

Introduction to Real Estate Development Co-ops

Thursday, May 13, 2021

Leslie Watson - *Cooperative Development Services & Columinate*
Charlotte Narjes - *Nebraska Cooperative Development Center*

CDS | **Cooperative Development Services**
Where cooperation is at work, communities prosper.



Meet Leslie & Charlotte



Leslie Watson

Cooperative Development Services /
Columinate

Email: LeslieWatson@columinate.coop



Charlotte Narjes

Nebraska Cooperative Development Center -
University of Nebraska

Email: Cnarjes1@unl.edu

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



Real Estate Development Co-ops, Explained

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

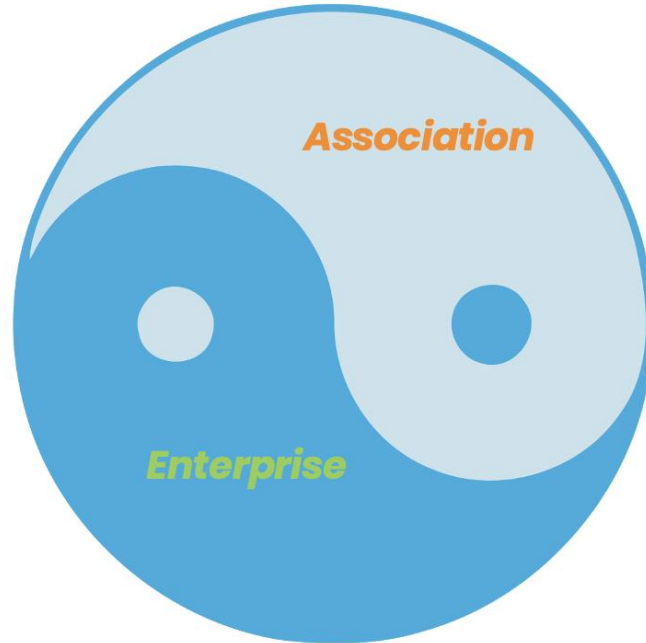
Real Estate Development Co-ops, Explained

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

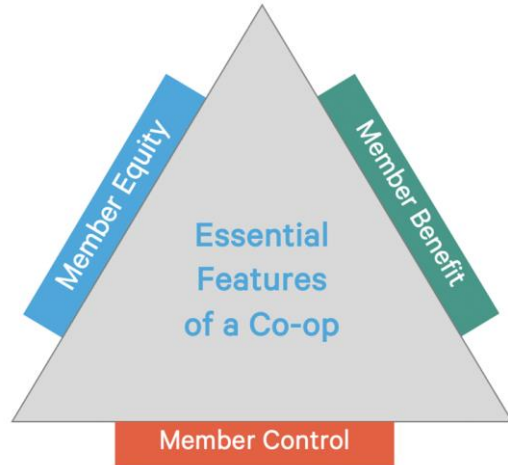
What is a Co-op?

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

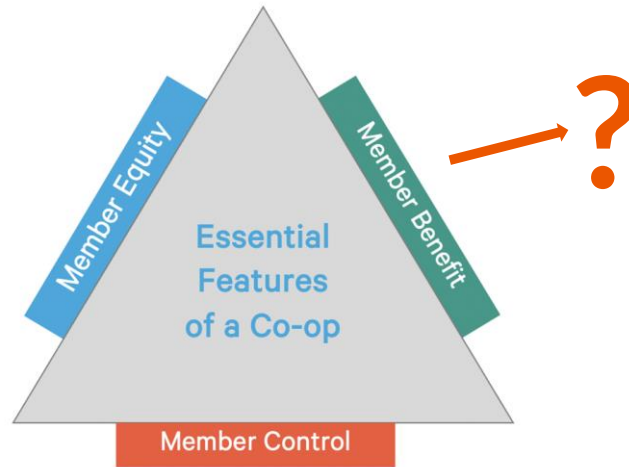


What is a Co-op?



