

## The project generator – the Milan case

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### Lessons for SMEs:

- You are able to choose the best options to develop in case you have a pool of potential projects and the pool of potential buyers to match. In order to develop such a data base of potentials you have to put effort into internet based community development and project generation, and in addition you have to constantly sustain the level of interest.
- You have to be aware that (in case all the decisions are made properly with the help of a project management company) a co-housing project is a good “product” for developers as they do not have to invest into the project for years thanks to the high level of pre-sales produced by the committed future residents. This high level of pre-sales can be turned into financial benefits in the form of price discount. If your company is a project manager, a co-housing project increases your negotiating potential with developers.
- Furthermore, developers need to cover a lower share of the construction costs from bank loans as the future owners are able to provide capital, thus developers are motivated to be engaged with co-housing projects.
- You need to require a certain level of commitment from the future residents (share of “sold” units, share of costs to be down-paid) before you enter into contractual relationship with developers.
- If you are paid based on a percentage of sales value, you have a high interest in keeping the deadlines and not allowing delays. In order to stick to schedule, you have to choose the projects with the least risks, thus you need good risk assessment.

### The storyline:

From the middle of the 2000s the founders of NewCOh started to analyze the Italian co-housing market based on the existing European experiences under the umbrella of the Politecnico di Milano. What they found is that 9 out of 10 communities that started the process spontaneously had to close with failure. The most important reason for this was the long time period (about 10 years) which resulted in the complete change in the composition of the residents and the loss of trust in the project.

Based on this experience the founders of the company decided to work out a new method according to which the whole process can be accelerated. (The details of the method will be described in the chapter on the value proposition.)

The activities of the company started in 2010, and it already completed 4 projects (3 in Milan, 1 in Pisa, with 8-60 dwellings), while 2 additional projects are in the pipeline. The financial crisis helped in a way to enter the market as real estate developers were less able to earn money on the traditional construction market and were not able to get project loans with 80-100% coverage, thus they tended to be more sensitive to start innovative projects (like co-housing) and hence were more eager to partner with NewCOh. Nevertheless, the company already had to withdraw from 2 failed projects, which indicates that it is still an uncertain market segment. The company would be more stable if it had more projects than it currently does, so it is still working on expanding its activities. In parallel it plans to carry out a survey among its wider community members to gain a better insight into what the potential residents may require, so the product of NewCOh is in constant development.

The company has 6 founders, out of which 3 are working at the company (providing management, marketing and architectural expertise) together with 4 employees, and another 6-10 people collaborate with NewCOh in a close contractual relationship.

As of now NewCOh has no relevant competition in the co-housing market amongst SMEs to provide full service for communities. (Even though there are some cases when developers promote their project as “community type”, in practice these are not real co-housing projects.) However, it is expected that as the co-housing market gains impetus, there will be new companies to enter this segment.

### The market segment:

The composition of the future residents of the co-housings organized by the company reflects the average composition of the socioeconomic group that moves to newly constructed housing. Thus they

have a mixed income, education, age structure and family status. However their set of values and their vision for life is different from the average: all of them are devoted to a sustainable way of life in community and environmental terms.

The newly formed co-housings are owner occupied, so practically they are condominiums<sup>1</sup> (which is the most frequent tenure form in Italy regarding multi-unit buildings).

Based on the Italian housing market traditions (which highly values a flat with complete functions), the co-housings established by NewCOh provide homes with all the needed individual functions (like bedrooms, living room, kitchen) with additional common spaces in the building. The functions of the common spaces are defined based on the needs of the community, and can contain a park, terrace, storage facility, guest room, community rooms, sports facilities, laundry, workshops. This functional composition of the buildings would make the new housing units more expensive than the market average, however, in the course of the negotiations with housing developers NewCOh has been able to achieve substantial (15-30%) price decreases thanks to the fact that most of the housing units are sold in the beginning of the project, thus a developer does not have to risk its own funds for a prolonged period. Adding together the extra costs of common facilities and the decreased price of construction thanks to pre-sales, the price of units will be comparable to that of newly constructed apartments in Milan.

NewCOh generated its co-housing projects inside and around Milan, thus they provide urban housing solutions mainly in brownfield developments, with the refurbishment of existing buildings. In the future, however, they intend to expand their activities into other bigger cities of Italy like Rome, Bologna, Torino, Naples, Bari and Florence.

### **The product (value proposition):**

The method that NewCOh developed in order to accelerate the process of creating new co-housing is based on a pooling system: pooling future residents and pooling potential projects, then matching them and selecting the ones that seem to be the most feasible.

NewCOh operates a virtual community through cohousing.it. This community includes people that are interested in the idea of community living, environmental sustainability and sharing economy. Currently this community consists of approximately 20,000 members while NewCOh intends to increase their number into two million in the next few years. This virtual community has two main objectives (from a business point of view): 1) they articulate the needs of this market segment, 2) they provide the immediate demand for potential projects to facilitate bringing together the starting communities for new projects. On the supply side, however, NewCOh is approached by municipalities, banks, and building owners who offer properties for refurbishment which can then be turned into new co-housings. Annually 100-150 of such project proposals arrive to NewCOh. NewCOh then filters the project proposals by feasibility, and undertakes their risk assessment, taking into account factors like the accessibility and physical condition of the building, the number of units that can be created, the regulations in force etc.

