Financing CoHousing

June 2019

Self Organised Architecture

Introduction

Central to the realisation of a self-organised housing project is the **need to attain sufficient financial backing**. This pamphlet explains some of the basic concepts involved in financing community-led housing projects, summarises some of the sources of finance that have been used elsewhere, and looks at 4 projects in particular in terms of how they were financed. This is an area where **other European countries have tried and tested systems**, and we believe that similar systems are both desirable and necessary to broaden the spectrum of housing available in Ireland.

When Is Finance Required?

1. PROFESSIONAL COSTS: Those associated with design, finance and legal matters, including a planning application. These are normally the first costs encountered.

2. SITE PURCHASE: This topic is dealt with in detail in a separate SOA pamphlet. Site cost may be reduced using various structures such as community land trusts (CLTs).

3. CONSTRUCTION Normally a specialised type of commercial bank loan is required to pay for construction costs. Once construction is complete **the construction loan is paid-off using long term finance**. It is this long term finance which is the focus of this pamphlet, as it is essential to unlocking the viability of a project. High street banks are unlikely to provide a long term loan (or mortgage) to a newly minted housing group, so alternative options will normally have to be considered.

How to Start

The **financial delivery of a project should be considered by a housing group from the outset**, and the desired financial structure of the completed development will give an indication as to how to proceed:

1. How much equity should members be expected to contribute? Will the group allow for members to contribute according to their means, or should all members contribute equally?
2. What sort of final ownership arrangement is desired? Will the group form a coop which owns the project and to which they pay an affordable monthly rent, or will members own their own homes outright?
3. Should the ownership model be structured so that the homes are affordable in perpetuity (for those who live there in the future)
4. Does the group wish to achieve any goals beyond their own housing, such as providing spaces for work, community spaces, or to build to a particularly high standard of sustainability?
5. Will the project cater to any particular group which may allow it to leverage specific support funding?

As more cohousing projects develop in Ireland these types of considerations will fall into typical patterns, and it is likely that members will know at an early stage, with the appropriate advice, which financing route is right for them.

Financing Structure Options

The following is a summary of some of the financial models which have been used in cohousing projects in recent years, and which may suit the particular needs of an Irish group:

RENTAL CO-OP

This model is **suitable for those with limited equity.** Under this model members form a co-op and may be able to avail of cooperative funding, ethical finance or social housing assistance if their incomes meet the requirement. Rental co-ops may allow members to own some equity in the form of shares, which they can sell if they leave, or may be fully mutual, meaning members own the co-op but do not own any personal equity. At the La Borda cooperative in Barcelona members invest some personal savings in the project and may withdraw equity when they leave. An example of a fully mutual cooperative is the Kindling Housing Cooperative in Oxford, where no member investment was required.

BUILDING GROUP (GERMAN BAUGRUPPE MODEL)

This model is typical in Germany in situations where **co-op members have sufficient equity** to carry out the building project using loans from sources such as the state investment bank and commercial banks, and members typically end up owning their own homes. Whereas this option may seem out of reach for many people in Ireland at the moment, if similar state investment bank financing became possible here, and if leasehold purchases of sites were facilitated, then this type of arrangement would become much more affordable. A recent example of this type of project is Ritterstrasse 50 in Berlin.

Mutual Home Ownership Society (MHOS)

This a model developed by the New Economics Foundation and **pioneered at the LILAC housing project** in Leeds, UK. It aims to combine affordability with the opportunity to accrue an asset over time.

The model is described as a **shared equity co-op**. Members must deposit equity equivalent to 10% of the value of their new home. With this money the co-op sources financing to carry out construction.

Once members move in, **they pay a maximum of 35%** of their net income into the co-op each month. They continue to do this until their portion of the construction loan has been paid off, after which time they pay a small monthly fee.

As a member pays off their portion of the loan they are **accruing equity shares in the co-op**, and should they decide to move on they can sell these shares to a new resident. The sale value of these shares is controlled in order to maintain affordability for future residents, but members have the benefit of knowing that their monthly payments are contributing to the value of an asset which they own.

This is the model currently being pursued by **Common Ground CoHousing in Bray, Co. Wicklow,** which aims to realise the first example of this model in Ireland.