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

Flavors of Real Estate Development Co-ops



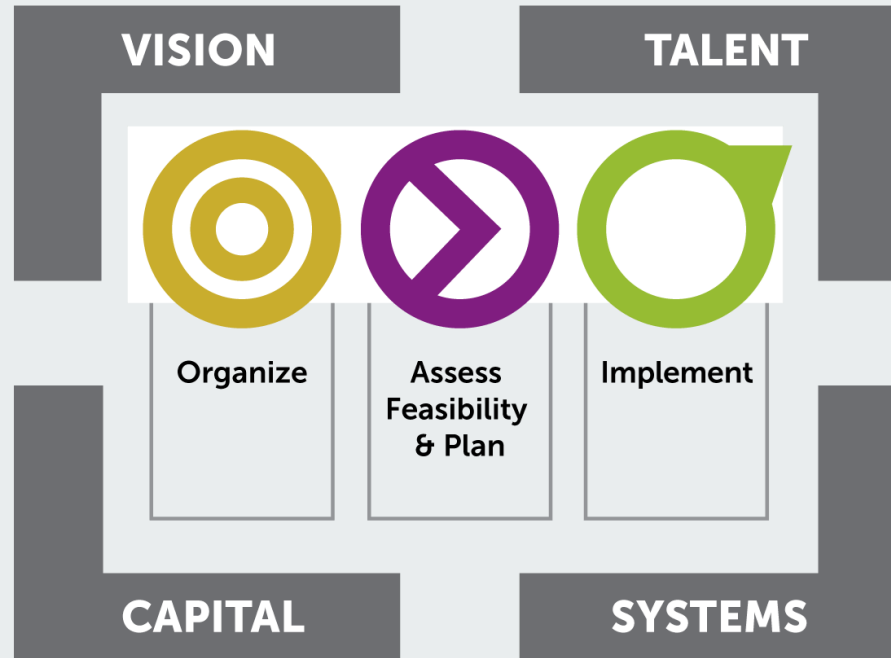
Yet every flavor requires certain similar ingredients:

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



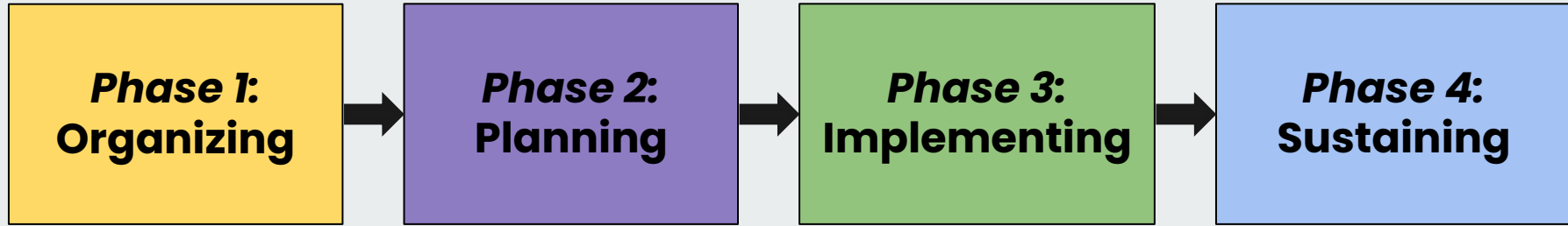
Inspiration for a REDC Roadmap :

