2004 Cooperative Housing Journal

Articles of Lasting Value for Leaders of Cooperative Housing

Published by
The National Association of Housing Cooperatives

National Association of Housing Cooperatives
Sharing Solutions, Strengthening Communities

Dos Pinos Housing Cooperative in Davis, California from 1986 to 2005: The Long-Term Value of Cooperative Homeownership versus Rental

David J. Thompson has been developing and writing about cooperatives in the United States since the 1960s. He is the author of Weavers of Dreams: Founders of the Modern Cooperative Movement *and over two hundred articles about cooperatives.*

By David J. Thompson

Over the past two decades, the city of Davis provided a range of affordable homes for either income-eligible households or first-time home buyers. The single family homes created by the city's affordable housing program have all moved to market price. None of these single family homes are affordable to the same income group as initially occupied them.

Thus, after two decades of creating homeownership opportunities, the city has only one homeownership model that is today more affordable to low-and moderate-income households: limited equity cooperatives. In 1985-86, the Dos Pinos Housing Cooperative Inc. (Dos Pinos was derived from Twin Pines, the cooperative symbol in the USA since the 1920s) was developed as a 60-unit non-subsidized limited-equity housing cooperative (LEHC). It was the first unsubsidized LEHC of its kind in California.

This longitudinal study (1985-86 to 2004-05) of Dos Pinos shows how the city of Davis obtained one of the most effective models of permanently affordable homeownership in California. In these comparisons, the word housing cost will be used for both rentals and the "carrying charge" at Dos Pinos.

Findings about Dos Pinos Housing Cooperative:

- Developed at full-market cost without any local, state, or federal subsidy.
- Becomes lower in cost each year relative to similar Davis apartment units.
- All units are owner occupied (none rented).
- No all student households.
- Lowest down payment of any form of homeownership in Davis.
- Lowest monthly housing cost of any form of homeownership in Davis.
- Mortgage interest and property taxes paid per unit are tax deductible.
- Only homeownership form that becomes lower in relative cost overtime.
- Only homeownership units remaining permanently affordable to same or lower income group.
- Creates more economic savings than other homeownership programs.
- Provides the most affordable step up method for renters to become home owners.
- Dos Pinos residents are able to move on to unrestricted homeownership.
- Due to demand, applicants wait from three to five years to obtain a unit.

In the 1980s, the General Plan for Davis exempted LEHCs from the housing allocation process because they were proven to provide permanently affordable home ownership. As part of its slow growth policy, Davis set limits each year on how many building permits were allowed through the allocation process. Dos Pinos was occupied in 1986 without any subsidy from the city, county, state, or federal governments. The land, construction, and development costs were all at market rate. Therefore, when Dos Pinos was built, its monthly housing costs were slightly higher than the surrounding comparable market-rate rental apartments. However, people were willing to pay slightly above market rate to gain homeownership, stable housing costs, the economic benefit of tax deductions, and a cooperative community. As Dos Pinos trended lower in costs than the market, its profile changed. A number of families have aged in place. Only 15 of the 60 units have two-income households and a few of them are seniors on double pensions.

The nearby market-rate Sequoia Apartments at 2255 Sycamore were built the year before Dos Pinos, and the units are about the same square footage. The 50-unit Sequoia Apartments are comparable in quality and looks with Dos Pinos and are about the same density per acre. However, over the study period, the Sequoia Apartments housing costs have annually been slightly below the average price for similar sized rental units in Davis.

Tables 1 and 2 compare Dos Pinos and the market-rate units at Sequoia from 1986 to 2004.

Return on Invested Capital for 2004

A family moving into a three-bedroom unit at Dos Pinos who invests $19,305 in their share and who itemizes their tax return gains the following economic benefits from living at Dos Pinos. They receive annually $8,904 in below-market rental savings in comparison to the average three-bedroom unit (Davis Apartment Vacancy and Rental Rate Survey published annually by the UCD Housing Office) homeowner tax deduction cash benefits of $938, (the deductible mortgage interest and property taxes in the 21 percent state and federal tax bracket) and $1,158 in the annual interest on their share of $19,305 for a total annual savings of $11,000. In 2004, a family living in a three-bedroom unit at Dos Pinos obtained annual savings equal to a 57 percent return on their invested capital of $19,305.

