The Foundation of Value

Member Benefits of Group Equity Cooperatives

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Housing Cooperatives

The purpose of a housing co-op is to produce value for its resident members. Like other businesses, they acquire capital and labor and use them to produce value for their owners. How labor and capital are acquired and compensated, and differences in rights and responsibilities of owners are the categories used to distinguish different types of businesses. Traditionally, investors are considered the owners of a company and acquire voting privileges based on the value of their investment. On the other hand, cooperatives are typically owned by classes other than investors such as consumers or employees, known as members, who assign one vote per member and follow the seven cooperative principles. Instead of focusing on value production through profits, co-ops produce value for members through financial, social, and educational means.

Housing Cooperatives are a specific type of consumer co-op in which residents, the consumers, are the owners of their homes and are further subdivided into three different categories:

1. Market Rate
2. Limited Equity
3. Group Equity

Market Rate is easiest to describe as it is most like traditional homeownership. Membership is represented by a share of the co-op, which gives people membership and an exclusive right of occupancy to a housing unit in a housing cooperative. A member leaving the co-op sells their share to an incoming member at the highest price another person agrees to pay, otherwise known as an arms-length market transaction.

Limited equity is a term for many different styles of co-ops in which a member purchases their share below the market rate of a housing unit. The price could be low, equivalent to a security deposit if it were a rental property or much higher such as 50-80% of a market-rate purchase. Special financing or business structuring is necessary to achieve these prices. They are a good vehicle for incorporating other non-profit or affordable housing policies such as income and resale restrictions but do not universally do so. All these methods cause it to be a diverse label with many different prices below market rate.

The third type, the Group Equity Cooperative (GEC), is most like renting and blends non-profit and for-profit business principles in unique ways. Most people are familiar with one form, which can lead to confusion over why members are owners, and how members create and earn value. GECs can take advantage of this composite structure and produce large amounts of value for their members.

Ownership & Equity

Ownership is a set of rights and responsibilities. Exactly which rights and responsibilities vary depending on the legal and political system and the type of property considered. For most businesses in the United States, they include:

Rights

- Decide how the business is run
- Decide how and what is done with surplus/profits
- Defend the business property and reputation physically and legally

Responsibilities

- Follow the law
- Operate the business with loyalty and care as a fiduciary
- Be personally responsible in the event of negligent or illegal activity
- Pay all relevant business and property taxes

Equity is closely related to business ownership and is often synonymous with ownership. In fact, in both Limited Equity and Group Equity, the term equity is interchangeable with ownership. Acquiring equity gives a person ownership of a business. Equity, in any class of business, co-op and otherwise, is acquired through an investment of either capital or labor.

GECs are sometimes known as common equity or zero equity co-ops. They are known as zero equity because they will not allow members to acquire equity, whereas the group (or commons) own 100% of the equity. Since none of the members have equity and equity is synonymous with business ownership, it can be argued GECs do not have owners. This is how GECs are most like non-profits and is why they can and frequently do incorporate as non-profits if they are also fulfilling a public good. In the case of housing coops, that public good is providing affordable housing to people who earn a low income.

Despite not having equity in a GEC, members are in fact the owners of the company. Like owners of for-profit companies, they have the right to benefit from surpluses produced and govern the company. Instead of equity conferring ownership, it is granted via a contract known as a membership agreement. This separation of ownership and equity allows for the unique ways GECs can produce and distribute surplus value.

Creating Value

All businesses create value. All companies use the basic formula of increasing revenue and decreasing expenses to produce value. The following are either unique to or highly emphasized in GECs.

Reduced Conflicts Between Owners, Customers, & Agents

In a GEC, the member is the owner and the customer and often acts as an agent. An agent is a party in a relationship with the business owners to represent the owner in negotiating and transacting business and entering contracts on behalf of the owners (Allison & Prentice, 2009). By having members play all these roles, conflicts between roles are reduced or eliminated.