FOOD CO-OP DEVELOPMENT MODEL



FOUR CORNERSTONES IN THREE STAGES

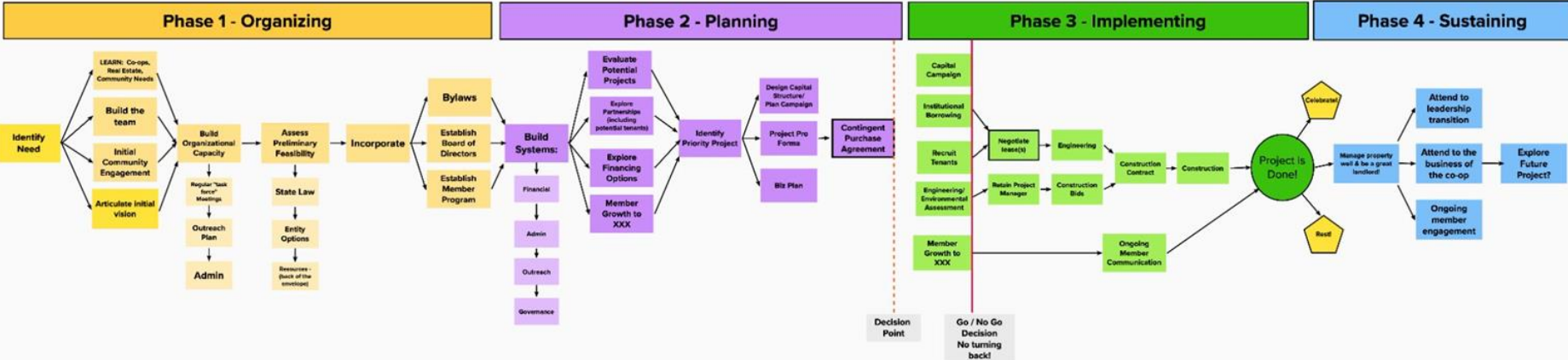
Visual Roadmap:



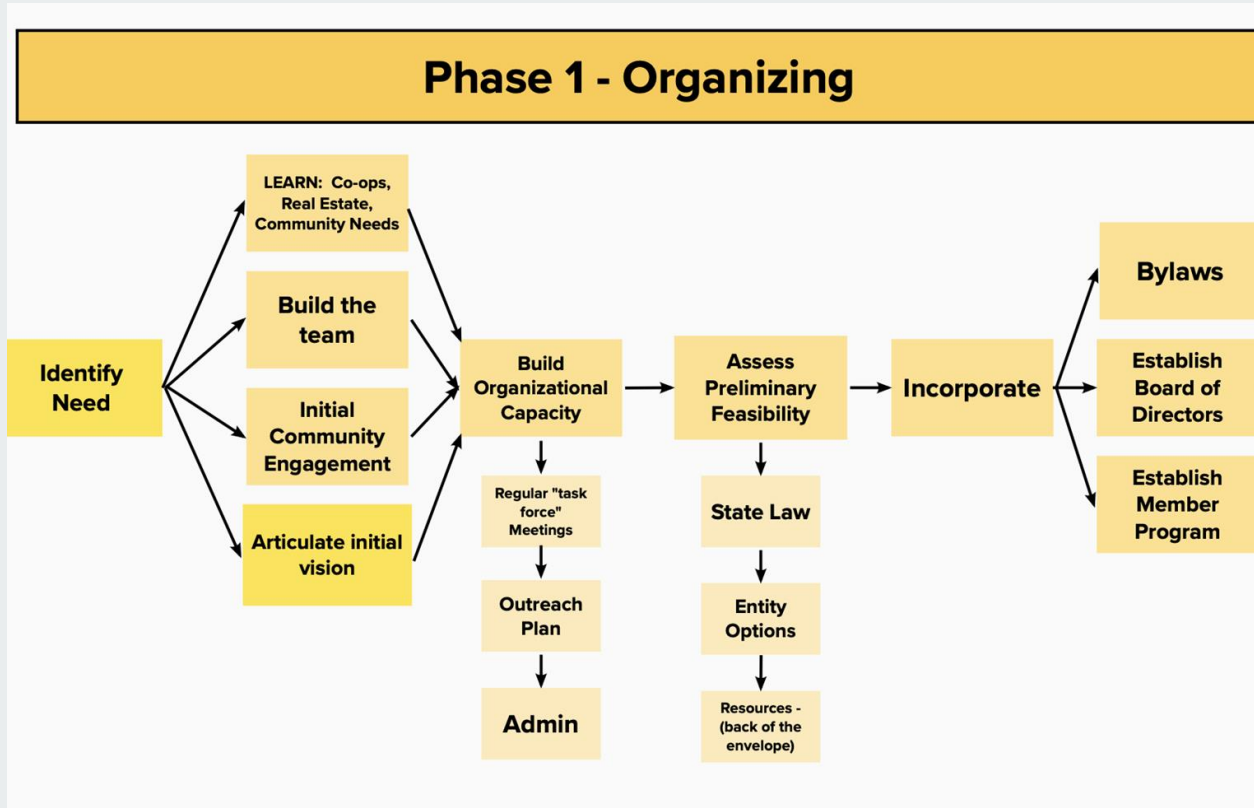
Visual Roadmap:



