EAST BAY PERMANENT REAL ESTATE COOPERATIVE

...PEOPLE POWERED DEVELOPMENT

# FAQ on the Finances
## of East Bay Permanent Real Estate Cooperative (EBPREC)

**What does it mean to become an Investor Owner of the Cooperative?**
The Cooperative will initially sell Investor Owner shares for up to $1,000 each. If you buy a share, your funds are used to finance the purchase of property for the cooperative community. You receive a dividend of 1.5% per year on your investment. If you decide to leave the co-op, you can redeem your share at face value, plus any outstanding dividends. Dividends may not be distributed every year, but will be compounded and paid out when the funds are available. After a round of selling initial ownership shares, the Cooperative likely will offer the opportunity to purchase larger shares or to lend money to the Cooperative.

Regardless of the size of your investment, the rate of return will be capped, likely below 5%. No individual or company will be able to profit limitlessly from the Cooperative. The goal is to pay a reasonable return on investments (comparable to what you receive in interest-bearing savings accounts, at the very least) and to return as much value as possible to the Owners in the form of good housing, jobs, education, and community-building.

**What does it mean to buy into Cooperative housing?**
If you buy into a PREC house or building, the Cooperative will structure your agreement to simulate homeownership as closely as possible. Your monthly payments will cover the property costs, taxes, and maintenance, and you will build equity, as a homeowner would. The main exception is that, rather than selling your share on the speculative housing market, you will later sell your lease at a predetermined price, based on the equity you have gained. The price will be designed to pay you a rate of return that is more akin to a savings account, and likely tied to a common index, such as the Consumer Price Index, plus the cost of any improvements you've made, minus a portion of outstanding or upcoming maintenance costs. With each payment you make, the equity you gain begins to appreciate with the index. The formula is designed to retain the value of your equity payments, while stabilizing the price of housing for future residents. Ideally, the PREC itself will purchase your unit and then sell it to another Cooperative owner.

While you live there, you will be making monthly payments to the Cooperative. Legally speaking, the Cooperative holds title to property and you will be a tenant of the Cooperative. What you purchase when you buy in is a "diminishing rent lease," which is a type of lease designed to simulate homeownership. It is called this because your rent is designed to be substantially reduced when you pay off your share of the building's purchase price.

For example, imagine that half of your monthly "rent" is put toward your portion of the purchase price, let's imagine that is $200,000. The other half of the rent is put toward costs such as maintenance, property taxes, insurance, and administration by the Cooperative. When you pay off your $200,000 purchase price and financing costs, your monthly payments will be substantially reduced, likely by as much as 50%.

**How will the Cooperative finance everything?**
The Cooperative is designed to grow and support the acquisition of many properties over time, meaning that it will always be raising capital. The Cooperative will aim to build a large ownership base in order to raise substantial capital through the sale of ownership shares for up to $1,000 each. While this will not be enough to continuously acquire properties, this amount will enable the Cooperative to leverage capital in other forms and from other sources, such as banks, cities, and other institutions. However, the vision is to source as much capital as possible from the grassroots. A significant portion of our communities' wealth is tied up in savings invested on Wall Street. As movements grow and encourage divestment from fossil fuels and other extractive and exploitative industries, growing numbers of individuals, businesses, and large institutions (like foundations), are searching for alternative investments. A Permanent Real Estate Cooperative is designed to be a vehicle to enable divestment from Wall Street and reinvestment in our local communities. In order to solicit and receive this capital from ordinary people in the community beyond $1000 per person, the Cooperative will have to obtain a permit to offer securities from the State of California. This is also called a direct public offering (DPO).

Individuals can also join the cooperative as Community Owners through annual contributions, which are non-redeemable and do not receive a return.

The development of EBPREC is also supported by grants and investments from San Francisco Foundation, Full Circle Fund, Christensen Fund, Force for Good Fund, and other pending grant.

**What will the Cooperative do with its profits?**
Cooperatives generally operate to maximize benefit to their members (aka owners), which means that – apart from paying a small return on capital, as described above – profits are otherwise returned to members in various forms. The main form of "return" is to constantly improve the Cooperative's offerings and opportunities, based on the interests and needs of owners. Owners who are residents of Cooperative property will receive an additional patronage dividend representing funds from their monthly payments that were not spent on maintenance and management of their unit and building. In the cooperative sector, these dividends are often referred to as "patronage dividends" or "patronage refunds." These dividends may expand to include other cooperative owners in the future.

Dividends will often be retained in an account for each owner, rather than paid out directly. This is because the dividends will be used as both operating capital and reserve capital for the Cooperative and for its properties. When accounts build up to a certain level, the Cooperative will then make distributions directly to owners. For example, if you are a resident owner, the Cooperative might allow your account to grow as high as $30,000 in order to retain a maintenance reserve for your property. If the account builds up beyond ideal reserve levels, you might be paid annual dividends. When you leave the Cooperative, you will be paid the amount in the account, either immediately or as payments over time.

**In sum, financially speaking, here's what it means to be a Cooperative owner:**

- Investor Owners will receive a 1.5% annual dividend representing a return on their ownership share investment, and can withdraw their investments at will.
- Community Owners will pay dues to the coop, and participate in collective decisions.
- Resident Owners will gain equity and receive a small return when they sell their unit or share of housing, and will also receive a patronage dividend/refund on "rent."

Disclaimer: The exact financial structures of East Bay Permanent Real Estate Cooperative are still works in progress, as we are currently seeking and incorporating feedback. This handout is offers the basics, which are subject to change.