Unifying the roles of customer and owner produces significant value. Owners and customers have a zero-sum conflict in which an increase in the cost of service is an increase in profits of an owner and vice versa. Eliminating the conflict allows for co-ops to choose to optimize the value of either role. Due to tax codes that primarily tax income, reducing expenses is worth more than the same increase in income, so optimizing for the customer role by making housing lower cost allows for more value than optimizing for the owner by creating more profits. For example, If you get paid an extra dollar at work, you pay income tax and take home less, say 80 cents. On the other hand, if you save a dollar because milk is on sale, you don't have to pay income tax, so you keep the whole dollar.

Additionally, GECs often require members to do labor to minimize the need for wage and contract labor. In some traditional business circles, this is known as sweat equity: work done by owners without a wage as an investment with the expectation that the value produced by the business makes the work worthwhile. Many GECs have labor rules and systems to make this as balanced as possible. Most Austin Co-ops write into their membership agreement that members will be expected to contribute labor to the co-op and elect someone to manage assigning jobs and ensuring they are completed. GECs with diverse skills can internally do property management, maintenance, grounds, and a significant amount of household and social labor like food prep. Once again, this allows GECs to spend less, requiring lower revenue and reducing taxable income.

The conflict between agents and owners stems from differences in goals and incentives. For example, an agent, often an employee, is paid a wage or a salary, and as long as the job is done adequately, they don't risk losing their pay. The owner would like the agent to do the best job possible and at the lowest cost. In GECs, agents are any member that does labor on behalf of the co-op, staff, or other professional contractors such as a CPA or lawyer. Unlike the customer/owner conflict, this one is not eliminated by making all owners agents. There will still be agents that are not owners, such as staff or contractors, and the owners that act as agents will suffer another similar conflict, the free-rider or tragedy of the commons.

Unlike the customer/owner conflict, which is zero-sum, the free-rider or tragedy of the commons is based on a feedback loop in which personal gain and common gain have different values. The classic example of the tragedy of the commons involves multiple herders allowing their herds to graze in the common village green. If everyone moderates their use, the green will be sustainable, but once one person exploits it, the green is no longer sustainable. Once other grazers recognize it is no longer sustainable, the rest will rush to use it before it is gone, causing the resource to diminish even faster. Similarly, in a co-op, many members are expected to do labor. At the same time, all benefit the most if all do their labor; individuals benefit the most when they can get away with free riding, and everybody else does their labor. If enough people do this, there is obviously a free-rider problem, and the remaining members will get resentful and may stop doing their labor. Despite this incentive structure, an agent who is an owner has more motivation to do the work than the agent that is not an owner because a non-owner agent doesn't suffer losses when the business suffers losses.

A labor accountability system with effective managers can deal with free-rider problems. At Arrakis, there was a member that most members felt was not trustworthy. There was the suspicion that they were lying about having done labor and claiming credit on the sign-in sheet. Co-ops often have visible jobs that are simple to confirm completion and hold people accountable for and invisible jobs that are not. Many officer jobs can fall into the invisible role, at least in the short run; treasurers can get away without collecting rent or paying bills for a while before it becomes a crisis. At Arrakis, the invisible jobs include vacuuming the upper stories' hallways and cleaning common areas with low traffic. Many visible jobs are in the kitchen, if the kitchen is not cleaned before dinner, the cooks will let you know, and if it is not cleaned after dinner, everybody will see the dinner mess in the morning. At Arrakis, they gave the untrustworthy member kitchen cleans and cooking assignments and soon found out they were not doing most of it. Freeriding can be prevented by giving trusted members invisible jobs and giving newer or untrusted members visible jobs and having someone responsible for holding everyone accountable.

By wearing many different hats, Members of Cooperatives have a more holistic view of the co-op's operations. With this holistic view, members can reduce conflict points and create more aligned incentive structures that allow for more value producing operations.

Low or No Income Taxes

GECs are structurally able to reduce their tax burden compared to non-co-ops. For those that are non-profits, because they provide Affordable housing to people of low income they pay zero income taxes. For-profit GECs lower their taxes by reducing their net surplus/profit by optimizing finances for members as customers.