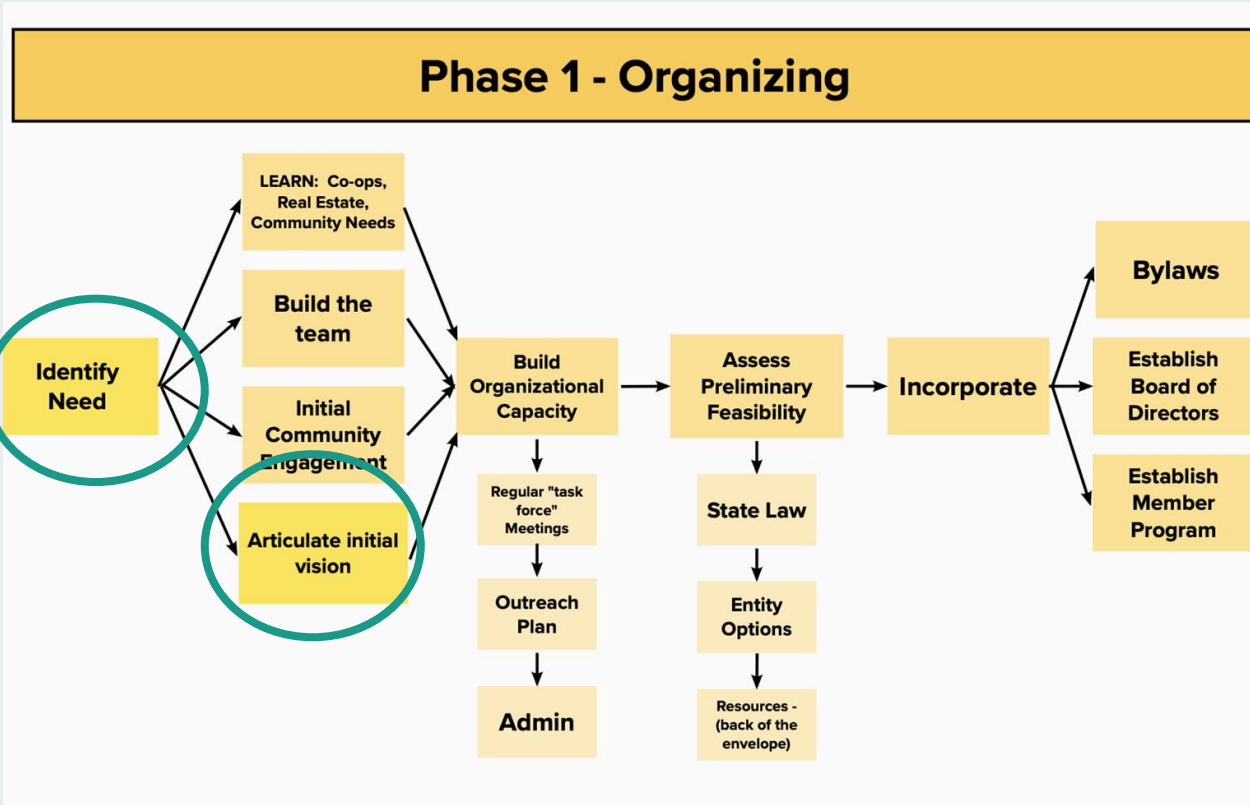
Sample Real Estate Development Co-op Roadmap



