



Community Driven Development



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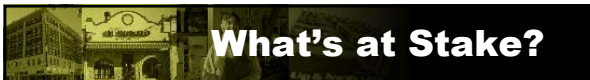
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Why Participate in Development?



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What's at Stake?

Exercise:

- Your neighborhood Albertson's store has closed. The owner has put the site up for sale. Developers have been considering the site for several different potential uses:
 - Another supermarket
 - A higher density condo development
 - A warehouse facility

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Exercise

Each table should make two lists:

- Opportunities:** How might the reuse of the site provide benefit to the community?
 - Ex: better jobs, affordable housing, etc.
- Threats:** How might the reuse of the site negatively impact the community?
 - Increased traffic, poor design, lack of pedestrian activity, etc.

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Opportunities

- Job Creation
- Links to job placement programs
- Neighborhood Revitalization
- Space for Community Services
- Arts Space
- Nonprofit Office Space
- Cash for Community Services
- Access to food, etc.
- New High Quality Businesses
- Small business development opportunities
- Safety Improvements
- Streetscape Improvements/ public art
- Increased Housing
- Affordable Housing

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Threats

- Poor Design
- Traffic impacts
- Poor quality tenants
- Illegal tenants
- Nuisance uses
- Liquor, adult entertainment, etc.
- Gentrification
- Displacement
- Residential uses that could conflict with commercial
- Inactive uses (wall to pedestrian street)

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Real Estate Development 101



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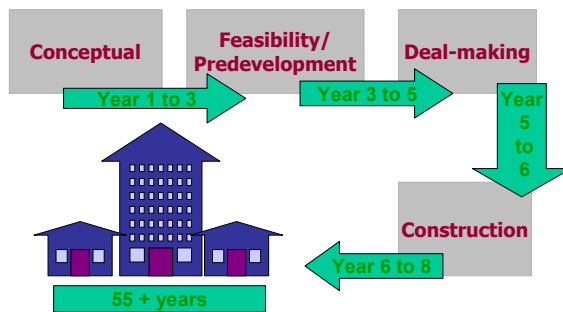
What is Real Estate Development?

- What do Developers Do?
- How Do Developers Make \$\$\$?
- How Can Community Groups Successfully Influence Developers?

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The Development Process or Why does it take so long?



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Stage 1: Conceptual

- What is The Product?
- What are the Financial Goals?
- Who is the target population?
 - Is there a market?
- In What neighborhood/community will it be located?
 - Is there community support or opposition?

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Stage 2: Predevelopment

- What is it?
- Site control
 - Purchase and Sale Agreement
 - deposits, extensions
 - holding costs
 - insurance, taxes, security, etc.
- Due diligence
 - Appraisal
 - Environmental (Phase I or II)
 - Lead, asbestos, termite (if rehab)
 - Geotechnical (aka. soils)
 - Preliminary site plan
 - Entitlements (zoning)

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Stage 2: Putting Together the Development Team

- Financial Partners/Investors
- Architect and Engineers
- Consultants
- Attorney
- Community?
- Public Sector?

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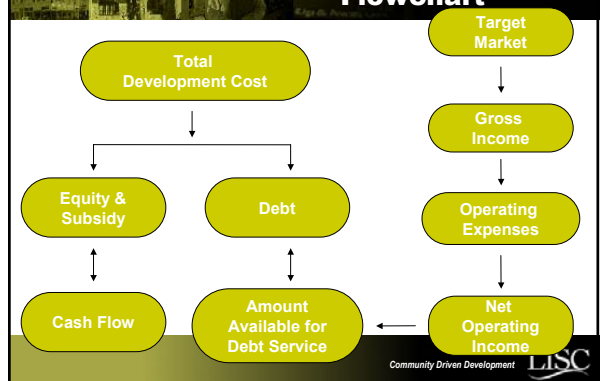


Stage 2: Predevelopment

How do you pay for it?

- Investors – Equity
- Banks – Debt
- Government Grants, Loans or Land Contributions

Financial Feasibility Flowchart



Predevelopment to Dealmaking

- **Select contractor**
- **Permanent financing secured**
- **Construction financing secured**
- **Architect generates plans and specifications (construction documents)**

Stage 3: Construction

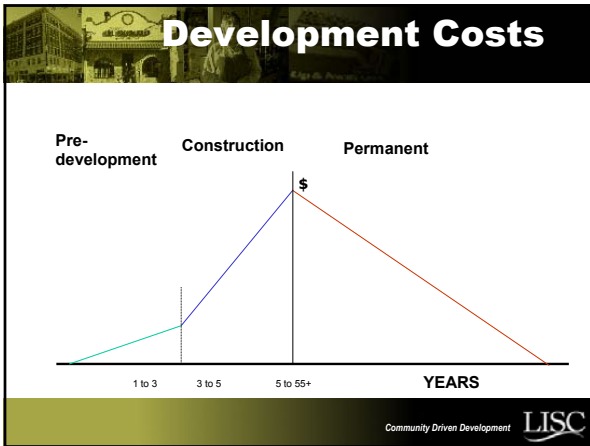
- Close loans and partnership (if any)
- Begin construction
- Monthly draws from construction loan
- Tracking funding sources and draws

