

Course Description

Everyone wants to pay less money, but how do you go about making that a reality? Learn about ways to increase revenue and ways to decrease expenses. There are lots of strategies which is why it's especially important to narrow your choices down to the ones that will give the biggest bang for the buck and the ones that you'll be more likely to follow through on. We'll also try to quantify how much each strategy can reduce room rates by, and how much of the savings should be reinvested in the co-op.

Online Resources

This handout, as well as several exciting and helpful articles about managing co-op finances is available online at michaelbluejay.com.

Please send suggestions for how I can improve this workshop to [coop\(at\)michaelbluejay.com](mailto:coop(at)michaelbluejay.com).

Is it rent?

Are we really our own landlords or is it hype? If we really own it then how is it that we pay "rent"? Do regular people who own their own houses pay rent? Then how can we? In this workshop I'll say "room rates" instead of "rent rates". You win \$10 each time you catch me saying "rent".

Why focus on lowering room rates?

- 1. Get your housemates interested.** Let's face it, many of our fellow co-ops are in the co-ops because it's a cheap place to live and not necessarily because they care much about the cooperative nature of co-ops. If they did then more of them would probably be here at the conference. And when it's hard to get support for ideas or participation in projects it helps to frame things in terms that people are interested in. A co-op board might want to buy another house in order to offer cooperative living to a greater number of people, or it might want to increase member involvement because participation makes the co-op stronger and because participating is what co-ops are all about. But these things can also help to lower room rates, and if you frame your proposals in those terms then it can be easier to get buy-in from the otherwise uninterested. The title of this course got *you* to come to it, right? :)
- 2. Demonstrate the power of cooperation with real results.** Presenting a plan for lowering rates through working together, cutting expenses, or expanding the size of the co-op serves as a powerful proof to members that when we work together we can really achieve tangible, measurable results.
- 3. Fulfill our mission.** Some housing co-ops exist only to provide a member-owned, member-managed housing

situation, and even that by itself is worthwhile. But many co-ops have the additional goal of making housing affordable. Keeping rates down helps the co-op achieve its mission.

- 4. Increase occupancy.** Some co-ops have a hard time attracting new members and keeping existing ones. Lowering rates helps keep the co-op full.
- 5. Get members who are more dedicated to the co-op.** When rates are low enough more people will want to join the co-op than there are spaces available. The co-op then has the luxury of choosing those they feel will be truly committed to participating in the work of the house and the organization. One of the co-op principles is Open Membership, and I'm not suggesting that a co-op ever reject an applicant, just that when there are more applicants than spaces, then it can be appropriate to consider who's most interested in being a co-ops vs. who's just looking for a cheap place to live without really being involved.
- 6. Help co-ops work less.** When rates are lower members don't have to work as much to earn the money to pay for their rooms. They might then spend some of their extra time helping the co-op or doing volunteer work in the community — or at least have more time to study. And even if they don't do anything productive with their extra time, many feel it's better for society for people to have more personal time rather than being enslaved by work. Even a \$4/mo. rate reduction for people who make \$8/hr. means an extra six free hours a year.

Reasons to NOT lower rates

- 1. Lower rates in the short term means higher rates in the long term.** Any money saved today is money not invested for the future. For example, a co-op which is ten years into a 30-year mortgage could refinance its loan. That lowers its payments in the short term, but it means that it will now take another 30 years to pay off the loan instead of another 20. Co-ops in years 20 through 30 will pay the price for that refinance.
- 2. Money not collected through room rates is money that can't be spent on maintenance and capital improvements.** Co-ops that keep rates low by neglecting their buildings soon find that no one wants to live there because they're in such poor shape. And by that time there's no way to get money to fix up the buildings. This isn't just theoretical — one of Austin's first student co-ops, the Campus Guild, ceased to exist for this very reason.

There is no standard for how much a co-op should spend on maintenance because every co-op is different, but ICC-Austin spends 15% of its budget on maintenance and capital improvements.

Quantifying rate reductions

3. **If the co-op focuses on keeping rates low and neglects to put any money towards savings, it could find itself in a crisis situation with no way to pay for it.** All co-ops should save for a rainy day. There is no standard for how much a co-op should save because each co-op is different, but for reference ICC-Austin puts 1.5% of the money it collects in room charges into its Emergency Fund every year, until the Emergency Fund equals the number of beds in ICC times \$1400. The co-op has a strict policy that spells out how and under what circumstances that money can be spent, to prevent the board from spending it on a whim.