Phase 1 - Organizing



Phase 1 - Organizing



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*

OP-ED OPINION

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



LATEST OP-ED

OP-ED

'Total reimagining' of downtown Baltimore? Yes, please! | COMMENTARY

4h



OP-ED

Is 'banned on Facebook' the new 'banned in Boston'? | COMMENTARY

MAY 10, 2021



MOST READ

Phase 1 - Organizing: Additional Steps

Build the Team



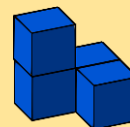
- Diversity of talent, background, perspective
- Trustworthy & credible
- Collaborative & accountable

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



- W/in organizers' networks and w/stakeholders
- Community info session(s)
- Initial web/social media presence

Preliminary Feasibility



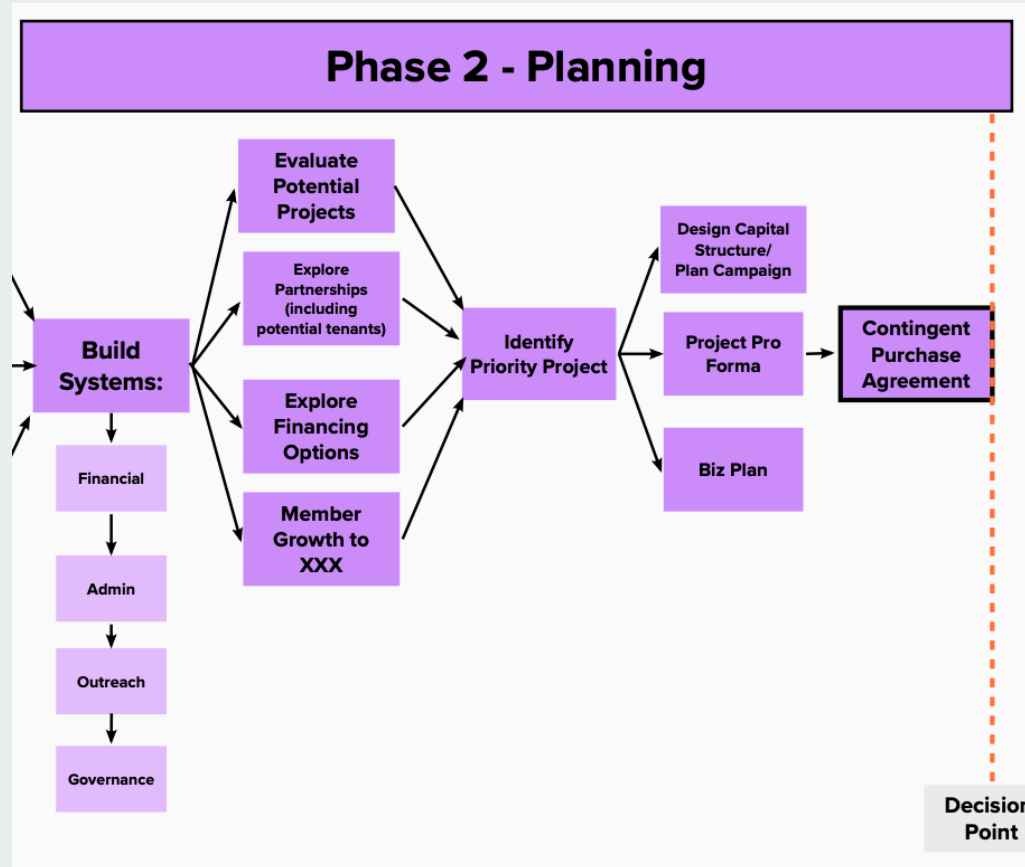
- Does state law permit a co-op?
- Is there community interest?
- Do back-of-the-envelope numbers work?