Stage 4: Operations and Asset Management

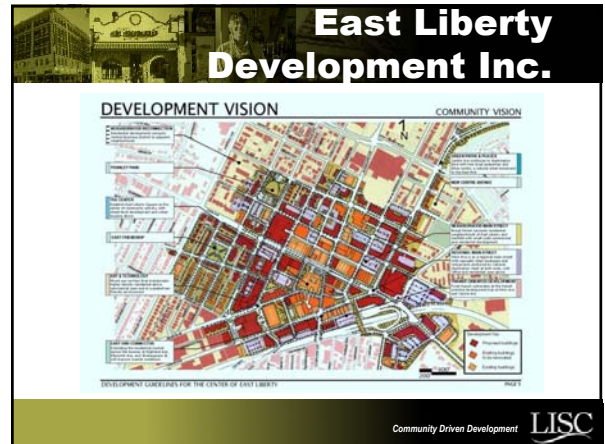
- Closeout construction
 - Receive warranty and maintenance info
- Close permanent loans
- Lease-up
 - Marketing at least 6 months before construction completion

Stage 4: Operations and Asset Management

- **Property Management**
 - Handles day-to-day operations
- **Asset Management**
 - Long term planning to protect asset
 - Supervises property management
 - Monitoring compliance and reporting
 - Analyzes financial performance
 - Evaluates physical condition



- ## Levers in the Development Process
- How can you be sure that a private developer will create a project that meets community goals?
 - Where in the development process can a community group exert pressure?
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- ## East Liberty Whole Foods Market
- Community plan calls for regional serving retail on this site
 - Developer and Whole Foods interested in site
 - Community goals:
 - Jobs for community residents
 - Extend the pedestrian district - Life on the street
 - Quality goods at reasonable prices
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- ## Exercise
- Given the community goals and the proposed project, how should the East Liberty community influence this development project?
 - Should they enter into some kind of formal agreement? What kind?
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East Liberty Whole Foods Market

- CDC as “Development Advisor”
 - Advise on design and concept
 - Coordinate community input
 - Apply for government grants
 - Advocate in favor of the project
- CDC loans or re-grants funds to project
- CDC charges 5-10% of grant funds
- Developer agrees to follow community plan
- Developer includes hiring program in leases

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Discussion

- What are the strengths and weaknesses of this approach?

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Alternatives

- Community Site Planning
- Project Review
- Community Benefits Agreements
- Partnering with Developers

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Common Requirements

- Clear social objectives
- Clear prohibitions
- Mechanism for ongoing compromise as project plans evolve
 - Ex. Tenant review for commercial project
- Mechanism for monitoring
 - During and after development
- Mechanism for enforcement

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Example Goal: Jobs

- **Community Site Planning:** Plan for job generating land uses
- **Project Review:** Require hiring commitments as a condition of support
- **Community Benefits Agreements:** Require hiring commitments with monitoring and enforcement
- **Partnering with Developers:** Bring job related grant funds to the project, tie development fees to success in meeting hiring goals, select tenants based on hiring goals.

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Exercise: Pros and Cons

- Community Site Planning
- Project Review
- Community Benefits Agreements
- Partnering with Developers

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LUNCH



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Community Visioning and Site Planning



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Community Benefits Agreements



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Partnering with Developers



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Joint Ventures

Two or more entities:

- Share risk and rewards
- Share responsibilities

Legal form:

- Limited Partnership
- Limited Liability Company
- Contract Developer

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Why Joint Venture?

<p><u>For the Non-profit:</u></p> <ul style="list-style-type: none"> • Inadequate experience • Small staff • Increase production and results • Skill building opportunity • Small capital size • Access to financing through for-profit 	<p><u>For the For-profit:</u></p> <ul style="list-style-type: none"> • Community access • Community support • Access to public subsidies • Access to below-market rate debt • Tax credit access • Ability to tap job applicant pool
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What does each party bring?



What's brought to the table?

The Non-Profit:

- The deal
- Knowledge of the neighborhood
- Local market knowledge
- Political support
- Attractive public and private funding

What's brought to the table?

The For-Profit:

- The deal
- Technical expertise
- Staff size
- Financial strength
- Access to conventional financing

Chicago LISC-ULI Study

Brought together private developers and CDC leaders to study projects in Chicago and Boston and identify **keys to success**:



- Clear division of roles and responsibilities
- Rely on the for-profit partner's expertise in traditional development, marketing and access to capital
- Rely on the CDC's expertise to leverage government and foundation resources, obtain site control and public approvals and win community support.