4. **The co-op can't expand to serve more members when it doesn't have the capital to do so.** If co-ops are a good thing then it stands to reason that it's good to offer the co-op experience to as many people as possible. But in order to expand the co-op needs cash to use as a down payment to buy more buildings. It won't have this cash if it keeps rates so low that there's nothing left for savings.

In order to provide for expansion opportunities, ICC-Austin deposits 100% of money collected from membership fees, interest, and gain on property sales into its Expansion Fund.

How to lower rates in general

1. **Decrease expenses.** The obvious way to lower rates is to lower expenses. When the co-op spends less, the members can pay less. Truthfully, most co-ops are already stretched pretty thin and have little ability to lower costs very much. But the determined and creative can still make an impact.
2. **Increase revenues.** The less obvious way to lower rates is to have more money coming in. This generally means improving occupancy or buying more houses to spread the costs over a greater number of members.

Holding rates steady effectively lowers them

Housing generally gets more expensive from year to year. If everybody else's rates go up, but the co-op's rates stay the same, then that's a de-facto rate reduction, because the co-op will be that much cheaper relative to the competition.

Even so, it's often a challenge to hold rates steady, because the co-op's expenses go up from year to year because of inflation, and the typical way to pay for those higher costs is to raise room rates by a similar amount.

1. **Calculate the number of member-months for your organization.** Member-months is a shorthand figure that lets you easily quantify how much you can lower rates with a given amount of slashed expenses or extra revenue. Here's how to calculate member-months:

$$\text{Number of Members} \times \text{Number of Months} \times \text{Average Occupancy \%}$$

For example, in ICC-Austin:

$$188 \times 12 \times 90\% = \sim 2000$$

If you don't know your annual occupancy % but you know the occupancy figures for fall/spring and summer, you can calculate your average annual occupancy this way:

$$\frac{(\text{Fall/Spring \%} \times 9.3) + (\text{Summer \%} \times 2.7)}{12}$$

For example, in ICC-Austin:

$$\frac{(95\% \times 9.3) + (75\% \times 2.7)}{12} = 90\%$$

2. **Use member-months to quantify how much you can lower rates by with a given amount of slashed expenses or extra revenue.**

If member-months are 2000, then every \$2000 you cut from expenses lets you lower rates by \$1/mo.

Think big. If your member-months are 2000, then cutting \$1300 of expenses doesn't really make much difference.

How to Increase Revenues

1. **Increase Occupancy.** For co-ops that aren't full, vacancies cost money. ICC-Austin's annual occupancy is 90%, with a capacity of 188 beds. Filling those extra 19 spaces year-round would bring in an extra \$96,000 a year. If ICC-Austin were 100% full it could lower room rates by \$96,000 / 2000 member-months = \$48/mo. Holy crap!
2. **Lower Room Rates.** Paradoxically, *lowering* rates can increase revenues — because when rates are lower more people will want to live in the co-op, and filling vacancies brings in more money, which can be used to pay for the rate reduction. So in effect, you can lower rates by lowering rates.

If a co-op lowered rates by \$30/mo., costing it \$60,000 a year, but then brought in an extra \$60,000 from filling vacancies (after the costs of feeding those members), then the rate reduction paid for itself.

How to Decrease Expenses

Of course, if the lower rates don't increase occupancy then the co-op is in trouble....

- 3. Expand.** The more people in the co-op, the more people the expenses can be spread out over. And isn't that one of the whole points of co-ops in the first place?

Unfortunately most expenses go up when you add more houses. Those new members require food, utilities, maintenance, and the mortgage payments on their house, so the new money brought in will likely be canceled by new expenses. Where the savings come in are spreading out the *staffing* costs over more members. Most organizations can add another house or two without hiring additional professional staff.

- 4. Tap alumni.** Former members are often happy to contribute to their old co-op system, and unlike current members, they're more likely to have money. If your co-op doesn't already have an alumni program it's never too late to start. Invite former members to join an alumni association and in return for their sponsorship give them a snazzy quarterly or twice-yearly newsletter and an invitation to a yearly alumni dinner. Note that alumni are more likely to give if you can detail a specific project their money will be used for, such as buying another house or providing scholarships. Alumni are unlikely to donate just to lower current members' room rates. However, the projects that alumni fund can ultimately make the co-op more affordable for members.
- 5. Apply for grants.** Private foundations give away free money to not-for-profit organizations that serve the public good. Applying for this money entails writing a detailed *grant application* which includes significant background about the organization, its financial statements, its projects, demographics of the populations it serves, quantification of how many people are served by its programs and to what extent, and what the grant money would be used for. Foundations generally don't fund operating costs, they will only fund specific projects, such as scholarships or expansion.