Existing Sources Of Finance In Ireland

Although there is currently no established financial support structure for community-led housing projects in Ireland, there are a number of existing financing structures which could be leveraged for their potential benefit:

HBFI: (HOME BUILDING FINANCE IRELAND)

This is a company set up by the Department of Finance to provide construction finance for "commercially viable residential developments" where small and medium-sized builders experience difficulty securing finance from commercial banks.

REBUILDING IRELAND HOME LOAN

This is a government scheme designed to help first-time buyers. Although aimed at individual buyers, it is possible that this financial support could be used by members of a housing group to boost their potential to use mortgage finance for investment in a cohousing project.

ENERGY EFFICIENT MORTGAGES ACTION PLAN

This scheme proposed by the Irish Green Building Council is not in operation, but should this or a similar scheme be initiated it would make loan finance more easily available to sustainably designed housing projects.

Further Information

If you're interested in finding out more, the following websites and books are worth a look:

WEBSITE

brickstarter.org
cooperativecity.org
neweconomics.org
cds.coop
communitylandtrusts.org.uk
cohousing.org.uk
www.theruss.org
ecology.co.uk
www.triodos.com
radicalroutes.org.uk
owch.org.uk
commongroundbray.com

BOOKS

Cohousing Cultures
Institute for Creative Sustainability (Jovis)

Cohousing Inclusive
La Fond & Tsvetkova (Jovis)

Selfmade City
Ring (Jovis)

Translating Housing: Berlin to Belfast
Sheridan (DSD)

A Right to Build
Parvin, Saxby, Cerulli, Schneider (University of Sheffield)

Who We Are and How You Can Get Involved

SOA is a collective with the simple goal of improving the quality of living environments in Ireland by making new forms of housing available.

Our members and supporters represent a growing diversity of skills and expertise, and we are always open to new contributions and ideas.

If you would like to get involved, either to contribute time or expertise, or to join a group of people planning to create their own homes, please get in touch, or pop along to one of our workshops, Cohousing Cafes, or other public events.

soa_ie
soaresearchirl
www.soa.ie
hello@soa.ie

HOW HAVE EXISTING PROJECTS BEEN FINANCED?

Many community-led projects in Europe are **financed from a mix of different sources,** often finding alternative means of finance to give confidence to a commercial bank to lend the balance of what is required. The following information describes the sources of finance which have been used by some existing community-led housing projects:

MEMBER EQUITY

A basic building block for most projects is the use of **member savings as the initial equity for a project**. Depending on the financial structure of a project the amount of equity required from members can vary considerably.

COMMERCIAL BANK FINANCE

Commercial banks are generally involved in the financing of cohousing projects, but unless the members have a high level of equity it is **normally necessary to obtain other finance first** before a commercial bank loan will be offered to cover the balance of costs. Generally a bank may lend a project the equivalent of the maximum combined mortgages of the members, i.e. 3.5 times their combined net incomes.

REDUCED LAND COSTS

This is a wide area dealt with in a separate pamphlet, which describes the possible use of leasehold arrangements to reduce the cost of land for new projects. Community Land Trusts (CLTs) have become commonplace in the UK in recent years, and operate by offering the home owner or co-op a perpetual leasehold on their site with certain rules regarding resale etc. In this way new homes on CLT land can be kept affordable in perpetuity.

STATE INVESTMENT BANKS

The German state investment bank, the KfW Bank, has a **remit to finance projects which may not otherwise be able to avail of commercial lending**, and which improve the environmental performance of the national building stock. By designing buildings of a high environmental standard many community-led housing projects in Germany have been able to benefit from KfW financing, and this money has enabled them to access further private bank finance. In Ireland, there is currently no equivalent. SOA **have proposed a State Investment Fund** for Innovative and Sustainable Projects, and the Irish Green Building Council have published an Energy Efficient Mortgages Action Plan, each of which aim to create similar funding opportunities in Ireland.

