Selected Models of Co-operative Housing

Profiles of co-operative housing models in Canada and other jurisdictions

INTRODUCTION

Co-operative housing is often seen as a form of tenure that falls between pure rental housing (in which the tenant has limited rights and no ownership of the unit) and private homeownership. Co-operative housing provides benefits in housing affordability and security of tenure, as well as social benefits including a strong sense of community and the opportunity for residents to work with their fellow members for the common good of the co-operative. CMHC commissioned R.A. Malatest & Associates to undertake research on co-operative housing models in Canada, Australia, Denmark, Germany, Norway and Sweden. The project was undertaken to gain a better understanding of how the models operate elsewhere and identify promising best practices that could be adopted in Canada to support the growth and expansion of the co-operative housing sector.

FINDINGS

There is a marked range of co-operative housing penetration across the various countries studied. While the co-operative housing movement has had direct government support, direct government investment in co-operative housing is currently quite limited. Equity models contribute to co-operative housing growth but may not necessarily translate into housing for low-income populations.

- Countries that enable "equity ownership" models of co-operative housing appear to have a larger co-operative housing market than countries in which equity ownership is limited or less prevalent. Refer to figure 1.
- Canada's co-operative housing sector represents only 0.7% of the housing stock in the country. Housing co-operatives are more predominant in the provinces of British Columbia, Ontario and Quebec. Refer to figure 2.
- Co-operatives are mainly characterized by model (equity, non-equity, or mix of both), presence of financing arrangements specific to co-operatives and whether there is a strong presence of a national co-operative association. Refer to figure 3.
- Almost all countries reviewed had one or more national agencies that represented the co-operative housing market in their jurisdiction.
- Direct government support of housing co-operative ventures is currently very limited in almost all jurisdictions studied. However, it is vital to remember that government support was critical to jump-starting the sector in the first place.

What is an equity model?

A model where tenants buy and sell units on the open market at market price. While this model encourages private investment by individuals in co-operative housing, this model may introduce affordability challenges as the cost to join a co-operative (in terms of purchasing a unit) rises.

What is a limited equity ownership?

A model where residents own shares and have user rights to a unit, however the share's selling price has a maximum ceiling.

What is a non-equity model?

In this model, residents pay a modest fee to join the co-operative and rents are set so as to ensure that the co-operative can undertake required upgrading and maintenance.

What is the multi-stakeholder model?

It is a model with more than one membership class, namely, a supporting class and a resident class. It allows for supporting members to purchase shares even if they do not reside at the property.

Innovative example of a Canadian equity model

Canada's first equity-varying model seniors' residence opened in 2013 in Manitoba. The co-operative was established and supported by another co-operative. It offered shares based on the value of the size of the apartment being purchased. The initial investment was substantial compared to a non-equity model (ranging from $18,000 to $24,000 depending on unit size), but the modest entry price provided an affordable price point for seniors wanting to remain in their community to age in place.

Observations

- Co-operative housing entities compete with other entities to win funding from government for housing projects. Governments provide favourable tax treatments to co-operatives, or the co-operative housing sector receives support by savings/investment policies that allow individuals to enter into savings plans that will eventually lead to entry into a co-operative housing arrangement.

- The high prevalence of co-operative tenure in the Scandinavian countries is also likely reflective of considerable post-war subsidization. Although co-operative housing enjoys a high incidence rate in some countries, many of the jurisdictions studied still view direct homeownership as the preferred housing vehicle.
- Co-operative housing in Canada has had difficulty in leveraging existing equity to fund new projects. There seem to be two underlying reasons for limited reinvestment based on current equity in their portfolio:
  - Reluctance of financial institutions to carry mortgages for co-operative buildings due to challenges associated with recovery of the loan in the event of a default.
  - Limited desire/ability for existing co-operatives to reinvest in new ventures given bylaws that specify how reserve funds can be spent.
- However, the following two innovative strategies applied in Canada are helping the sector move in terms of expanding their stock:
  - Pooling of assets by co-operative housing associations to help finance new development.
  - Creation of community land trusts, where assets are placed into permanent community ownership to prevent against significant land value increases that would in turn jeopardize housing affordability.

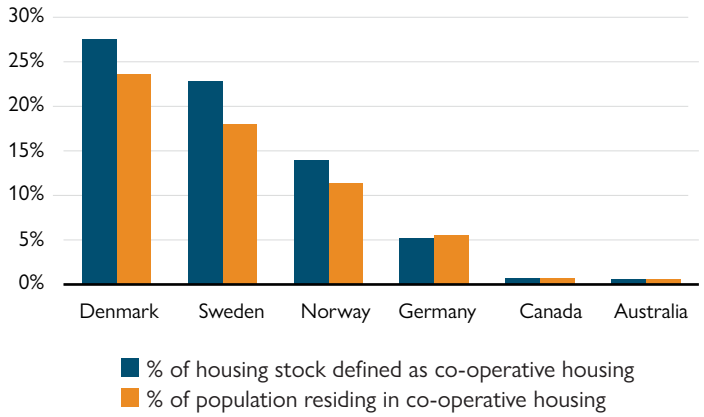
Best practices that can be adopted in Canada to support the expansion of co-operative housing

While there are a number of promising practices, it appears that the growth and expansion of co-operative housing could be supported by the following:

- Development of a full-equity model in which co-operative units can be purchased/sold on the open market (Scandinavian model).
- Support for financing options (for example, loan guarantees and/or mortgage insurance) would reduce the risk associated with co-operatives borrowing against current equity to support additional co-operative formation.
- Support for innovative pilot projects that would demonstrate the effectiveness of alternative co-operative structures, such as community land trusts (involving the co-operative, the municipality and lender) or legislation to allow co-operatives to operate as a savings/loan institution.