Some organizations hire professional grant application writers who either charge by the project, by the hour, or with a contingency fee (they get paid only if the grant is awarded by the foundation). No matter how they charge, the amount is probably more than you might expect. However, if the application is successful, then the co-op has just achieved free money.

Some organizations write their own grant applications. You don't necessarily need experience in writing them, but you do need some training. There are a number of good books then explain how to write grant applications and where to apply for grants in the first place.

- 1. Prevent catastrophes.** Co-ops go up in flames at an alarming rate. Once a catastrophe like a fire happens there's no way to escape the expense associated with it. \$10,000 spent on fire prevention is money well spent if it prevents a fire that costs the organization \$400,000.

One problem is that the people who can most prevent fires are members, but most members don't understand the importance of fire safety or care much about it. Think of creative ways to encourage a culture that values keeping the houses safe. Part of new member orientation could include a section on fire safety and why it's important — especially a video which shows how many other co-ops have been lost to fires that could have been prevented by the members.

- 2. Maintenance & Capital Improvements.** Think long and hard before you cut anything from your facilities budget. Money spent on keeping your buildings structurally sound, safe, attractive, and in proper working order is an investment in your co-op and is money well spent. Having buildings in good condition means that it will be easier to keep the houses full, and that the co-op won't someday have to face the problem of having a building that needs major renovations it can't afford.

On the other hand, there can be ways to save on maintenance costs without skimping on maintenance itself. The main way is to have members do more of the maintenance work rather than relying on professional staff or service providers. If it's hard to motivate members to do this work they can be paid a fraction of what the co-op would pay a staffer or a service provider and the co-op will still save money. Co-ops can be trained by professional staff once a semester about basic maintenance skills such as fixing leaks, unstopping sinks, repairing toilets, and patching drywall. Home Depot also offers free How-To classes, and used bookstores have really good illustrated Basic Home Repair books with easy, helpful color photos. Creative co-ops can make how-to videos of these projects and put them online where they're easily accessible.

- 3. Food.** Co-ops often try to pool their resources by placing large orders together in order to get a bulk discount. But an easier way to save even more money is for co-ops to learn how to make good food from scratch instead of buying packaged foods. Packaged foods cost a *lot* more than whole foods. Foods that can easily be prepared from scratch instead of buying them in packaged form include bread, oatmeal, hummus, salsa, salads, and beans. With some more effort a co-op can even make its own rice milk or soy milk. If a co-op doesn't want to bake bread by hand a \$35 automatic breadmaker can pay for itself quickly.

Even if the co-op doesn't save a ton of money this way, there is still the satisfaction to be gained by being self-

sufficient. Preparing food from scratch is becoming a lost art in today's prepackaged world.

Another way to save is to focus on low-cost staple foods. Kitchen Managers can direct cooks to make sure their menus are based on healthy foods with a very low cost per pound, such as potatoes, rice, carrots, onions, beans, eggplant, and squash.

- 4. Utilities.** In some co-ops utilities are paid centrally and so members have no incentive to save energy, because they pay the same amount every month no matter how wasteful they are. Decentralizing utilities so that houses have to pay their own bills can give members an incentive to be efficient.

I've rarely seen a co-op that didn't have warm air streaming out in the winter or cold air streaming out in the summer. Dealing with vents, broken windows, and leaky doors and windows can have a big effect.

Compact-fluorescent light bulbs use 75% less energy than standard light bulbs, and they put out the same kind of light. They also last a lot longer than regular bulbs. They cost as little as \$3 each at a home improvement store.

Flat-screen (LCD) computer monitors use 67% less energy than old-style CRT monitors. They also generate less heat, which saves on cooling bills.

Tools for measuring electricity use and quantifying savings are available at michaelbluejay.com.

- 5. Staffing.** Most co-ops don't have a surplus of staff and couldn't easily do with fewer staff members. But some co-ops might be able to make do with fewer staff members if regular members were willing to do the work instead. For other co-ops, the best way to reduce staffing costs is to spread those costs over a greater number of members by filling vacancies or buying new houses.

- 6. Mortgages.** When a co-op buys a house it pays for it by getting a loan from a bank. This loan is called a mortgage, and is generally paid back over 30 years. *Refinancing* means taking the amount still owed on a mortgage and starting over with a brand-new mortgage for another 30 years.

