What 's a housing co-operative?

Somerset Co-operative Services

A Housing Co-operative is a business that owns or rents property for the purpose of housing its members. A fully mutual Housing Co-operative is one in which all members are tenants or prospective tenants and all tenants are members. In other words, it is the people that the co-op is housing or intends to house who decide how it will be run, and no one else.

In Britain, most Housing Co-ops are registered with the Registry of Friendly Societies, now part of the Financial Services Authority. This makes them 'Industrial and Provident Societies', governed by the legislation of the same name. This gives them a legal identity; property is owned, and agreements made, not with any individuals in the organisation, but with the organisation itself as a separate body (the same is true of companies, which are registered by Companies House, and indeed it is possible to register a Housing Co-op as a company). The advantage to registration is that members can come and go without having to legally disentangle themselves from ownership of the property, mortgages and loans. They are easy to leave and join, but while you are a member you effectively own the property. If the Co-op fails (it has more liabilities than it has assets) then the liability of the individual members is limited to one pound..

If a registered Housing Co-op is fully mutual, it is entitled to exemption from corporation tax on all income from rent. Since this is usually all of a co-op's income, this means no taxes at all - a big advantage. Because the Housing Co-operative can behave as a landlord, the grants and benefits to do with landlords can also be received by it - in particular, Housing Benefit. This is very important for Co-ops with tenants on low incomes.

An important part of Co-op rules for Industrial and Provident Societies is the clause that states that no payment can be made to members. No profits are paid out, no wages can be paid for work as an officer of the Co-op, and no bonuses or cash handouts are possible. This is why they are 'Friendly' societies - they are run by volunteers. A company might not have the same rules, but it would probably not be possible for tenants to claim Housing Benefit. Housing Benefit is meant to go towards the provision of social housing, and not to be passed on to the claimant.

Other ways of owning and managing properties include: private individuals, groups of individuals (joint mortgages), Housing Associations, and Trusts. The advantage of Co-ops is that all the people living in the property, and only the people living in the property, have an equal voice in the running of the co-op. Trusts are sometimes used when there is an outside interest that may conflict with tenants interests (for instance, the preservation of a listed building). Housing Associations are more appropriate when the people living in the properties need the support of other people to take decisions. Private ownership is used because people want to have a stake in the property, and be able to sell their share when they leave.

Co-ops have proved to be effective forms of management: a report by an accountancy firm said they came out best for maintaining properties and providing a good service to tenants. By taking property into common ownership, we can create a strong co-operative housing sector providing security for all of us for the future.

If you want to set up a Housing Co-operative, you will need a group of at least three people willing to take responsibility for it, and you will need about £400 (assuming you use standard, 'model' rules). You will need to work with a 'promoting body' - we recommend Catalyst Collective, who register Housing Co-ops for Radical Routes at a low cost. Then you will need to decide as a group want kind of property you want, whether you intend to rent or buy, and if you want to buy, how you will raise the finance.

This will lead to your writing a business plan. This will contain more or less the same things that any business would have to think about, from marketing to cash flows. As well as the business plan, you will need policy or 'secondary rules'. This will state what your aims are as a group, how you will organise yourselves to achieve them, and how you will resolve any conflicts or disagreements that may arise. Somerset Co-operative Services can help you with the whole process from developing a vision for your project, through business planning and finance, to ongoing support and services.

The backbone of Housing Co-op Finance is usually loans secured against the 70-80% of the value of the property – the Ecology Building Society, Triodos, the Co-op Bank, and some Building Societies have all lent to Housing Co-ops in the past. Flexible or unsecured lending may be available for the remainder – talk to Co-op and Community Finance, or Radical Routes for example.

Loanstock is a form of loan agreement popular with many Housing Co-ops in which loanstock is issued with a closing date when it will be repaid. It is quite a good idea to 'stagger' the closing dates so they don't all fall at once - this will also allow you to offer different terms to different lenders. Many schemes state how repayments can be made before the closing date if the investor requests it, and suggest appropriate 'periods of notice' for various sums. However, you should always state that such early repayments may be suspended if the co-op feels it has insufficient funds.

You can offer interest, and you may think is prudent to pay interest in the form of additional loanstock, to avoid high running costs. We can provide a loanstock pack, including forms, certificates, loanstock register and model conditions

Housing Co-operatives can raise a kind of equity from their members by offering long leases instead of tenancies. A lease is transferable – it can be sold just like the freehold – and if it is of sufficient length (99 year leases, or even 999 year leases, are quite common) it can feel very much like being a homeowner (for example, members may be able to secure a private mortgage against their lease). You can put conditions in the leasehold agreement, allowing the co-operative to veto the transfer of the lease under certain conditions, require a service charge for maintaining shared facilities, or other provisions. However, too many of these conditions will damage the value of the lease.

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