Table 1.
Increase in Housing Costs at Sequoia and Dos Pinos 1986 to 2004

1986 to 2004	1 Bedroom	2 Bedrooms	3 Bedrooms
Sequoia Apt. Increase 1986-2004	$345 - $805 133%	$535 - $1,035 93%	$735 - $1,495 109%
Dos Pinos Increase 1986-2004	$420 - $537 28%	$598 - $ 754 26%	$798 - $ 954 18%

Table 2.
Dos Pinos versus Sequoia 2004 Monthly Rents and Monthly Savings

2004-2005 Rates	1 Bedroom	Sq Ft	2 Bedroom	Sq Ft	3 Bedroom	Sq Ft
Dos Pinos	$537	652	$ 754	928	$ 940	1,238
Sequoia Apt	$805	700	$1,035	875	$1,495	1,250
Dos Pinos Savings before Tax Benefits	$268		$ 281		$ 555	
*Dos Pinos Savings after Tax Benefits	$314		$ 346		$ 633	

** It is believed by the Dos Pinos Board that about 25 percent of the members itemize deductions. As the relative housing costs at Dos Pinos have lowered, it has become more affordable to low-income households who are less likely to itemize. When Dos Pinos first began, almost everyone itemized, and through the 1990s, this was still the case. During the first decade, the tax benefits were key to marketing Dos Pinos. However, because refinancing of the mortgage resulted in lower mortgage interest costs and because of changes in tax law, the cash benefits of tax deductions have trended lower. Dos Pinos is now attractive because of its substantially lower monthly housing costs.*

One unique element of a LEHC, such as Dos Pinos is that every family, every year for 18 years received the full return on their invested capital. During that same period the value of real estate in Davis fluctuated. Most condo or single family homeowners lost equity during the 1990s.

Cash Savings due to Cooperative Homeownership in 2003-04

During 2004, the median income family of four earning $60,100 and living in a three-bedroom Dos Pinos unit will save $8,904 a year over living in the average three-bedroom rental unit in Davis (UCD 2003-04 Report). At the end of five years, this family has $44,520 in cash savings, plus $4,690 in cash benefits from tax deductions and $5,791 in earned interest on their share for a total savings of $55,001. With $19,305 in their invested share, the family has $74,306 in savings to use toward purchase of a single family home. No other affordable home program in Davis gives this repeated start up the homeownership ladder. Many young families moved from Dos Pinos to homeownership within the Davis area.

After Tax Deductions

Under federal tax law, the mortgage interest and property taxes paid by a LEHC are proportionately deductible to each unit. The monthly housing costs are reduced for households that itemize their taxes.

Until 2002, a family of four earning the median income in Yolo County would have been in the 28 percent federal tax bracket plus 8 percent state of California income tax. In 2004, the median income in Yolo County for a family of four was $60,200. From 2002 on, that family would be in the 15

Table 3. *Comparison of Dos Pinos and Sequoia in 1986 with Tax Benefits at the Time*			
Housing Cost Comparisons	**Monthly**	**Monthly**	**Monthly**
DP Opening 1986	$420 1 bedroom	$598 2 bedrooms	$798 3 bedrooms
Sequoia in 1986	$345 1 bedroom	$535 2 bedrooms	$715 3 bedrooms
DP Above Sequoia	$ 75 Higher	$ 57 Higher	$ 83 Higher
DP After Tax Savings	$317	$454	$606
Comparison After Tax Savings	$ 28 Lower	$ 81 Lower	$109 Lower

Table 4. *Tax Deductions Available by Unit Size*			
Tax Deductions at 15% Federal and 6% State	1 Bedroom 6 units	2 Bedrooms 28 units	3 Bedrooms 26 units
2003 Tax Deductible Amount	$2,627	$3,736	$4,469
Annual Tax Savings	$ 552	$ 784	$ 938

percent federal tax bracket and 6 percent state—a total now of a 21 percent deduction. After 18 years and refinancing, Dos Pinos twice, the principal is reduced; the interest rates are lower; the mortgage interest payments are lower; and the annual deductible amount is growing smaller.

