

## The project initiator and developer – the USA case

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### Lessons for SMEs:

- Entering the co-housing market as a developer can be a reasonable decision, as from a technical point of view it is similar to regular residential housing development, but the future residents are known in advance (which makes the sales more secure).
- This is a niche market activity between a small builder and a regular developer, but these actors mostly do not have the tools. Most developers good at building but some extra is needed here: the product is not difficult but the process is.
- There are simpler ways to earn profit, thus extra motivation (and skills) are needed in order to enter this market.
- You are working with groups of people, which naturally brings in uncertainties. In order to reduce the risks there are some ways to follow:
  - Define all the possible rules in advance
  - Set a minimum level of devotedness from the side of the co-housing community before taking higher risks (e.g. minimum level of costs paid, residents to subscribe)
  - Make the parties financially interested in the success of the project
  - Create a common company with the CSO group in order to be in a strong decision making position
- You may need the cooperation (assistance, help) of the local municipality to upscale the project and make it more affordable.
- You need a network of professionals and companies with good track records in the co-housing field in order to provide integrated services.

### The company:

Wonderland Hill Development Company has developed more than 20 co-housing projects since 1990. The company itself was established in 1973 and has a history of developing and building innovative housing in the US. The business activities in the field of co-housing were based on two major approaches: 1) the co-housing movement transferred to the USA from Denmark by means of the work of Kathryn McCamant and Charles Durrett (who wrote the 'Bible' of co-housing: 'Creating CoHousing') and 2) the intention of the founder of the company, Jim Leach, was to implement sustainable construction projects. Even though Kathryn McCamant and Charles Durrett were not part of the company (although they worked with it in network several times) their ideas were put into practice by Wonderland Hill Co.

The founder, Jim Leach was devoted to sustainable construction (e.g. solar energy, green buildings). He holds a bachelor's degree in architectural engineering, a bachelor's degree in business management, and a master's degree in construction engineering. The company has a limited number of employees, as it works in network with other professionals rather than in an employment relation.

As emphasized before, the profile of the company is based on strong values (sustainable development and community values). Therefore its main focus of activity is assisting co-housing groups in the development of their communities from the start of feasibility and design until the end of the construction, while it also takes part in creating net-zero solar homes and mixed-used developments outside the field of co-housing.

Since 1990 the company created 20 co-housing projects, all of which had a somewhat different nature in terms of target group, housing density and types, and contractual relations.

The economic recession of the late 2000s hit the housing market, and while it had a positive effect on the co-housing market in some European countries (being a niche market which still operated), it seriously affected on-going constructions in the USA. In addition as Jim Leach is now over 70 he decreased his development business activities, but he is still a consultant for other cohousing developers and groups intending to do their own developments.

### The market segment:

The groups with which Wonderland Hill Development Company is working can be considered progressive regarding environmentally friendly construction and architectural methods, while they are also progressive in the ways and means they intend to share part of their lives with one another, creating not only homes but communities. This intention has impacts both on the output of the project (the architectural solutions) and the process through which the outcome is reached (e.g. community based decision making and forming the community by means of the development planning and design process).

The projects are mostly located in urban neighborhoods (inside cities or in the suburban areas), mostly in the form of low density new construction (10-20 housing units/acre). In exceptional cases the project could focus on restructuring already existing buildings (like an old school building). The project size is typically 20-40 units, which, depending on the layout of the buildings in a plot, can be considered a neighborhood.

Concerning the income level of the future residents of co-housing projects, there are some indirect signs indicating that the residents have higher than average income:

- The prices of the homes in a co-housing project developed by Wonderland Hill are 10-15% higher than that of average homes in the local new home market, as besides the private flats common spaces are added to the built area. However, these units are somewhat cheaper than usual detached single family houses, as the density of cohousing neighborhood is higher.
- The future residents are environmentally more conscious, which means that the building standard is usually higher than average causing extra costs for the construction.
- The future residents are home owners and not tenants (among the 20 co-housing projects Wonderland Hill developed so far, some contained low priced units in places where the local government supported the construction of affordable housing).
- The future owners have to provide at least 20% down payment of the sales price of their home as an investment in the project prior to the construction period, which means that these families should be able to obtain these funds.
- Finally co-housing communities that contract Wonderland Hill are able to pay additional professionals to assist the community formation, planning and construction process. (However, paying for the expertise is not necessarily more expensive finally than doing things by the group members themselves, as experts may help avoiding unnecessary costs.)

The market segment of co-housing – at least the one Wonderland Hill deals with – has changed in the last years as senior co-housing tends to be more common. This is due to the inability of younger families to afford new housing.

The market segment of co-housing is a niche one even in the United States. Some hundreds of communities are organized this way, which is very modest considering the size of the population. Wonderland Hill does not have many competitors on the national market (approximately 6-10 companies are specialized on this – or at least have it in their portfolio - and Wonderland Hill has the biggest track record with 20 projects). The competitors are either architectural design companies or classic developer companies.