If a project proposal seems feasible, NewCOh puts an option on the site (a building to be refurbished), which is valid for 6 months. In general there is no need to pay for the option, although in some exceptional cases it can cost €10,000-20,000. After that the company starts to advertise the project among cohousing.it community members, and also organizes presentations for a wider community. By this means the booking process starts and the core of the community is formed. The project elaboration process starts when at least 300 potential owners are booked (for a building with 50 potential apartments). The core values of the future community and the major rules for the architectural design are set up during a participatory planning process with the core group (the "pioneers" among the subscribed residents, that can be as many as 80 people in the first rounds) facilitated by an expert. It takes about 6-9 months from the start of the project (risk assessment) till the creation of the philosophy of the community and the major architectural design. By the end of this process it is required that at least 50% of the future owners sign a contract with NewCOh and they pay 20% of the costs as down payment.

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<sup>1</sup> However it should be noted that one of the four completed projects was accomplished as a kind of rental building, meaning that the developer rented out the apartments with the option of future purchase. The tenants pay a rent nearly equal to the loan instalment, and this rent amount decreases the future purchase price, while it also provides a track record on the payment to the bank and by this means it helps to obtain a mortgage in the future. For the developer this scheme helps to enter the co-housing market, while the rent amount is part of the differed mortgage it has at a bank. In addition to that the community of tenants created a common fund which consisted of all of their monthly payments. By this means this fund served as collateral in case any of them falls in arrears. (The building with a rental scheme consists of only 8 apartments.)

From this amount, among others, the first payment for the organizational and other services of NewCOh is covered.

When this 50% is reached, a developer is contracted for the implementation of the project. This developer should be creditworthy in order to take a project loan for the remaining part of the project costs. (However, there is a goal in each project to put together 50% of the costs by the future residents in order to ease the borrowing process of the developer, as banks tend to provide 50-60% of the project costs as a maximum.) The residents pay the project costs to the developer at the end of the project, financed by an individual mortgage mostly provided by the same bank that lent the project loan to the developer. (By this mean the bank provides a bridging loan under which it transfers the lien from the project developer to the individual apartment owner. These mortgages can have favorable conditions as dozens of loan contracts are signed at the same time, lowering transaction costs.) The developer either implements the whole project itself or outsources certain parts of the work. In the latter case NewCOh takes part in the selection process as a consultant. The whole project is completed within a 24 month period (after the 50% of the future residents signed the contract with NewCOh).

Naturally the later a resident joins the project, the less impact he/she may have on the result, as the already set rules cannot be renegotiated. During the booking phase the residents are coming and going constantly. However leaving the project is quite rare after signing the contract with NewCOh. This exceptional case the leaving resident or NewCOh finds a new co-owner to replace the former one.

NewCOh works with its already existing network, which consists of individual experts (e.g. architect, engineer, facilitator, lawyer, financial expert, web designer) and companies (developers, constructors). NewCOh itself acts as a project manager throughout the process.

The already achieved results of NewCOh proved that it is possible to implement a co-housing project within 2-3 years, which is not longer than that of regular housing projects. The key for keeping the time frame are the following:

- The pool of future residents are created based on the values that NewCOh promotes, like community living (giving and receiving services for each other), sustainable architecture, environmentally conscious solutions, energy efficiency, using shared services. Thus there is no need to renegotiate these values again; only their application in a certain project has to be negotiated.
- The buildings that have to be refurbished to create new co-housings are already available, which reduces the room for maneuver and thus reduces the time for defining the basic architectural shape.
- Expert knowledge on architecture, real estate market, community organization, financial and legal matters are available within NewCOh, which reduces the chances for failed decisions.
- Good connection with banks and municipalities can help finding solutions.
- Good quality network with experts and developers helps implementing the work.
- Concurrent design process in which architects, engineers and constructors can work simultaneously can shorten the planning and implementation period.
- Facilitated decision making process in which the future residents can confront their interests can streamline the planning process.

Real estate developers are not willing to enter the co-housing market themselves as it is not very efficient for them to develop skills for such a niche market, while they can earn money in a field in which they already have experience, which is construction. Thus NewCOh provides the missing link between the regular developer and the co-housing community, as it connects the two actors. By this mean the developer gets a safe project (as most of the units are pre-sold before the construction starts) and the co-housing community gets an experienced implementer which is able to construct a specially planned architectural product.

**Pricing:**

The company's payment is set as a certain percentage of the sales value (between 5-8%, depending on the complexity of the project). Thus the company is incentivized to be efficient, as in case there are complications and the process is delayed, the company has to invest several man months "for free".

Each case a project starts the company has to invest 6-9 months' worth of man power before it starts to produce a cash-flow; however, in case parallel projects are running they naturally cross-finance each other.

*More information on NewCOh and its communities can be found on [cohousing.it](http://cohousing.it)*