Chicago LISC-ULI study Partner Roles

CDC

- Add value to projects
- Play a lead role in assuming risk
- Capacity to assemble land and bear holding costs and time delays
- Roles vary in different deals –a challenge for private developers

For-profit Developer

- Flexible risk-taker
- Market knowledge
- “Deep pockets”
- Staffing expertise
- Creativity

Chicago LISC-ULI study Partner Characteristics

CDC

- Already developed community consensus
- Planning process completed or underway
- Depth of connections with community institutions
- Level of sophistication with politics, zoning, and government approvals
- Knowledge of private sector development economics

For-profit Developer

- Entrepreneurial in style and approach
- Able to dedicate 1 or 2 staff to project
- Financially stable
- Typically a small firm with patient leader able to wait for success
- Some familiarity and appreciation for nonprofit sector and the value of emerging markets

Chicago LISC-ULI study Partner Characteristics

- Deep pockets are not always as deep as you think
- Expert developers are not always as expert as you imagine
- Protect yourselves with proper legal agreements, bonds, insurance
- Be prepared to step in and prevent failure
- Be prepared to negotiate community interests vs. developer interests
- Calculate the opportunity cost
- There is no such thing as an “easy” deal

Case Studies



Marin City Gateway



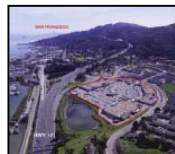
Marin City History

- Built as temporary war worker housing
 - Still occupied into the 1980s
- Still the only significant concentration of African-American households in Marin County
- High unemployment
- Marin City CDC formed in 1980 to fight displacement

Marin City USA

Large Flea Market Site was acquired by CDC

- Two year community planning process
- 340 Housing Units
- 182,000 foot Retail Center (\$20 million project)
- Partnership between
 - Marin City CDC
 - Bridge Housing
 - The Martin Group (Private Retail Developer)



Shopping Center Community Goals

- **Jobs** for local residents
- Minor **small business** opportunities
- Supermarket/access to healthy **food**
- **Income** for Community Services District
 - To replace income from flea market
- **Income** to CDC

Initial Ownership Structure

- CDC and Marin City Community Services District formed Marin City Land Company
- Land Co. owns land and leased to The Martin Group
- Land Lease controlled use and provided for share of revenue

Outcomes - Jobs

- 200 construction jobs
- More than 150 retail store jobs
- 35% of jobs went to residents
 - Short of 50% goal but significant



- Hiring goals were not tracked after opening
 - No funding for this activity

Outcomes- Business Development

- Project included retail incubator space “Marin City Shops”
- 5 local start-up businesses
- CDC Paid \$60,000 in rent but received only \$30,000 – gap funded by foundation
- Incubator space closed
 - Minority businesses couldn’t pay market rent
 - Foundation couldn’t sustain funding
 - Space remains vacant!

Outcomes - Supermarket

- Supermarket Closed
 - Discount store offered poor quality
 - High security offended customers
 - Even low-income residents used to higher end stores
 - Community had no way to control quality
 - Supermarket replaced with Best Buy

Outcomes Revenue

- Land Company received little revenue
 - Project was not thriving
 - Private partner controlled bookkeeping so no profits were reflected (ie. Developer took fees rather than profit)

New Partnership

- Marin City CDC and Bay Area Smart Growth Fund bought project from Martin Group (2003)
- CDC as 50% owner of project
- Land Company as 100% owner of land
- CDC right to purchase project
- Partner to train community member in property management
- First Source Hiring Agreement
- Minority tenant goals

More Problems

- No enforcement of hiring agreements
 - Management company lease enforcement
 - Tenants not notifying CDC of openings
 - CDC has no way to force compliance
 - No consequence to private partner, management company or tenant for failure to comply
 - CDC not compensated for service or monitoring

More Problems

- No minority tenants
 - Still no rent concessions for minority/start up tenants
 - Start up tenants held to national credit standards
 - CDC has no role in leasing
 - No review of potential tenants
 - No right to refuse
 - No right to propose tenants



Still More Problems

- No training for community in property management
 - Agreement unclear about process and costs
 - Private developer expected CDC to raise money for trainee
 - CDC expected project to pay for trainee

Even More Problems

- Still no cash flow for CDC
 - Project still struggling
 - Private partner still controls accounting/fees
 - Details of LLC agreement limit CDC access to profits
 - Developer was able to refinance, take cash out without sharing profit with CDC

Serious Problems

- Smart Growth Fund wants to sell after 3 years
- CDC has purchase option but...
 - Purchase at market price
 - Only **30 days** to exercise option!