As the mortgage is paid down, the tax deductions and therefore, the cash benefits grow smaller. The tax savings available to the cooperative homeowners at Dos Pinos since inception has been over 2 million dollars. Were they to have been renters, these savings would not have entered the Davis economy.

The increased equity within Dos Pinos does not leave with the seller but is retained by the cooperative. In homeownership, the home is sold at market value, and the next buyer finances the higher priced home at a new higher mortgage. In the LEHC, the existing mortgage stays in place and is usually only refinanced when banks offer a lower interest rate. Therefore, in comparison with a single family home or a condo, the LEHC mortgage cost trends down while the others move up. Tables 6 and 7 look at the carrying costs at Dos Pinos for which income group it was affordable in 1986-87 and 2002-03 and the ability of Dos Pinos to be more affordable over time to lower-income households.

Lower Down Payment Requirement

Dos Pinos requires less for a down payment compared to a conventional loan for a home or condo. A 20 percent down payment on the median home sold for $479,000 in August 2004 would be $96,000, a 10 percent down payment on the lowest priced home sold for $235,000 in August of 2004 would be $23,500.

Savings in Real Estate Transaction Costs

Turnover at Dos Pinos averaged about five-six units per year (8 to 10 percent) over the past 10 years. There are no real estate commissions and no transaction costs for the transfer of shares in Dos Pinos. At Dos Pinos, this is a major savings for seller and buyer. The initial transaction costs and real estate commissions for buying a condo or single family home is at least $8,000.

Therefore using the $8,000 per transaction, the six residents moving in and out annually save about $48,000 per year in real estate costs.

Savings at Dos Pinos

Much of the focus on creating homeownership for moderate-income households is on first-time homebuyers programs. Through subsidies on the specific unit, the individual household realizes equity growth over time. However, only a few households get this advantage, and upon sale, the home is lost as an affordable home. Within Wildhorse, the last major subdivision in Davis, there could have been a LEHC of 60 units just like Dos Pinos. Instead,

Table 5. *Annual Tax Savings for All Units at Dos Pinos*				
Unit Size	**1 Bedroom**	**2 Bedrooms**	**3 Bedrooms**	**Total Tax**
# of Units by Size	6 units	28 units	26 units	Cash refund
Annual Tax Savings	$3,312	$21,952	$24,388	$49,652

Table 6. *Affordability Levels in 1986-87 (Before the Benefit of Tax Refunds)*		
# of Bedrooms	**Affordable to**	**At Percent of Median**
1	2-person household	151%
2	3-person household	89%
3	4-person household	99%

59 homes were made available, half at a price affordable to families at or below 90 percent of county median income and half at or below 100 percent of county median income. Fifty nine households who obtained the Wildhorse affordable homes gained about $12 million in equity, but they were the only 59 households who did. After three years, a majority of the families have sold and moved, many out of town with their wealth. The program is over. Fifty nine households did well, and there are now not any affordable homes that a household at 90 percent or 100 percent median county income can purchase in Wildhorse. The city of Davis must start all over again to meet the housing need. Dos Pinos, on the other hand, shows how the LEHC model multiplies wealth creation for more families over time. Subsidizing the homes at Dos Pinos seems more economically effective than subsidizing the households in Wildhorse.

Table 9 looks at the savings for the 60 families living at Dos Pinos for 2004-05 versus living at Sequoia during the same year. These savings do not include tax benefits.

By living at Dos Pinos rather than at Sequoia, the cooperative has created annual savings of over $300,000 per year for the 60 families.

To most Dos Pinos families, the savings provide more disposable income for a better quality life. To younger families, it means more savings toward purchase of a single family home. To seniors, it means life with less economic stress. To many families, it means being able to afford living in Davis rather than in a nearby town.

To the local economy, it means having the opportunity for those 60 families to spend $300,000 in Davis. The Davis community is strengthened by the expenditure of this level of disposable income.

Unlike non-profit tax-exempt affordable housing, Dos Pinos pays all local property taxes and fees and is thereby the only permanently affordable housing community in Davis that contributes to the tax base.