Figure 1 shows that there is a marked range of co-operative housing penetration across the various countries studied. Co-operative housing represents a relatively high proportion of the total housing stock in Sweden (22.8%), Norway (14%) and Denmark (27.4%). In contrast, Australia has only a very small co-operative housing sector, representing less than 1% (0.6%) of Australia's total housing stock. Similarly, Canada's co-operative housing sector is estimated to represent approximately 0.7% of the country's total housing stock.

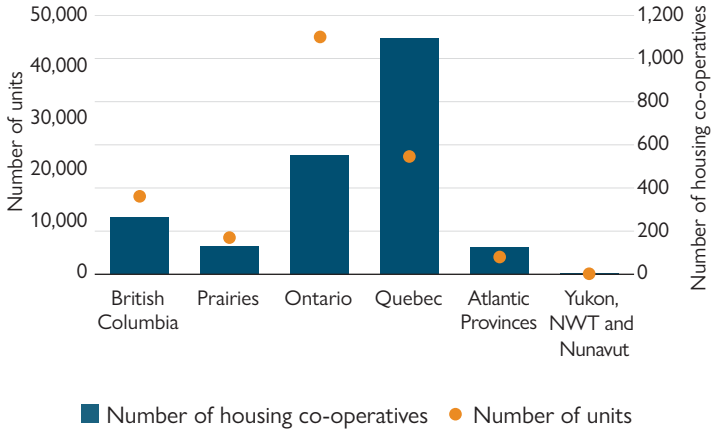
Figure 1: Co-operative housing as share of total housing



Source: R.A. Malatest & Associates Ltd.

Figure 2 shows the distribution of co-operatives across various regions in Canada. The left axis and orange dots represent the number of units and the right axis and blue bars represent the number of co-operatives for a given region. For example, Ontario has the highest number of units at around 44 000, whereas Quebec has the highest number of co-operatives at 1,100. While some regions saw a decline in the new development of co-operatives following the 1990s, the sector in Quebec continued to grow as co-operative enterprise is a more entrenched part of that system.

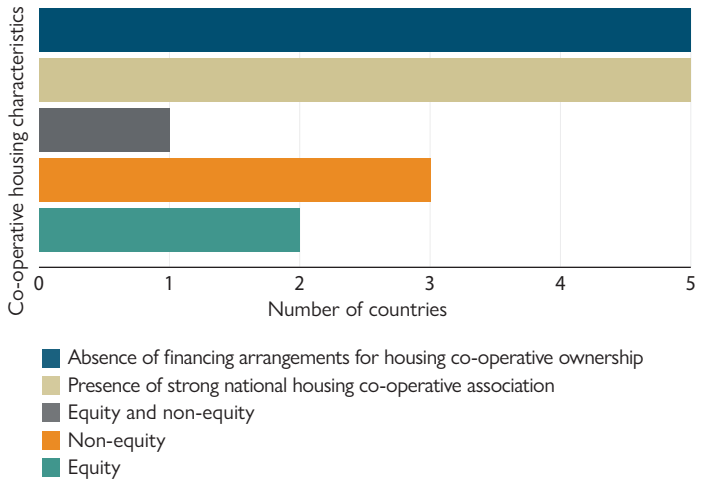
Figure 2: Canada's housing co-operatives by the numbers



Source: Co-operative Housing Federation of Canada and R.A. Malatest & Associates Ltd.

Figure 3 provides the distribution of some co-operative housing characteristics for the six countries. Absence of financing arrangements for co-operative ownership, with the exception of Germany, is prevalent. There is a presence of strong national co-operative association in all of the countries with the exception of Australia. Both equity and non-equity models are prevalent in Denmark while the non-equity model is more common elsewhere.

Figure 3: Distribution of co-operative housing characteristics of the selected countries



Source: R.A. Malatest & Associates Ltd.

FURTHER READING

Full report – *New Models for Co-operative Housing* (https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research_2/new_models_for_co-op_housing.pdf)

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ALTERNATIVE TEXT AND DATA FOR FIGURES

Figure 1: Co-operative housing as share of total housing

Country	% of housing stock defined as co-operative housing	% of population residing in co-operative housing
Denmark	27.60	23.60
Sweden	22.80	18.00
Norway	14.00	11.40
Germany	5.20	5.60
Canada	0.70	0.70
Australia	0.60	0.60

Source: R.A. Malatest & Associates Ltd.

Figure 2: Canada's housing co-operatives by the numbers

Region	Number of housing co-operatives	Number of units
British Columbia	263	14,749
Prairies	129	6,739
Ontario	553	44,230
Quebec	1,092	21,922
Atlantic Provinces	124	3,191
Yukon, Northwest Territories and Nunavut	5	162

Source: Co-operative Housing Federation of Canada and R.A. Malatest & Associates Ltd.

Figure 3: Distribution of co-operative housing characteristics of the selected countries

Co-operative housing characteristics	Number of countries
Absence of financing arrangements for housing co-operative ownership	5
Presence of strong national housing co-operative association	5
Equity and non-equity	1
Non-equity	3
Equity	2

Source: R.A. Malatest & Associates Ltd.