If the underlying purpose of the mission-based organization or nonprofit long-term-care provider (collectively called “LTC” herein) is to enhance and extend life, senior cooperative housing is an exceptional opportunity to serve—and to enhance the LTC’s finances and purpose. The cooperative does, however, hold special challenges—especially for LTC’s. The purpose of this paper is to discuss those opportunities and challenges.

**BENEFITS AND OPPORTUNITIES**

**Mission:** The Ebenezer Society, a large Lutheran LTC in Minneapolis, Minnesota sponsored the Nation’s first congregate housing cooperative in 1976, a 338-unit building in Edina, Minnesota (which currently has a 12-year waiting list). At first, their mission was to serve aging members of Lutheran congregations looking for a maintenance-free option different from what Ebenezer offered on its campus. After a few years of operation, it became clear something much bigger was happening—that the cooperative was successful for many other reasons. In 1981 testimony before the (U.S.) President Commission on Housing, Ebenezer gerontologist Gerry Glaser testified about that experience, including the followng:

“From a gerontological point of view, the essential benefit of the cooperative is that it provides an economic structure and social framework that fosters self-reliance, self-control and determination, interdependence and cooperation among the resident members, even among those with severe chronic conditions. As gerontologists we know that these factors contribute directly to continued independent living, successful aging and the enhancement of longer life.”

Full testimony available at [http://www.seniorcoops.org/glaser.html](http://www.seniorcoops.org/glaser.html)

Following Ebenezer’s success, several other LTCs sponsored cooperatives, most with disappointing financial outcomes (for reasons discussed later), but all having created fine and nourishing housing options for active older adults.

Following are primary examples of mission opportunities within cooperatives:

- **Energized, healthy community:** Today, licensed nursing home administrators—who manage cooperatives—state emphatically that older adults are living longer, more energetically and healthfully in cooperatives than they would in any other “senior housing” environment. Indeed, the participatory environment created through vesting control in these very competent older adults, in what is really a major business enterprise, creates a proud and energized community unique to cooperatives.

- **Security:** Security takes many different forms, one of which is financial. The cooperative is designed and budgeted to protect assets from spend-down. Through return of purchase price plus appreciation, nominal staffing, services only on request, no profit margin, and favorable financing, costs are designed to fit well within seniors’ income & assets, even those with more modest income.
Another form of security is the interdependence mentioned in Mr. Glaser’s testimony. Cooperative members do really think of each other as neighbors and family. One co-op board president recently stated something like this: *This really isn’t independent living; it’s old-fashioned family; we look out for each other.* As Gerry Glaser points out, the cooperative gives a formal structure to that kind of interdependence.

**Business opportunities** take several forms:

- **Additional market**: As Ebenezer and other sponsors have found, the cooperative extends the LTC’s reach deeper into the population of older adults, and to those who otherwise would not consider—or cannot afford—assisted living or independent living rentals. The cooperative not only appeals to the “young-old”, but also to older seniors who are naturally resistant to these facilities and/or their cost. Indeed, the population of existing senior cooperatives is spread fairly evenly from the late ‘50s into the late ‘80s, with a median age of 73, and with incomes ranging upward from +/- $15,000.

- **Improved reputation**: At a time when the LTC industry is by some viewed critically for the cost of their existing facilities, the cooperative offers a visibly consumer-friendly, owner-occupied & controlled environment and investment.

- **Services**: As co-op members age, they will require additional services, some of which can be provided in the co-op, some needing more aggressive care. To our knowledge, all LTC co-op sponsors offer priority access to their campus facilities and services. In two cases, LTC’s are adding a cooperative to their existing campuses to make those services more readily available for older members. In the process, they are also reaching younger seniors already attracted to a co-op and now enhanced by immediate availability of services—a significant extension forward of the LTC’s continuum.

- **Management Services**: While not large, management fees—coupled with potential service income—can provide additional cash flow for LTCs. Ebenezer currently is one of the two largest managers of senior cooperatives in Minnesota – most of which they did not develop. Their reputation of excellence in aging and property management make them the management agent of choice for cooperatives looking for an “institutional friend”. We are not aware of any mission-based LTC management agents that have involuntarily lost their contracts, while changes in profit-motivated management agents are fairly common.

- **Development Profit**: Cooperatives are for-sale projects which generate moderate to generous development profits depending on unit pricing and the market being served. These profits can be retained by the LTC sponsor or split with a risk-taking partner. There is, however, no cash flow, except that derived from a management contract.

- **Land Sales**: Many LTCs own land that can be sold to the cooperative at market prices.

- **Re-imaging the LTC**: As the nature of the aging population changes, LTC providers are changing with them. Based on the co-op’s experience accessing markets that otherwise would not be served by the LTC, especially the rapidly growing young-old, the cooperative is clearly a way to do that.
CHALLENGES

Cooperatives pose unique and serious challenges for LTCs, in spite of—and often because of—their strong local reputations, prominent leadership, and business focus on providing and expanding services for older adults. To date, ten nonprofit LTC’s have sponsored cooperatives. All but one experienced heavy losses or failed to get off the ground, even though most resulted in wonderful ownership communities. Following are some learnings from 30 years of working with mission-based sponsors and long-term-care providers as co-op sponsors.