When legislation and policy makers refer to Affordable housing (with a capital A), they are usually referring to a subsidy granted by the government in return for housing people below a regional median family income and guaranteeing that the rent is affordable to that income level. Affordable housing has been defined as housing cost not exceeding 30% of household income. (Mueller and Tighe, 2011). The Department of Housing and Urban Development (HUD) maintains a database of median household incomes, typically at a county level. A simple example of how this works, many first-time home buyers have access to down payment assistance. To receive the down payment assistance the home buyer must be below the 80% median family income. Referencing the Travis County table for a family of 4, that is $79,100 of annual family income. If the family makes below that, they qualify for the subsidy. For GECs to qualify as a non-profit and not be required to pay any corporate income taxes, the

Internal Revenue Service outlines 3 different affordable housing requirements, and if you meet two of them you qualify. All non-profit GEC should have in place procedures for making sure they are compliant in the event of a corporate audit by the IRS.

For a GEC that does not take advantage of this, rents are kept low by emphasizing the customer role over the owner role. From the business perspective, that translates to low revenue. Revenue is kept low, often just above operating expenses, resulting in slim profit margins. Corporate Income tax is based on profit, so reducing profit creates value equal to the corporate tax rate times the difference in profit expected if market rate and actual profit of a GEC. In my analysis of La Reunion, they would save about $130 per bedroom per month on income taxes.

Creating a community that reduces the burden of household labor and Private ownership

A Great Good Place

This section draws heavily from and pays homage to the title of Ray Oldenburg's book, "The Great Good Place," a sociological book reviewing the concept of the Third Place. The first place is home. The second place is work. The third place is an informal public place which individuals spend more time than anywhere other than the first two places. Individuals can drop in and out of third places for spontaneous and friendly conversation. For example, the English Pub, the French sidewalk café, or the Midcentury American small-town main street. As a housing co-op, a GEC is clearly the first place, a home, and those with a labor system, a 2nd place, a workplace, and those with lively, well-designed common space, the third place.

Much ink has been spilled about the death of American social and civic life, works like Oldenburg's and *Bowling Alone* by Robert Putnam outline the loss of social capital. Modern zoning codes segregate work and residential areas leaving little space for the third place. Oldenburg noted that Americans "shuttle back and forth between the 'womb' and the 'rat race' in a constricted pattern of daily life that easily generates the familiar desire to 'get away from it all.'" Life becomes more expensive without an informal public life engendered in third places. Places and experiences enjoyed as a shared public experience were replaced by personal consumption, "about two-thirds of the GNP is based on personal consumption

For-Profit Housing vs GECs Tax Impact

Value of Reduced Taxes=(Expected Profit at Market Rate Rents – Actual Profit of GEC)*Corporate Tax Rate

For-profit apartments made a long-term return of 9.75%. NASCO Properties recommends a surplus rate of 3%. The corporate tax rate in 2021 is 21%

In 2017, La Reunion had rent that was 58% of a comparable market-rate apartment.

Assuming that the gross revenue of La Reunion is $100,000. A surplus of 3% of $100,000 equals $3,000. 21% of that equals $600 in taxes.

The comparable apartment would have gross revenue of $100,000 divided by 58% equals $172,400.

9.5% returns times the gross revenue of $172,400 on the for-profit apartment equals expected profit of $16,400.

Applying the corporate tax rate of 21% to the for profit results in $3,400 corporate tax burden.

The difference between the co-op and for-profit apartment in tax liability would then be $2800 or approximately 5 times as much in taxes. See Appendix A for more.

expenditures." In places with a rich public life, the poor benefit from the public space, while it offers the rich experiences money can't buy.