If a co-op is ten years into a 30-year mortgage then it has to make payments for another 20 years. But if it refinances, those payments are spread out over another 30 years, so the payments are lower. The catch is that expenses are increased for the long-term, since the co-op will be making payments for many more years. Still, this can be an effective strategy if a co-op has a pressing need to lower rates right away.

How much can you lower room rates with \$X?

or, How much does an \$X deficit raise room rates?

Converting a lump sum into a monthly amount

The impact of an annual amount

It's easy to figure out how much an item impacts room rates by using member-months. Here's how it works: Let's say a charitable foundation is going to give your co-op \$30,000 a year forever, and you want to put all of it towards lowering room rates. How much can you lower room rates by?

The first thing you do is to divide the \$30,000 by the number of members. Let's use ICC-Austin as an example. They have 188 beds, but have only about 90% occupancy over the whole year, so let's call it 169 members. So dividing our \$30,000 by 169 members we get about \$180 per member.

But that's per year. To figure the cost per month we divide our \$180 by 12 months and we get \$15/mo. Ta-da.

But since we're always going to be dividing by members and then dividing by months, we can use a shortcut and divide by member-months. 169 members x 12 months = 2000. (It's actually 2030, but let's not split hairs.) So to convert any annual amount into the monthly rate, just divide by 2000. If that charitable organization gave us \$40,000 a year instead of \$30,000, just divide by 2000 and we see the impact on room rates is $\$40,000 / 2000 = \20 . Very simple. (Of course, you'll need to calculate the number of member-months for your own organization, but we'll use 2000 member-months for the purposes of this article.)

The same thing works in reverse when you have extra expenses. Let's say the state legislature revokes your property tax exemption and you suddenly have to start paying \$80,000 a year in property taxes. How much will that impact us? $\$80,000 / 2000 = \40 , per member, per month. Ouch.

Actually, it doesn't have to be an extra expense. For example, say your maintenance & facilities budget is around \$200,000 a year. That means that \$100/mo. of members' room rates goes to pay for facilities.

Note that this trick only works when you're talking about annual savings or expenses. In our examples above we assumed we got the \$30k or \$45k every year from the charity (or paid out the \$200k every year for maintenance). But if we get or pay an amount only once then it's different. That's what we'll tackle now.

The impact of a one-time amount

Lowering room rates with a one-time windfall is a little trickier then lowering it with an annual bounty. The first thing you have to consider is for how long you want to lower rates -- for a year, 20 years, or forever? The next thing you have to consider is when you want the savings on room rates to kick in: the methods that lower rates by a big amount and forever don't actually start working until several years down the road. First let's see the summary of our different options:

	Divvy up the windfall for one year	Divvy up the windfall for 20 years	Loan out the money & collect interest	Pay off a mortgage early	Buy another property
When can room rates be lowered?	NOW	NOW	NOW	Later	NOW and Later
How long are rates lowered for?	1 year	20 years	FOREVER	FOREVER	FOREVER
How much can rates be lowered?	a LOT	a little	a little	a LOT	a LOT
Still have windfall after lowering rates?	no	no	YES	YES	YES
Serves a larger number of people	no	no	maybe	no	YES

Now let's look at each of these options in more detail, figuring out what we could do with an extra \$300,000.

1. The simplest method: Divvying up the money.

Let's say that your accountant finds \$300,000 in a filing cabinet. (That's not too far off from something that actually happened in Austin, except the amount was closer to \$80,000, and the money was in accounts, not a filing cabinet.) If you wanted to use that money to lower room rates, how much could you lower them?

If you said $\$300,000 / 2000 = \150 then that works, but only for one year. To lower room rates by \$150/mo. forever your

accountant would have to find an extra \$300,000 lying around every year. That's pretty unlikely.

Of course, you could blow your \$300k windfall by lowering room rates for just one year, so rates would indeed go down \$150/mo. for just that one year. But considering that the money would be completely gone after that one year, divvying up the money that way would be pretty selfish and uncooperative.

We could divvy up the money over a longer period of time, say five years. Then we're looking at a \$30/mo. reduction. But we have the same problem of the money being gone at the end of that five years.

Let's say the payments on our outstanding loans cost \$90/mo. per member and you have 20 years left on the loans. When you pay the loans off in 20 years then room rates could go down by that \$90/mo. that you won't have to pay any more. So maybe our strategy could be to use our windfall to lower rates for 20 years, at which point the savings from paying off our debt will automatically kick in. Nice try, but \$300k over 20 years divided by all the members just isn't that much money. Room rates could go down only \$7.50/mo. It's tangible, but the benefit is pretty small, especially considering that we'd be throwing our windfall away for good. So now let's look at ways to try to get our impact on room rates to be larger and/or last longer.