Lessons

- Large deals require top notch attorneys
 - Private partners had experienced negotiators
 - CDC trusted partners to look out for its interests
- CDC didn't build its community goals into either partnership structure in a binding way
- CDC didn't have a real (economic) role in ongoing success of project – didn't provide *value*
- Without a role, CDC was not able to monitor to make sure project was meeting goals

Discussion



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New Horizons Center

MBD Development Corporation – The Bronx

134,000 square foot shopping center

- Pathmark Supermarket
- Athlete's Foot
- Blockbuster Video
- Paramount Home Decorators
- Petland Discount Stores
- Radio Shack
- Rent-A-Center



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Mid Bronx Desperadoes

- Founded in 1974 as a coalition of volunteers
- Focused on Crotona Park East section of the Bronx
- 2,300 units of affordable housing
- Community health clinic
- Job training center
- Safety and open space
- Community planning

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New Horizons Center MBD Social Objectives

- Jobs for local residents
- Bring life back to the community
- Support local small businesses
- Generate income for MBD
- Build internal capacity for commercial projects

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New Horizons Center Development Consultant

Development Advisor: Hutensky Group/ Felipe Ventegeat

- Coordinate project team meetings and schedule tasks
- Develop project budget
- Coordinate Contract Documents, permits, and planning approvals
- Monitor General Contractor
- Coordinate leasing and lease negotiation

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New Horizons Center Development Consultant

Owner Responsibilities

- Representative to participate on project team
- Approve budgets, change orders, etc.
- Provide architect, legal and other consultants
- Secure project financing
- Pay advisor flat fee plus reimbursement of all direct staff and other costs.

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New Horizons Center Outcomes

- 400 jobs; 85% neighborhood hires
 - Most hires through MBD Job Center
- 22 national and regional credit tenants
 - No local small businesses
- 2 year delay in opening
- \$10 million cost overrun
 - Excess income devoted to debt retirement for 5 years
- Significant staff burnout
 - Two Executive Directors left

New Horizons Center Lessons Learned

- Most mistakes - cost overruns were avoidable
- CDC carried the financial and political risk but relied on partners to lead the project
- Key problems identified by CDC but ignored by the experts
 - Ex: Buried car on lot
- CDC let partners talk them into decisions that turned out to be mistakes
- Very few experts on inner city mall management
 - We have to become the experts

Discussion

Joint Venture Agreements



Partnership Planning

- Social objectives/requirements
- Roles and responsibilities
- Planned transfer of roles
- Consequences of performance failures
- Duties vs. decisions
- Ownership percentage/Allocation of board seats
- Staffing commitments
- Allocation of fees
- Termination/Purchase Options
- Capacity building partnerships

Ownership Structure

Examples:

- **Marin City:** CDC owns 50% of shopping center LLC but appoints *minority* of board and has almost no real control.
- **Orange County Housing Land Trust:** Leased land to Centex corp. to build houses. OCHLT had fixed price option to buy houses, responsible for marketing – no LLC. Land Lease and Purchase Agreement gave CDC real control.

Roles and Responsibilities

CDC (examples)

- Manage community input
- Secure development subsidies
- Marketing housing units
- Select and manage architect

Partner (examples)

- Secure private equity
- Construction Management
- Marketing retail space
- Partnership accounting

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Roles and Responsibilities

Some potential consequences for performance failure/role-creep:

- Forfeit of development fees
- Termination of partnership
- Hourly charge for partner performing other partner's roles
- Modification of fee split percentages
- Fees tied to performance milestones

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Decision Making

CDC (examples)

- Approve project design
- Select general contractor
- Approve project budgets
- Approve all tenants

Partner (examples)

- Select general contractor
- Authorize expenses within budget
- Negotiate and execute leases
- Select property management firm

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Commercial Leasing Decisions

CDC can:

- Market space and choose all tenants
- Have equal vote in selection of tenants
- Have approval (veto) of all tenants
- Set mandatory tenant requirements but not have individual approval
- Set list of prohibited tenant types
- Receive reports on leasing

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Development Fees

Examples

- Fees split 50-50
- Fees tied to level of effort (staff commitment)
- Fees tied to risk taken
- Fees tied to value contributed

- *Fees should not be paid out before they are earned*

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Communication

- Build trust first
- Meet regularly to discuss partnership (before there are problems)
- Make sure partners interact through the work itself
 - It is easier to stay informed if you are doing some of the work.
- Expect conflict:
 - Outline process for arbitration, etc.
 - Walk through potential problems in advance

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Capacity Building Plan

- Identifies specific capacities that the CDC will build through this specific project (ex. Leasing, entitlement)
- Ties capacity goals to project responsibilities
- Provides incentives for private partner to help
- Provides resources to CDC to build capacity (money, staff, training, etc.)
- Provides clear measures for CDC success
- Provides consequences for CDC failure
- Limits impact on project/investors if CDC fails

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Closing



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