Without third places, life also becomes more socially isolating and undemocratic. The lack of these informal gathering spaces requires people to exert more effort to maintain social connections. Additionally, one can see the importance of these spaces when you look at how authoritarian nations treat gathering. Nazi Germany prevented the open gathering of 3 or more people. Soviet Hungary called reading circles of peasant farmers centers of local resistance. During the reign of King Gustave III of Sweden, medical professionals were coerced into releasing adverse reports on coffee to deter coffee houses, the third place in Enlightenment era Europe. Events of revolutionary America were centered in the tavern, and the right of free assembly was codified in the first amendment. In 20th century America, whenever there was social unrest, reporters knew to go to bars to get a sense of the mood of the working class (Oldenburg, 1999). Just like third places threaten authoritarians, they can support democracies, and having practical common spaces in co-ops make their democratic systems more functional.

Co-ops split their space between private space, either a bedroom or a housing unit, and shared commons spaces which can be but are not limited to kitchens, courtyards, hallways, living rooms, and parking lots. Many co-ops' commons serve this third place role. For co-op members seeking to make their commons into more successful third places, the following principles are the most relevant

- Neutral Ground
- A leveler
- Nonpretention
- Novelty
- Natural Surveillance

Neutral Ground

Neutral Ground is a conveniently positioned place where individual people may drop in and out at will, where no one is obligated to play host, where conversation is expected, and everyone feels comfortable and at home. Most American cities have places that approach this feeling, such as coffee shops and bars. They end up failing in three obvious ways.

First, some are not good places for conversation. Many coffee shops often have a college library feel, with people working diligently in front of computers. Many are decorated with old books, which does not help this perception. While individuals are free to drop in and out at will, striking up a conversation can feel rude or disrespectful.

The 2nd problem is lacking a homey and comfortable feeling. There is much more of a business attitude in newer coffee shops in newer real estate; like fast-food restaurants, they make sure tables turn over, and coffee gets sold quickly to afford the rent. In addition to lacking the homey and comfortable feel, people don't stick around long enough for conversation.

The 3rd problem is the tendency for people to treat these spaces as secondary living rooms, so they fail in the individual will and hosting aspect. Usually, someone plays a host role and invites friends, and they then show up and leave as parties. As a member of a party, it's rare to pull into a conversation nearby strangers. As an individual, it's hard to break into pre-established parties.

A co-op commons typically has all of the attributes of neutral ground. Members are in common spaces every day, people rarely show up to common areas in groups, they are very convenient to access, and people can leave them to go to their private space whenever they wish. Most co-ops do not need much modification to create this third place feel, but there are a few rules of thumb to ensure that people are drawn to a space, despite no one being present, which will encourage common space as neutral ground.

- Avoid buildings that have private space at the boundary of the property or on the parking lot, like walkup townhomes or motels, but instead make sure that common space exists between the private space and public off-property space.
- Taking a cue from the other third places. Provide services that draw people in.
  - In GECs that rent bedrooms, the kitchen is the heart of the community, a place where people drop in multiple times a day.
  - The La Reunion Breezeway is a 2nd story outdoor corridor/balcony at the corner of the courtyard, which air is forced through, making it the only tolerable outdoor location during the hot summer months, certainly a place where cigarette smokers congregate many times a day.
- Include aesthetically pleasing features like art or a garden.

One of the best ways of ruining the feeling of neutral ground is with people who are challenging to break away from conversations and who spend enough time in the commons that members become afraid to encounter them. If left unfixed, people will quickly move through a space to avoid the loiterer. Sociologist Richard Sennett, "People can be sociable only when they have protection from each other."(Oldenburg, 1999)

While hominess is used to describe this feeling, it is an experience that most people do not experience at home. It's a place where people are around friends and are being served in a way that anxieties, such as jobs or chores, are not present. The common spaces of good co-ops provide that feeling.

Leveler

Left to their own devices, most people will spend time around people most like them. This problem has been exacerbated by the tendency of Americans to spend most of their time at home or work, where there may not be people that differ significantly. After the onset of the COVID-19 pandemic, it may be even worse with people working from home much more than previously. A leveler is a place that goes against this human instinct and is inclusive and accessible.