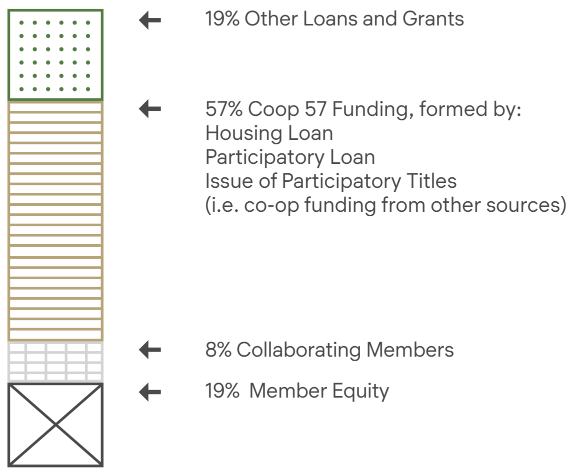
UK COMMUNITY LED HOUSING FUND

This government fund has been set up in the UK in order to increase the number of homes provided in the community-led sector and to **provide housing which remains affordable in perpetuity.** This fund aims to support both design/administration and construction costs and is administered through local councils.

ETHICAL LENDERS

Ethical lenders are lending institutions which **do not prioritise profit**, but rather try to lend to project which they see as worthwhile in one way or another, normally **for social or environmental reasons**. A large number of such lenders operative in the UK and Europe, and are frequently instrumental in getting housing community-led housing projects across the financial line. Examples include the Ecology Building Society (UK), Triodos (NL - and formerly operating in Ireland) UmweltBank (GR), GLS BANK (GR) and Banca Etica (IT).

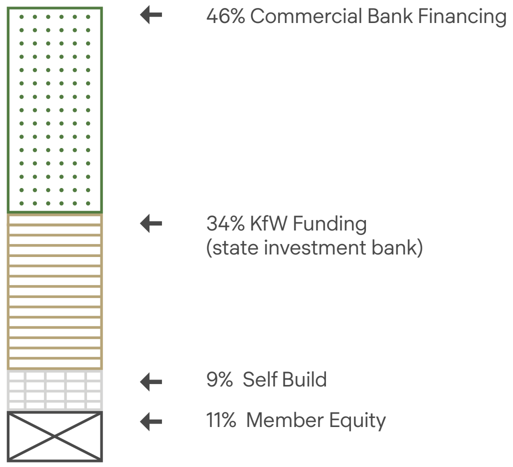
Financing Example 1:
La Borda Co-Op
Barcelona, Spain



Description of project: 28 apartments fully owned by the La Borda co-op, with members having rights to use their units. The site is in a former industrial area and is leased by the co-op from the city of Barcelona on a 75 year lease. Members pay an affordable rent. Much of the funding was organised through Coop 57, a “financial services cooperative” which provided a housing loan and third party peer to peer-type financing.

Viable in Ireland?
Requires further development in ethical, peer to peer lending, and willingness of local authorities to provide leaseholds on site (or to create Community Land Trusts).

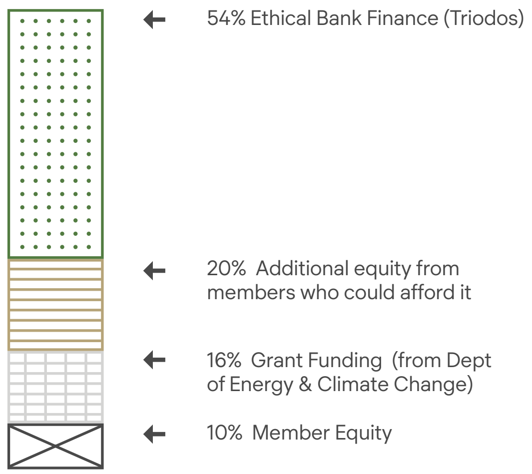
Financing Example 2:
Oderberger Strasse 56
Berlin, Germany



Description of project: Situated on an urban brownfield site, the project comprises 19 units including work and gallery spaces in a high density experimental format. Legally structured using the Baugruppe model, half of the space is in private ownership and half is rented. The rented spaces are managed by a separate legal entity created for that purpose, and this entity borrowed a portion of the money to fund the construction project.