The public sector – unlike in some European countries and cities – rarely contributes to the construction of co-housings with either options on sites or any kind of financial assistance. However there are some localities – like Boulder, Colorado - which have a positive approach through the support of affordable homes: they provide subsidies or building sites if affordable homes are created).

### The product (value proposition):

Most of the communities that contact Wonderland Hill are inspired from the already existing communities, or the book 'Creating CoHousing' by McCamant and Durrett. Thus these communities do have the intention, they have strengths in terms of organizational capacities, they sometimes even access to a plot, but they do not have the required technical, legal and financial skills. Therefore they need a company that provides them a stable background throughout the whole design and construction process, and also takes into account (and tolerates) their distinctive characteristics.

Wonderland Hill provides a complex service from the first steps till the end of the construction. They create a bridge between the future residents, architects and engineers, financial institutions, municipalities, constructors or developers and with all other stakeholders.

The activities of the company throughout the process are:

- Site Search and evaluation of the site opportunities.
- Creation of the financial plan and budget of the whole project displaying in advance all the cost items that would occur during the project planning and implementation. In the project implementation process the company provides the financial management (organizing sources and cash-flow).
- Organization of workshops for the community in the early stage to provide information on the development process, land acquisition, project financing and community building
- Organization of workshops to increase the commitment of the future residents and strengthen the sense of community.
- Support of the planning process by providing professional assistance to architectural design
- Provision of project management throughout the whole process including the construction management, like: contractor negotiation, quality assurance, cost and schedule monitoring, project completion and warranty oversight.
- Development of brochures to inform all stakeholders of the process and product.

As it was emphasized before, Wonderland Hill Development Company has a limited staff, but has strong ties to companies and experts. Thus the co-housing projects are implemented in network. In most cases all the relevant actors are named in the beginning of the project including the architect, site planner, development consultant, civil engineer, attorney, accountant, real estate agency and the builder. Thus Wonderland Hill has a preset network for providing the integrated service.

The time scale of a project developed by Wonderland Hill is 2-3 years (although the company now has a project with a ten-year duration, as it was delayed by neighborhood resistance and the financial crisis of 2008).

The services mentioned above can be provided on a contractual basis, or throughout the establishment of a new limited liability company, co-owned by the members of the future CSO group, Wonderland Hill Co., and occasionally other financial actors. 'This Project LLC then contracts for all Project Management Services with WHDC. In addition WHDC provides the financial backing for the construction of the project once sufficient presales are reached.' (Leach, 2012). By this mean, the project developer is the group in which all direct stakeholders are financially involved. The new company operates with clear rules, which defines the roles of each party and names in advance all the future professional implementers.

A project implemented by Wonderland Hill is similar to that of projects implemented by regular developers in the respect that a normal profit rate is calculated over the costs, which is about 10% of the sales price – the exact amount is fixed in the founding contract of the new limited company. This profit is shared between the developer (WHC's developer fee is included in the profit) and the other shareholders, meaning that the CSO group is entitled for the profit as well as other financial actors (non-purchasing investors may receive 6-9% annual interest on their investment). Besides the normal profit there is a system for discounts and bonuses based on the risks the different actors take in the project.

The cash-flow of the projects is staged:

- Stage 1: the CSO group invests at least 10% of the project costs and collects at least 75% of the members.
- Stage 2: As soon as it is completed the newly created limited company arranges the construction loan. (Group members are allowed to provide more than 10% of the predicted costs of their unit, but in this case their return on investment will be a discount on their unit costs.)
- Stage 3: The construction loan finances all the costs.
- Stage 4: The additional 10% of the unit costs must be paid by the CSO Group Member as a down payment by the end of the project.

The most innovative features of the business approach of Wonderland Hill are the following:

- The realistic project design allows the CSO group to see in advance where the project will end. This forecast brings stability for further planning and increases the credibility of the business offer.
- The share of risks and connected costs and benefits. The role of each actor (namely the CSO group and WHDC) is well defined in the beginning of the process and all actors take financial responsibility for the continuation. (E.g. The common limited company starts its main activity when there is enough commitment from the community member investments.)
- WHDC has the necessary experience, as it developed methods to work with a community in a streamlined way in order to accelerate the decision making process.
- WHDC has the network of professionals that are all experienced in co-housing and can adapt their activity to the demands of each individual community.

### **Pricing:**

The revenues of the company come from two sources: based on the services it provides, and based on the financial risk it takes. Accordingly the revenue pieces are:

- The project management fee, which is 5% of the project sales value (25% of which is paid after the completion of the project)
- Developer's fee, which is 50% of the project profit and thus budgeted as 5% of the sales value
- Revenues from the return on investment based on the amount of cash invested in the Development Company

Further information on the company: <http://www.whdc.com/>