on Facebook’ the new ‘banned in Boston’? | COMMENTARY
MAY 10, 2021
## Phase 1 - Organizing: Additional Steps

### Build the Team
- Diversity of talent, background, perspective
- Trustworthy & credible
- Collaborative & accountable

### Learn
- About co-ops and other entity choices
- About real estate
- About community development

### Build Org. Capacity
- Regular meetings
- Preliminary outreach plan
- Admin. capacity

### Engage Community
- Within organizers’ networks and with stakeholders
- Community info session(s)
- Initial web/social media presence

### Preliminary Feasibility
- Does state law permit a co-op?
- Is there community interest?
- Do back-of-the-envelope numbers work?

### Form the Co-op:
- Articles
- Bylaws
- Form Board of Directors
- Establish Membership program
Phase 2 - Planning

Build Systems

- Admin
- Financial
- Outreach
- Governance

Evaluate Potential Projects

- Mission fit
- Scope & capacity
- Financial viability
# Preliminary Financial Feasibility Analysis for Proposed REDC Project

## Assumptions
- **Property:** XXX ABC Street
- **Updated:** 5/10/21

## Uses

### Hard Costs
- **Building Cost:** $275,000.00
- **Construction - Phase 1 Demo:** $50,000.00
- **Construction - Phase 2:** $250,000.00
- **Total Hard Costs:** $575,000.00

### Soft Costs
- **Architect/Engineering:** $11,500.00 (2.0% of Hard Costs)
- **Environmental:** $5,750.00 (1.0%)
- **Interest Reserve:** $2,875.00 (0.5%)
- **Project Management Fee:** $23,000.00 (4.0%)
- **Construction Contingency:** $45,000.00 (15.0%)
- **Other Soft Costs:** $6,000 (2.0%)
- **Total Soft Costs:** $94,125.00

### Holding Costs - 12 mos
- **Year 1 Property Tax:** $12,000.00
- **Building Insurance:** $3,300.00
- **Utilities:** $1,000.00
- **Misc.:** $5,750.00 (1.0%)
- **Total Holding Costs:** $22,050.00

**Total Project Costs:** $681,175.00

## Sources

### Debt Financing
- **Bank Loan:** $316,175.00 (45.7% of Total Project Cost, 5.0% Interest Rate, 20 Amortization)
- **Other 1 (e.g. City Loan):** $75,000.00 (10.9% Interest Rate, 2.0% Amortization)
- **Other 2 (e.g. N’hood Loan):** $20,000.00 (2.9% Interest Rate, 2.0% Amortization)

*For this section, adjust all three sources (Debt, Equity & Other) to reflect what you expect to borrow, to raise from owners, and to secure via grants/other. Add share costs and debt terms. Be sure that total Sources equal Total Uses!*

*Instructions:*
- Fill in the estimates for your project in each of the yellow-highlighted cells. If one of the cells does not apply, just enter -0-. (Take care in adjusting any other cells, as they flow through to various formulas.)
- The contingency is a % of construction costs (not total project costs)

*Guessimated as $0.60 per SF; typically higher for vacant bldg*
Phase 2 - Planning

**Build Systems**
- Admin
- Financial
- Outreach
- Governance

**Evaluate Potential Projects**
- Mission fit
- Financial viability
- Scope & capacity

**Explore Partnerships**
- YMMV, but nonprofit developers, city planning, neighborhood groups, & community activists are potential allies

**Explore Financing**
- Seek out co-op friendly lenders (or convince skeptics)
- Plan now for member capital and/or friendly external funders

**Grow Membership**
- Set and achieve membership goals
- Deepen members’ relationship to co-op (incl. board service)

**Identify Priority Project!**
Phase 2 ends when you find “the one” and sign a contingent purchase agreement (or other deal)
Phases 3 - Implementing

- Capital Campaign
- Institutional Borrowing
- Recruit Tenants
- Engineering/Environmental Assessment
- Member Growth to XXX

Go / No Go Decision
No turning back!

Negotiate lease(s) → Engineering
Retain Project Manager → Construction Bids
Construction Contract → Construction
Ongoing Member Communication

Project is Done!

Celebrate!
Rest!
Phase 3 Implementing:

**Due Diligence**
- Engineering
- Environmental assessment
- Tenant recruitment
- Construction bids

**Secure Financing**
- Member capital campaign
- Lender financing
- Ongoing member growth

**No Turning Back!**
- Negotiate construction contract
- Negotiate lease(s)
- Satisfy contingencies
- Construction begins!

**Manage Project Responsibly**
- Hire project manager
- Watch that budget
- Prepare for emergencies and cost overruns!

**Cross the Finish Line!**
Phases 4 - Sustaining

Phase 4 - Sustaining

- Attend to leadership transition
- Attend to the business of the co-op
- Explore Future Project?
- Manage property well & be a great landlord!
- Ongoing member engagement
- Celebrate!
- Rest!
Phase 4 Sustaining:

**Be a Great Landlord**
- Attentive property management
- Support tenant business
- Be fair & square

**Tend to the business**
- Taxes
- Governance
- Financial health
- Membership

**Manage Leadership Transitions**
- Prepare for turnover
- Preserve institutional knowledge
- Support & orient new directors

**Explore Future Projects?**

What else might we do?
Visual Roadmap:

Sample Real Estate Development Co-op Roadmap

Phase 1 - Organizing
- Identify Need
- Build the team
- Initial Community Engagement
- Articles Initial Draft
- Build Organizational Capacity
- Assess Preliminary Feasibility
- State Law
- Explore Options
- Strategic Visioning
- Admit

Phase 2 - Planning
- Bylaws
- Establish Board of Directors
- Incorporate
- Financial
- Admit
- Outreach
- Governance

Phase 3 - Implementing
- Evaluate Potential Projects
- Secure Partnerships/Develop Business Model
- Explore Financing Options
- Member Growth to XXX
- Project Pre-Planning
- Site Plan
- Contingent Purchase Agreement
- Design/Build
- Construction
- Construction Completion
- Exploration of the business
- Attend to leadership transition
- Explore Future Project

Phase 4 - Sustaining
- Attend to leadership transition
- Ongoing member engagement
What’s Next for the Field Guide project?

Dedicated NCDC website debuting June 2021:

- Field Guide describing this process
- Sample articles/bylaws and other materials from NEIC
- Articles and resources for learning about co-ops, Main Street initiatives, etc.
- Info about other REDCs
- Collection of contact info, experiences, ideas, and input from REDC organizers
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