Form the Co-op:



- Articles
- Bylaws
- Form Board of Directors
- Establish Membership program

Phase 2 - Planning



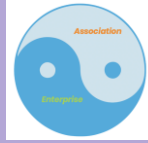
Phase 2 - Planning

Build Systems



- Admin
- Financial
- Outreach
- Governance

Evaluate Potential Projects



- Mission fit
- Scope & capacity
- Financial viability

A	B	C	D	E	F	G	H	I	J
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				Instructions:				
Construction - Phase 1 Demo	\$ 50,000.00				<i>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.)</i>				
Construction - Phase 2	\$ 250,000.00								
Total hard costs	\$ 575,000.00								
Soft Costs		As % of Hard Costs							
Architect/Engineering	\$ 11,500.00	2.0%							
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%			<i>The contingency is a % of construction costs (not total project costs)</i>				
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				<i>Guesstimated as \$0.60 per SF; typically higher for vacant bldg</i>				
Utilities	\$ 1,000.00								
Misc.	\$ 5,750.00	1.0%							
Total Holding Costs	\$ 22,050.00								
TOTAL PROJECT COSTS	\$ 691,175.00								
SOURCES									
Debt Financing		As % of total project cost	Interest Rate	Amortization	<i>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!</i>				
Bank Loan	\$ 316,175.00	45.7%	5.0%	20					
Other 1 (e.g. City Loan)	\$ 75,000.00	10.9%	2.0%	10					
Other 2 (e.g. N'hood Loan)	\$ 20,000.00	2.9%	2.0%	10					

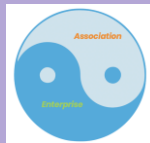
Phase 2 - Planning

Build Systems



- Admin
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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



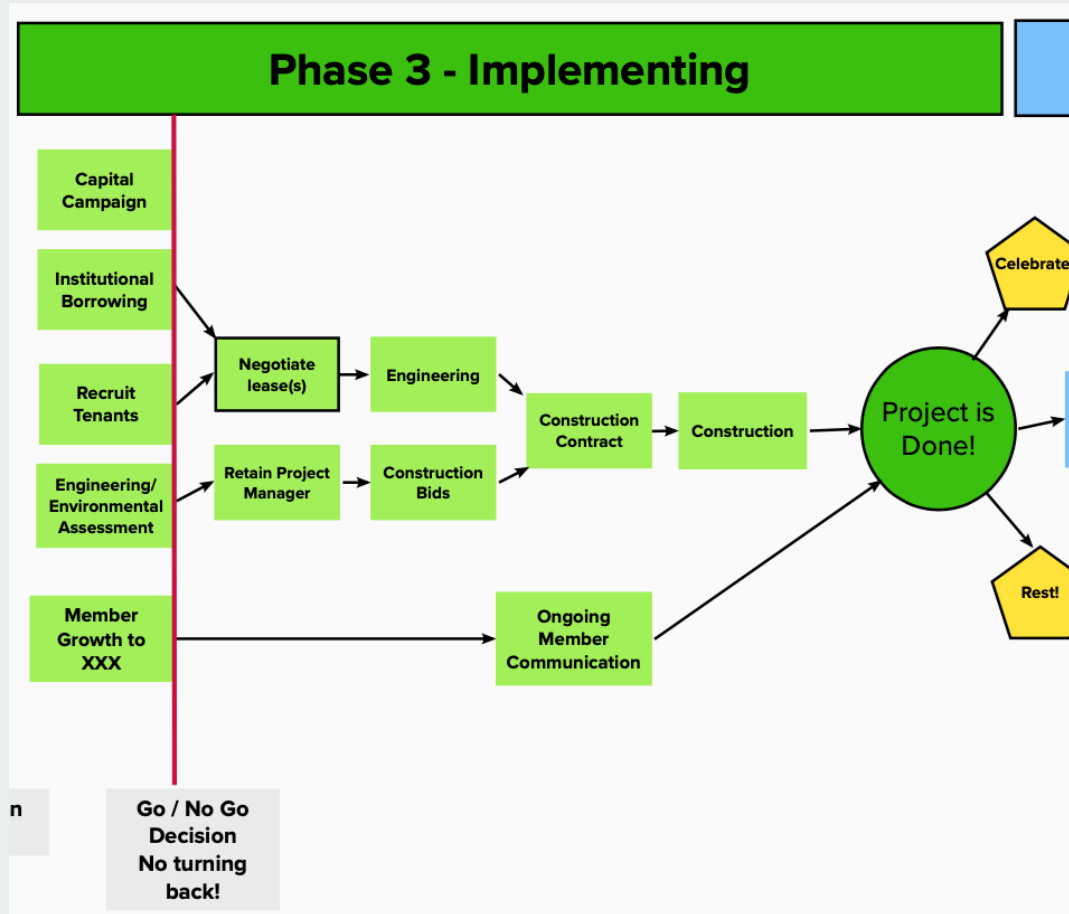
- Set and achieve membership goals
- Deepen members' relationship to co-op (incl. board service)

Identify Priority Project!