The first principle of cooperation is open membership, anybody who can use the co-op can join the co-op. The attributes that allow a person, or more accurately, a household, to be able to use a housing co-op or not are:

- Price
- Location
- The space is flexible and has the quantity of space a household needs
- The household applying sees themselves as fitting into the existing culture of the co-op
- Whether there is an opening when a person is seeking housing.

Before a co-op can be a leveler, it needs to get these attributes right, so there is a diversity of members. Once that diversity is achieved, the co-op must foster the mingling of those different people through the quality and quantity of the neutral ground. "Third places counter the tendency to be restrictive in the enjoyment of others by being open to all and by laying emphasis on qualities not confined to status distinctions current in the society. Within third places, the charm and flavor of one's personality, irrespective of his or her station in life, is what counts." (Oldenburg, 1999)

Nonpretention, Homeliness, and Plainness

One way the democratic principles of cooperatives are operationalized in housing is their allowing members to modify their spaces extensively. One co-op created a door between two sides of a duplex. La Reunion converted a manager's suite/office into a common area by knocking down the wall between the office and living space, made a more extensive meeting and living room by knocking out the wall between two rooms, and turned a bedroom into a pantry by removing the closest and moving in refrigerators. The Hardy House is taking large rooms and subdividing them into smaller rooms to create more affordable rooms and more residents to share the load. It's rare to find a wall or hallway in a student co-op that has not been covered in art. It's challenging to do all these things in new buildings not designed for co-ops. Co-ops, like third places, are typically found in old, nonpretentious, homely, and plain buildings that benefit from making extensive modifications without feeling like they are ruining a nice new building.

Additionally, these buildings have lost value and thus do not need to charge the rent that a shiny new building requires to pay for the cost of construction. While a coffee shop may locate in a new building, rarely will people hang out for long as it's been structured to turn over tables as quickly as possible. A coffee shop in a new building near La Reunion has uncomfortable metal chairs, whereas the one in the old building a couple of blocks down the road is filled with comfortable couches.

Third places are often working-class and cater to those just coming from a dirty job. These patrons would not stay long in a place with more pretention, say a club with a dress code. Housing co-ops have that same situation, and the rest of the human range of emotion, condition, and dress seen at home.

While there are plain co-ops, most are far from plain while not being pretentious. The empowered residents of co-ops tend to leave their mark on their space, and all these different marks layer on each other, and it's primarily newly established co-ops that are plain. How a place is decorated says a lot about the age and culture of the place and will signal to outsiders whether they should be interested in the place or not. (Oldenburg, 1999)

In many ways, lack of flexibility is the number one problem impacting our cities and building stock. The American style is to decide what the use is before building and regulating to ensure that entire sections of town conform to that use, and once it's been built, the work is considered done rather than evolving. Buildings are rarely constructed to be nonpretentious, plain, or homely; they get that way with time. On this subject, Stewart Brand, in his BBC documentary series *How Buildings Learn,* says that "Evolutionary design is healthier than Visionary Design."

Novelty

Of all the characteristics of third places, this one is most centered on individuals. Novelty or openness to experience is one of the Big Five personality traits used in psychological science. People who score high in Novelty or Openness typically are more creative, curious, and abstract thinkers. (Sussex Publishers, n.d.). People who score high in novelty will get more out of the co-op experience.

Novelty stems from the people in the place and how they interact. First off, there is diversity in actual people. People from different backgrounds, classes, education, and race. Most of the time there is no set schedule to how the place is used. So not all users of a space will be there simultaneously or for the same duration or state of mind from one visit to the other, or within the same visit depending on what the place serves. With varied peoples and schedules, emergent behaviors and conversations arise. Different groups will inspire different conversations and moods, and the improvisational nature of conversations allows for the production of novelty.

Natural Surveillance

People who care about their space take care of it in many ways, including creating a safe environment which is highly surveilled and where help is close at hand. No security apparatus is good or pervasive enough to guarantee safety without people who lend their eyes, ears, and hands to protect each other.