Cooperative Uniqueness: Cooperatives are fundamentally different in ways that compel unusual and uncomfortable development and management styles for LTC’s:

- Most co-op buyers are usually not frail nor need-driven. There is no natural flow to this market as there is with more frail or needy elders, and especially in markets where seniors have no experience or knowledge of cooperatives.

- Most co-op buyers are younger, healthier, and have choices, chief among which is staying in their home; it may be an inconvenience but is not yet unmanageable.

- Co-op buyers are younger, alert—many still working—skeptical of promises, and some are especially skeptical about long-term care providers, for reasons discussed later.

- A significant percentage of units must be sold prior to construction start, to protect the developer, lender, and co-op members.

- Member owned & controlled, co-ops budget on a break-even basis, with no net cash flow.

For these and other reasons discussed below, the old market-study-justified, “build-it-and-they-will-come”, reputation-based business strategy on which most LTC facilities are built applies only marginally to cooperatives. Many LTC executives and board members, used to the LTC’s experience and reputation, have difficulty accepting and appreciating the impact of these realities.

Resistance to LTC’s: Most people, especially the young-old who are a large part of the co-op market, hope to never need to live on the campus of a long-term care facility. In fact, for some active adults it is counterintuitive to trust that the local “nursing home” would really provide something for them. LTC’s have a special challenge then, when developing a cooperative, to convince buyers it isn’t what they’ve always wanted to avoid. While they may respect the LTC, and a few may appreciate the “institutional friend” behind the scenes, experience is that most co-op buyers—especially the younger ones—resonate more to the real estate developer than the LTC. To paraphrase a senior market analyst in the Twin Cities: Cooperatives appeal to older adults—especially couples—who wouldn’t even think of living in “senior housing.”

Politically-driven decision-making: Cooperatives are made successful, not just by the market, but more importantly by the right tactical choices. Several LTC-sponsored cooperatives have failed—or experienced major losses—because of politically driven choices. An LTC’s position in the community and reliance on charitable giving—especially from local businesses—too often compel politically expedient selection of team members inexperienced with the unique attributes of cooperatives (especially architects and general contractors). Usually when that happens, designs are inadequate, inappropriate, unimaginative and unappealing to reluctant older adults; always more expensive. As a result, because co-ops are so timing- and price-sensitive, risks of failure or of subsidizing unsold units are greatly increased.
**Slow, unpredictable process:** Cooperative developers must move adeptly and quickly through the pre-construction period; unfortunately, many LTC’s governance practices aren’t so streamlined or deft. It is not unusual for an experienced developer’s five-minute decision to require weeks and even months for an LTC. As a result, overall LTC co-op development times have been three to four times longer than for for-profit developers. The longer it takes, and the more changes that occur, the fewer buyers will stick around—even if they’ve made reservations. Once an older person decides it’s time to move out of their house, they’re not going to wait very long, and reservation lists become softer and softer as the lead-time prior to construction grows.

**Financial Risk:** As an owner-occupied facility, the cooperative operates on a break-even budget; it does not budget allowances for vacancies or contingency “coverage” of debt service, or cash flow to the developer. To protect the purchasing members, the project sponsor, or some other creditworthy party, must actually pay the monthly charges on unsold units (this obligation disappears after all units are sold). This risk can be budgeted for in sales proceeds, but it remains an obligation if that budget is inadequate. The sponsor is responsible for any cost increases, since the purchase prices to members have been contracted. These risks may be assigned to or shared with a creditworthy joint venture partner or, occasionally, the general contractor.

**Unpredictable relationship:** If done correctly, the cooperative assumes full democratic governance of the facility within 60 days of completion. The LTC may, if it chooses, sign a multi-year management contract, which may or may not be extended by the cooperative. This uncertainty gives many LTCs pause about the wisdom of sponsoring something they may “lose”. However, we are not aware of any LTC management agents which have involuntarily lost their contracts, even after over 25 years of operation. For-profit agents are frequently changed.

**Control:** Control of the cooperative—all its decisions and finances—is under the control of the membership through its elected board of directors. The LTC manager may provide accounting and financial services, building maintenance, and event coordination responsibilities—and lend its insights as requested—but it is a facilitator of the members’ process, not in control. Staff need to be trained and counseled in this type of management, especially if they have a great deal of long-term-care experience.

**Competitive with existing facilities:** The cooperative may compete with the LTC’s existing facilities. On the other hand, as noted above, that disadvantage is likely offset by the ability of the LTC to access markets that otherwise would not be interested in their facilities, and to gain customers for its home-care services now—and campus services later.

**Summary:** It is important to note that, even though cooperatives began with nonprofit LTC sponsorship, today co-ops developed by for-profit developers outnumber, ten to one, those developed by LTCs. While that can partially be explained by the aggressiveness of for-profit developers, it is also true that many of those early LTC co-op pioneers have abandoned development altogether, in our opinion, largely because of the challenges listed above.

These challenges notwithstanding, CHR staff believe strongly in mission-committed LTC sponsorship of cooperatives. It was that mission that created the concept, and it is that mission of service and health that continues to flow through all cooperatives in varying degrees. In recent years we have seen the “for-profit” cooperatives tend to sway more toward typical real estate practices—and in the process lose the focus and commitment to health, community, simplicity, and equality within the cooperatives. As a lender and champion of cooperatives, we at CHR welcome and encourage LTC sponsorship, and are committed to supporting them in every way possible.