2. Loan out the money to another group, and collect the interest.

Loaning out our windfall doesn't allow us to reduce rates very much, but it does have one big advantage: We can lower them forever. If we just divvy up the money as in the previous example then the money is all gone. Loaning it out generates interest income for us and we get to keep our capital.

Here's how it works: Say we loan out \$300,000 to a group that wants to buy a house to turn into a co-op. This group pays us back by making payments every month for 20 years. Part of each monthly payment pays back the actual money we loaned them (the "principal"), and the rest of the payment is interest on the loan. The interest is our profit from loaning out the money.

Okay, great, how do we figure out how much we get in interest? First we figure out what the monthly payment will be. This is easy to do in Micro\$oft Excel, just type in the following:

`=PMT(InterestRate,NumberOfYears,LoanAmount)`

You have to plug in your own numbers, of course. For example, if we loaned out \$300,000 for 20 years at 8% interest, we'd type in:

`=PMT(8%,20,300000)`

And the answer would be \$30,555 a year. That's the amount that the group would pay us per year, principal plus interest combined, if they were paying us only once a year. But of course the group is going to make their loan payments monthly and not yearly. So to be more accurate let's divide the interest rate by 12, and figure that we're talking 240 months instead of 20 years:

`=PMT(8%/12,240,300000)`

And the answer is that the monthly payments are around \$2,509/mo.

Okay, so now we know how much they're paying us, how do we figure how much of that is interest? All we do is take the total amount they pay us over the 20 years, and subtract out the amount that we loaned them. What remains is the interest they paid. Here are the numbers in action:

- We loaned them \$300,000.
- They'll pay us \$2,509/mo. for 240 months, or \$602,160.

- The interest portion of their payments is the difference: \$302,160.

And getting way back to our original question, we wanted to figure out how much a one-time windfall could impact room rates forever. We now see that if our one-time windfall was \$300,000 and we loaned it out at 8% interest for 20 years, we'd make \$302,160 over those 20 years, or \$15,108 a year.

And aha! Now that we have a yearly figure, we can divide by our old pal member months: \$15,000 / 2000 = \$7.50/mo. Bingo.

There are a couple of big IF's in this scenario, though. The first is whether you can even find a responsible group to loan the money to. The second is whether they'll be good about making their payments. If they don't pay you back then you can reclaim the property, but there will be time and expense in doing so. It's something to consider; making money is never without effort or risk.

What we left out: There are some other nuances that we haven't considered, but they're not that important — the answer above is perfectly acceptable for casual "What-if?" scenarios and comparisons with other ways we could leverage that money. Those interested in the details can check the Appendix for what we left out.

3. Pay down our debt, saving on the annual interest expense.

If the following is unclear, read up on mortgages in the other handout, or at michaelbluejay.com/house.

Good, you're back. Let's say you have \$1.78 million in loans for all your houses, you're paying about \$181,000 a year to the bank to pay back these loans, and you have 20 years left. Our old pal member-months tells us that this costs every member about 90 bucks a month. In 20 years when you pay off your debt then that \$90 per member per month expense goes away, and room rates could go down by \$90/mo. Whoo-hoo! Could we make that day happen sooner?

Sure we could, since in all these examples we have an imaginary \$300,000 we're playing with. We could take our \$300,000 windfall and pay down our debt, so we'd pay off our loan early and save a bunch of interest. That hastens the day when our \$90/mo. obligation goes away.

How much sooner would our loan be paid off? That's tricky to calculate. It's involved enough that it's beyond the scope of this article, but I did write a spreadsheet to answer that question which you can download at michaelbluejay.com/icc.

The answer is that with a typical set of assumptions, making a \$300,000 prepayment would shave six years off the loan, so you'd pay it off in 14 years instead of 20.

You might be thinking, "Hey, if we pay off our loan early, we'll also save a bunch of interest too! Ooh, ooh, how much do we save?" Well, hold on there, cowboy. If you take the money you save by not having to make a mortgage payment and use it to lower room rates, then there's your interest savings. You already used it.

Methods Compared

Now that we've covered all the methods, have another look at the comparison table on the previous page.