Phase 2 ends when you find "the one" and sign a contingent purchase agreement (or other deal)

Phases 3 - Implementing



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



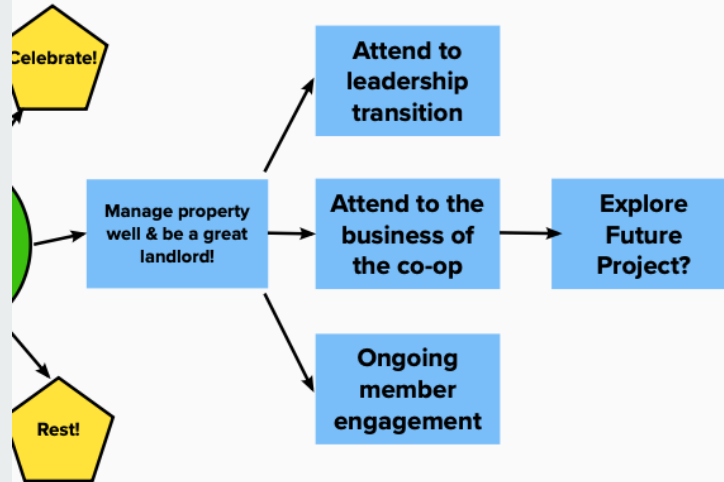
- Hire project manager
- Watch that budget
- Prepare for emergencies and cost overruns!

Cross the Finish Line!



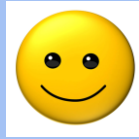
Phases 4 - Sustaining

Phase 4 - Sustaining



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?

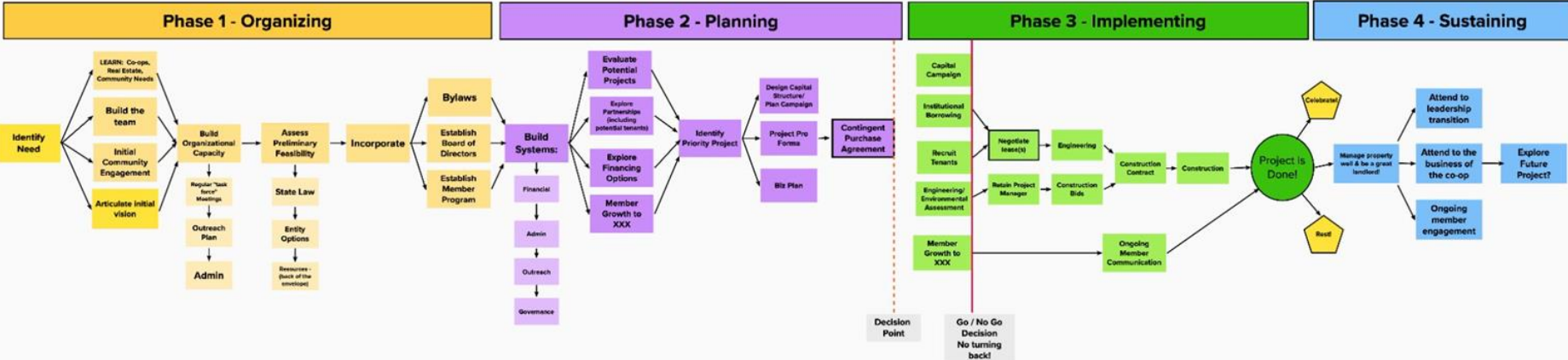


What else might we do?

Visual Roadmap:



Sample Real Estate Development Co-op Roadmap



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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