To the school teachers, city employees, and other local employees who wish to have homeownership in the

Table 7. *Affordability Levels in 2004-05 (Before the Benefit of Tax Refunds)*		
# of Bedrooms	**Affordable to**	**At Percent of Median**
1	2-person household	40%
2	3-person household	50%
3	4-person household	56%

Table 8. *Increase in Share Values from 1986 to 2004**			
Dos Pinos	**1 Bedroom**	**2 Bedrooms**	**3 Bedrooms**
Share 01/86	$ 2,900	$ 3,130	$ 4,880
Share 01/04	$11,474	$15,151	$19,305

**Historically, annual interest rates have ranged from 4.00 percent. The state of California limits the maximum simple interest per year on LEHC shares at no more than 10 percent.*

Table 9. *Cash Savings for Dos Pinos Families versus Sequoia Families*				
Bedroom Size	**1**	**2**	**3**	**Annual Savings**
# Units	6	28	26	
Per Unit Monthly Savings	$ 268	$ 281	$ 555	
Savings Per Unit Size Total	$19,296	$94,416	$173,160	$286,872
Savings with Tax Benefits **Total Potential Savings**	$ 3,312	$21,952	$ 24,388	$ 49,652 $336,524

city where they work, Dos Pinos is a welcome respite from renting. No Davis employer can give the type of annual increase in salary that Dos Pinos is giving in the annual savings over renting. The high rents mean that no matter how hard they work or frugal they are many families will never accumulate the savings to move into homeownership.

Absent those circumstances, Dos Pinos is an oasis of opportunity that allows renters to transition to cooperative homeownership and then into single family homeownership.

Conclusion

Dos Pinos is a great benefit to the present and the over 100 former families. As an LEHC, Dos Pinos will continue to grow annually in the amount of wealth generation it provides its members.

With wider acceptance and access to resources, LEHCs could be a more prevalent tool in solving our nation's housing crisis for moderate-income families.

Future

In Davis, Dos Pinos' success led to the formation of the Davis Area Cooperative Housing Association (DACHA) to replicate the LEHC model. DACHA is a citywide multi-site LEHC developing only single family homes. By March of 2005, there will be 20 single family homes within DACHA and 20 more scheduled for completion in the next two years. DACHA gives first preference for the homes to households employed in Davis or at UCD who also are first-time home buyers. It is anticipated that DACHA will over time replicate many of the economic benefits of Dos Pinos.

All of the 60 units of Dos Pinos are south facing and have passive solar design. The cooperative community is attractively laid out at 15 units per acre.

Background on Davis, California

Davis, California is a university town (University of California at Davis) with a population of 60,000 people. Davis is located in rural Yolo County 18 miles from the state capital of Sacramento. Due to its college town atmosphere, good schools, and slow growth philosophy, Davis is a desirable community. However, the city is struggling with a crisis in supplying affordable homeownership for moderate-income families who work in the community.

The high demand for housing continues to grow partially because of annual enrollment increases at the University of California at Davis (UCD). The growing influx of mainly students has turned more than 4,000 of the 12,000 single family homes in Davis into rental properties. Over 50 percent of the units in the two largest condo communities in Davis are also rentals. The overall housing vacancy rate in Davis is presently less than 2 percent. Real estate economists agree that at 5 percent there is equilibrium among buyers and sellers that is fair to both. During the past five years, the vacancy rate in Davis has never been close to 5 percent.

Based upon the continued low vacancy rate, few homes for sale and anticipated long-term demand, Davis is a home sellers' market. During 2004, an average of 71 homes per month sold in Davis. During the first five months, homes on the market have on average sold in less than 30 days. Buyers of homes for rentals have more capital, move quicker, and pay more for homes than owner-occupied households. Buyers of homes for use as rentals drive up housing prices and compete directly with local employees wishing to own a home in the community where they work.

As a result of the economic factors affecting housing, the price of the median home escalated from $207,000 in 1999 to $515,000 in 2004. The median income for a household of four in Yolo County is just over $60,000. That median household cannot purchase the median home for sale in Davis. Increases in median income have not kept pace with the rise in real estate value.

The U.S. Census for Davis for 1990 show that, 88 percent of very low income renters and 76 percent of low income renters were overpaying for housing (HUD defines overpaying when a household pays more than 30 percent of their income for housing). With the high rate of over paying, most Davis renters cannot accumulate the down payment needed for the median priced home.