Appendix: Other implications of loaning out money and collecting interest

In our discussion about loaning out money and collecting interest we said that the interest we'd collect would be: Total Payments Received (minus) Total Principal. Then we'd divide that by the term of the loan to figure the amount we'd get annually. Once we got that amount we could divide by member-months to figure the impact on room rates.

For example: We loan out \$300,000 for 20 years at 8% interest. From Excel we'll see that the borrower will pay us \$2,509/mo. for 240 months, or \$602,160. So the interest they'll pay will be \$302,160. Over 20 years that's \$15,108 a year. Dividing by 2000 member-months, we'll see that the potential impact on room rates is \$7.50/mo.

It's perfectly acceptable to use that method to figure out how much we could make by loaning out money. But for the perfectionist there are a couple of issues we didn't consider.

The first is that the amount of interest paid varies over the life of the loan varies. When our borrower first starts making payments most of their \$2,509/mo. payment is interest and only a little is principal, while towards the end of the 20 years most of their \$2,509/mo. is principal and only a little is interest. You might wonder, "What does it matter? We're getting the same amount of money every month for twenty years anyway." And you'd be onto something. The fact that the amount of interest changes over the life of the loan is academic, it's not really of much importance to us when we're figuring our profit by making a loan.

The second thing we left out is a little more involved: You might have realized that we don't have to wait the full 20 years to get some of our money back—we actually start getting it back in the very first month. Could we take that money and then reinvest it by loaning it out again? Sure you could—once the amount gets high enough. Obviously we can't loan out a piddling \$2,509, no one can start a co-op with that small amount of money.

Alternatively we could use the money coming in to pay down our own debt early, so we wind up paying less interest to the bank. That way we wouldn't have to wait until we collected enough payments, we could apply any extra money we had towards our debt right away. The problem is that if we did that, we wouldn't be able to use that money to lower room rates right away, which was our whole goal in loaning out money the first place. We'd get an advantage all right, just not right away: Paying off our debt quicker means we hasten the day when we won't have to make those big payments to the bank any more, and room rates can go down accordingly.

But you needn't worry your pretty little head about any of this -- remember that the \$7.50/mo. answer we got above is sufficient for our purposes. Just keep in mind that you have the opportunity to loan out your principal again or start paying down your debt early during that loan you made -- you don't have to wait until the end of the loan.

The summary for this section is that room rates can go down \$90/mo. in 20 years when your debt is paid off if you do nothing, but by paying down the debt early you won't have to wait the whole 20 years for that to happen. Making a prepayment on your debt does not lower room rates immediately.

4. Buy more properties, and get the revenue from room rates, and spread expenses over more members.

The great thing about buying more property is that it lowers rates in the short term *and* the long term. Let's see how.

We know that when we buy a house we get a loan to pay for it, and then we make payments on the loan. That's our annual expense in buying the house.

But we also get annual revenue, in the form of room rates. Once we subtract out food, utilities, and maintenance, that's how much we make on the house.

So the trick is to try to find a house whose price is low enough that the amount we make equals or exceeds the amount we're paying on the loan. That's tough to do, but it's possible.

Why would we buy a house that doesn't do any better than break even? Simple:

We can spread expenses over a larger number of members.

Let's say that staff costs go up by \$15,000 one year, and you have to raise room rates to pay for the extra expense. Would you prefer to spread that cost over 150 members or over 200 members? The more members, the easier it is to limit rate increases.

It means we acquire an asset for free. The room rates we collect pay for the house, so we get a new house without having to shell out our own cash for it.

Once the house is paid off, room rates go down. You might pay \$100,000 a year on a loan for a \$1M house. In 20 years when the loan is paid off you no longer have that \$100k/year expense. Room rates could go down by \$50/mo. for all members at that point. (\$100k divided by 2000 member-months)

This is why investing in property is so powerful. In fact, it could be worth it to buy property that doesn't quite pay for itself during the loan period. Members might have to kick in an extra \$6/mo. during the loan, in exchange for rates going down by \$50/mo. once the loan is paid off. Plus, you have more members to divide expenses among, and with another property you have a nice asset. ("Hey, nice asset!")

What we left out: Savvy readers might have wondered, "Hey, if we really got the house for free because it paid for itself, then we didn't need to use our windfall at all. So how does the windfall apply?" The answer is that buying a house isn't quite free even if the revenue it generates for you covers the mortgage payment. You'll also have to put a down payment on the house, pay closing costs associated with the sale, and cover startup costs like renovation, kitchen equipment, furniture, and supplies. You'd use your windfall money to pay for all that.