The surveillance is both internal and external. Internally, co-ops are safe in the way that small towns and tribal communities have, to varying degrees, remained safe for all human history, “through a web of reputation, gossip, approval, disapproval, and sanctions” (Jacobs, 2011). This is made possible due to the communal aspects of cooperatives, such as shared meals, decision-making, and social events. It is common for all co-op members to know each other, which is rarely the case in non-cooperative residences. These natural human behaviors are supplemented by formal rules and enforcement provisions which are also missing from non-cooperative residences.

People who are in places in which they feel like they have ownership over will be more observant about what happens in the area. Once people can distinguish what is normal behavior for an area, they are able to act against violations of community norms.(Oldenburg, 1999) Ideally, a co-op is situated in a neighborhood where they are not the only people who feel that sense of ownership, as one co-op is not enough to maintain neighborhood surveillance and community.

If it were in the capacity of a co-op to modify the larger neighborhood, or move or start a new co-op in a safer neighborhood, there are several attributes to strive or look for. Jacobs list three attributes for this neighborhood safety

1. Public and private space must have clear borders, avoid suburbs
2. There needs to be a large number of people who care about and keep an eye on the street
3. There needs to be a diversity of uses on the street or neighborhood so there is pedestrian traffic most of the time.

Given the negative connotation of the word surveillance, it’s important to note that living in these places rarely feels that negative. This is a natural result of a community-minded co-op with significant amounts of activity that cares about their place.

An Imperfect Solution

The fact that I've spent so long on this topic is just as much a commentary on the dearth of good third places as it is examining a coop as a third place. It's certainly possible for a co-op to not have the capacity to be a third place. To make more of society amenable to third places, it's going to take a revolutionary change in land-use politics. Switching from mono use zoning to mixed-use, the transformation of huge swathes of single-family neighborhoods to denser and more mixed neighborhoods, an attitude shift from building and rebuilding to maintaining and adapting, and a drastically reduced role of car ownership and parking on the landscape. These are changes that seem to be brewing and will overall support cooperatives. Even if third places were abundant, it would still be hard to beat a social atmosphere just outside your front door so this would still be a selling point of co-ops, but maybe one that does not need to be explained in depth because everyone would already understand it.

Incorporating Unpaid Household Labor into Coop Labor

A large part of the economy is household labor that goes uncounted and unpaid; work such as cooking, cleaning, yard work, and childcare. Many co-ops incorporate a significant amount of this labor into their labor systems. Incorporating these into the co-op's business allows people to save money on the materials and supplies of the labor and benefit from economies of scale, specialization, and trade. While there are many ways co-ops can choose to do this, the focus will be on two frequent examples, food preparation and car use.

Food Preparation

It is difficult for individuals to buy and prepare food for just one person without having it go to waste. It often takes a family not to be wasteful of food. A co-op allows people to save even more money than a family would as they can take full advantage of large bulk purchases. Many co-ops can buy food at the scale of restaurants. One person can purchase all or most of the food that a whole co-op would need. Depending on the size of the co-op, one or a few people will be able to cook a meal for all the residents of a co-op in a couple of hours. They are saving all the members who take advantage of the meals time purchasing and preparing food.

This is one of the most straightforward cases for the economy of scale in the housing co-op world. On the smaller scale, co-ops like La Reunion and Sasona buy the largest options at the grocery store or go to bulk consumer stores like Costco and Sam's Club and cook a few meals a week.

On the largest scale, several of the College Houses co-ops receive deliveries from Sysco, have a walk-in freezer, are required to pass a health inspection, and cook two meals a day for 100 people.

Peanut Butter	Price	Price/oz
Skippy 16.3 oz	2.48	15.2 cents
Skippy 40 oz	5.58	13.9 cents
Skippy 2x48oz	9.77	9.8 cents

The Peanut butter example here is different sizes of Skippy taken from Walmart and Sam's Club reviewed in January of 2022. Since Walmart and Sam's Club are the same vendor, this example controls for everything other than product size. It shows the bulk option is

33% discount over the standard options and co-ops are able to get this kind of bulk discount on most household products.

There is an opportunity to save money on food use, and breaking bread has long been a foundation of community. Since social activity often revolves around food, improving the food experience saves money and assists in bringing the other benefits of co-ops.