Viable in Ireland?
The legal structure used to form a Baugruppe is not familiar here, but should be possible. An alternative to state investment bank funding would be necessary

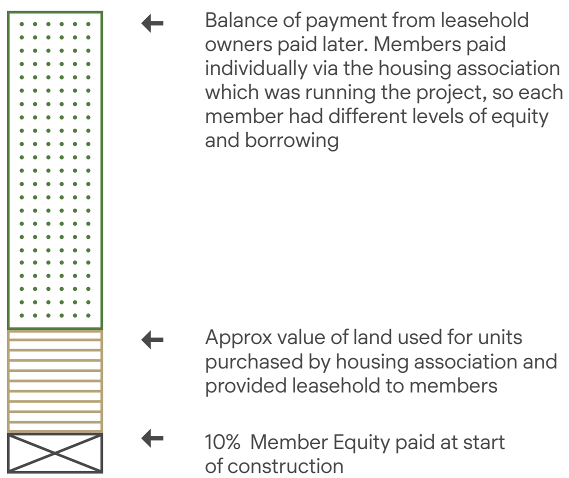
Financing Example 3:
LILAC
Leeds, UK



Description of project: The LILAC project in Leeds uses the Mutual Home Ownership Model (MHOS). Ideally this system is combined with a CLT, but in the case of LILAC this was not possible. 20 new homes were provided. Member equity is put into the co-op which borrows the money to build the homes. Members pay the balance of the cost into the co-op (which repays the construction loan) over time at an affordable rate, and build equity as they do so. Lower earning members my pay off their portion more slowly.

Viable in Ireland? Common Ground Cooperative in Bray are in the process of developing a project here now.

Financing Example 4:
New Ground OWCH
Barnet, UK



Description of project: Members chose to leave individual living and form a housing community, so had private equity. They also wanted to help provide social housing. This new co-op partnered with a housing association which facilitated the development, building 25 self contained units with shared facilities: 17 flats owned by occupants on 250 year leases, and 8 social leases with assured tenancies which are managed by the co-op.

Viable in Ireland?
Once members have sufficient private equity this structure should be possible here, although it may be difficult to replicate housing association commitment to funding.

HOW HAVE EXISTING PROJECTS BEEN FINANCED?

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COOPERATIVE FINANCE

When a housing project is set up as a cooperative it is often possible to source finance from other cooperatives, or cooperative lenders. One good example of this is seen at the La Borda project in Barcelona, where a **financial services cooperative called Coop57** provided much of the funding for the project. Coop57 only funds cooperative members projects, and although it is not a profit driven lender it has a higher success rate in lending than comparative commercial lenders.

CREDIT UNIONS

Irish credit unions are in some ways the organisations in Ireland most similar to ethical lenders. They are not profit driven in their lending, and appear to be interested in lending for housing construction. However it may be **necessary for the central bank to clarify that they may carry out such lending** before it can take place.

COMMUNITY FINANCE

Somewhat similar to ethical lenders, organisations such as Community Finance Ireland and Clann Credo have a **remit to support community projects** which find it difficult to obtain commercial finance. CFI have not traditionally financed housing, but have stated an interest in projects of a suitable scale where the applicant as a track

PHILANTHROPY/ CSR

Where a **particular ethical or social need** is being served it may be possible for a housing project to benefit from philanthropic or corporate social responsibility funding.

PEER TO PEER FINANCING

Innovative lending models are emerging which allow **individuals and groups to lend directly to one another** where they have a particular interest in the success of a project and can make a suitable return on their investment. Property Bridges is an example of an Irish peer to peer lender that facilitates the finance of housing projects from interested individuals.

LOAN STOCK, MEMBER SHARES

Some cooperative have financed projects by **selling loan stock or shares to interested investors**. In this way, independent investors who would like to see the success of the project can make a financial contribution, which is paid back within an agreed period (for example 3 years) with an agreed interest payment.

CROWDFUNDING

Now commonplace in financing business start-ups, there has been some interest in the use of **crowdfunding as a source of finance for housing**. In order to avail of it a project would probably have to have some wider benefit to the community of funders. www.brickstarter.org is a Finnish project that has investigated this possibility, and the La Borda project in Barcelona used some crowdfunding in its financial mix.

SELF-BUILD/ SELF-COMPLETION

Community-led housing always brings with it the possibility for member involvement in construction. Self-build for multi-occupancy building requires significant skills, but **“self-completion” is a relatively easy means to reduce construction costs**.