Car Use

In Austin, 96% of households own a car, and those own 1.65 cars on average. According to the Bureau of Transportation Statistics, Americans drive about 15,000 miles a year and the average cost of car ownership is $9,500. ("Average Cost of Owning and Operating an Automobile," n.d.) Living in a co-op allows people to live car-free or drive fewer miles saving a significant portion of this nearly $10,000 per year.

According to a study done by the Austin Cooperative Business Association, La Reunion is the most car-reliant GEC in town, and has a car ownership rate of 70%, well below the national average. The following aspects that allow for car-free life also reduce driving miles for those seventy percent that still owns cars. Co-op populations range from high single digits to over a hundred, and when a food shopper is assigned to shop for everyone, all but one person has to do the grocery shopping. Additionally, given the third-place nature of sociality in a co-op, many residents do not need to leave their homes to meet social needs. Finally, with closer connections between residents, there are more carpooling opportunities.

While not every member will be able to save nearly $10,000 a year on car use, all will benefit from the more efficient use of cars.

Distributing Surplus Value

Distributing to members as dividends

Co-ops can distribute surplus value as dividends based on patronage and how much members use the services being provided by the co-op. Unlike many co-ops, GEC members have the same patronage as every other member, as the service is an exclusive right of occupancy. A GEC incorporated as a non-profit would not be able to distribute patronage dividends without running afoul of its non-profit status. If organized under another business form, a GEC could pay patronage dividends, but instead, GECs choose to take advantage of the following two methods of distributing surplus value.

Reduction in fees paid to acquire services

While it's rare for a GEC to lower the fees paid to acquire the services, which we will just call rent, it is common for rents to stay stable over multiple years. Rents are rising due to market forces, particularly supply restrictions and inflation in most American markets. If Members of a GEC choose not to raise the rent, they decide to reduce their rent by the amount that rents increased everywhere else.

This is the default way of distributing surplus value as nobody votes for rent increases on themselves without good reason. The good reason is that inflationary forces have increased the expenses to the point where it becomes difficult to cover them all with the revenue they are taking in. Co-ops can be as guilty of taking short-term gains by engaging in disinvestment as for-profit landlords. It is easy to keep rents low by not raising the budget for maintenance. Returning to a concept introduced at the beginning, this emphasizes the customer role and seeks to minimize service costs.

Members can become so insulated from market forces that they can become unaware of what prices have become while they live in a co-op. Long-term residents who look to move out of a co-op often experience sticker shock and feel trapped. They would like to move out of the co-op but staying in the same neighborhood (or even the same city) is impossible due to the price differentiation. The trapped feeling is not inherent to the co-op but is a product of a lack of supply of other co-ops in other locations or co-ops that lack specific amenities or features that would better fit their needs over the co-op they are in.

Since rent increases in GECs are based on inflation, rent increases tend to be more gradual. This is an excellent boon to residents as most of the American housing rental market increases exponentially, well above the inflation rate. On the other hand, in a market crash, co-ops will find it difficult to reduce prices since they are likely already operating very near to cost. For emergencies like this and more mundane ones like vacancies, broken pipes, or replacing a roof, running a surplus is essential, even though the incentives are to operate at a zero surplus level. NASCO Properties recommends that its co-ops operate at a 3% surplus, after setting aside money for maintenance.

Over time the value saved in reduced fees can become significant. In 2017, the ACBA study of Austin area co-ops saw rents at 50-70% of comparable properties. If that study were repeated today, you would likely see many co-ops performing much better than their comparables in 2017 due to the COVID era housing supply crunch, which increased rents and home prices everywhere but did not see existing co-op prices increase.

Investment in community

Internal

GECs can choose to use the surplus funds to improve their co-op. The types of improvements can vary. Surpluses are necessary to establish savings for emergencies. Additionally, significant capital improvements require years of planning and foresight. If a co-op wants to pay for all that work without debt then they need large surpluses to save for them. The incentives to save first are low, members want a zero surplus, but also, there is a mismatch between who pays and who benefits. In capital improvements, past members pay for the benefits of future members, and debt is a tool that allows members who experience the use of improvements also to have the responsibility to pay for the upgrades. Other strategies that have a more immediate impact and better incentive structure are to improve the quality or quantity of the food program, host more social events, or hire labor that a member might have traditionally done.

External

One method of external investment is to budget for expansion. Creating new co-ops is very difficult, and those that are in the best position to start new co-ops are existing successful co-ops. One option is to use a budgeting style of saving for expansion. For example, ICC saved $5 per member per month and increased its saving plan by $5 every year until it reached $20 per person. This saving plan allowed them to finance and build the Ruth Schultze House. Others might be more explicit about allocating surplus by using a percentage of surplus; for example 25% of the surplus goes to the expansion account.

Another method used by the Sunflower Co-op is the creation of a Legacy Fund. The Legacy Fund is a pool of money that the residents can grant to non-profits or invest in projects that they think are valuable. This was done at a co-op that bought their house and had paid off the mortgage. The mortgage was a very significant portion of their monthly costs. Instead of lowering rent, which was already well below the market, they decided to keep paying into a legacy fund.

In the recently formed Austin Community Reinvestment Cooperative, they envision taking a portion of their revenue and using it to support and improve the community they live in. No co-ops have been formed under this model yet, but some ideas that have been suggested are funding sidewalks or park improvements for the area.

A Co-op serves a great benefit to communities they are in implicitly. By having affordable housing that increases the agency of its members and by the positive externalities they exhibit, such as the natural surveillance and safety that they radiate beyond their property. These last two methods of externally allocating surplus funds much more explicitly embody the 5th cooperative principle of concern for community.

Conclusion

GECs produces tremendous value for members through financial, social, and educational means. The focus of this paper is on the economic and financial value. Still, there are clear glimpses of the others in the examples shown, and many members will site the social as the most critical aspect of cooperative living.

Living in a GEC can be a better financial decision than owning your home, and it can also be an excellent method to build the savings necessary to buy a home, should that be your goal. At La Reunion, at least two couples were able to purchase homes in Austin due to the value earned from living in a GEC.

These two two-person households were saving:

- $500 a month in rent or $6000 per year
- $200 a month in food costs or $2400 per year
- Both were one-car households and drove about 5000 miles a year total, or 1/6 of an average two-person household, saving about $16,000 annually
- Total estimated savings are $24,400 or $12,200 per person per year.

If these couples wanted to buy a $500,000 home, it would take them 4-5 years to save up enough money for the down payment.

Due to the non-traditional mixing of business classes, the combination of both for-profit and non-profit concepts, and placing equity in the hands of the business rather than individuals, GECs distribute more value to their members in tax advantage ways than for-profit businesses. A better understanding of the model could lead to more GECs in housing and potentially outside it.

Appendix

This example is a repeat of the sidebar example showing La Reunion compared to an comparable apartment. That example assumed La Reunion had a gross revenue of $100,000, the following example uses the real numbers from the 2017 ACBA study.

A report by CBRE Multifamily found a long term return for residential multifamily at 9.75% over a 25 year period. (CBRE Multifamily, n.d.) NASCO Properties recommends its members budget for a surplus rate of 3%. The corporate tax rate in 2021 is 21% Let's use La Reunion Cooperative Apartments as an example as it's the best multifamily property with comparable data. In a 2017 study done by the ACBA La Reunion had rent that was 58% of the comparable market rate apartment across the street.

That year the gross revenue at full occupancy would be $175,860.

So, the expected profit at market rate would be

175,860/58%*9.75%   =$30,016.55

Applying the 21% corporate tax rate equals $6,303.47 in taxes

The Expected rate of return in a for-profit GEC would be

175,860*3%=5,356.80

So the taxes due would be $1,124.92

Resulting in a $5178.54 income tax savings. On a per unit basis that is $258.93 in savings. Or the $130 per bedroom listed in the body of the report

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