JOINT VENTURE GUIDEBOOK

A RESOURCE FOR DEVELOPING AFFORDABLE AND SUPPORTIVE HOUSING

Enterprise®

the Network
Supportive Housing Network of NY

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Foreword

February 2018

Enterprise Community Partners, Inc. (Enterprise) and the Supportive Housing Network of New York (the Network) developed the Joint Venture Guidebook as a resource for organizations interested in developing affordable and supportive housing to better understand joint venture options. Developers and community-based organizations are increasingly forming joint venture partnerships to leverage their strengths as the market becomes more competitive and transactions more complex. We are committed to providing tools to help our partners navigate these challenges. Increasing capacity for affordable housing development is a strategic priority for Enterprise and the Network and critical to the City and State of New York's respective housing plans. The Joint Venture Guidebook is sponsored by Capital One.

About Enterprise Community Partners

Enterprise is a proven and powerful not-for-profit that improves communities and people's lives by making well-designed homes affordable. We bring together the nationwide know-how, partners, policy leadership and investments to multiply the impact of local affordable housing development. Over 35 years, Enterprise has created nearly 470,000 homes, invested $28.9 billion and touched millions of lives. Join us at www.EnterpriseCommunity.org.

About Supportive Housing Network of New York

The Supportive Housing Network of New York is a statewide membership organization of developers, owners, and providers of supportive housing—affordable housing with wraparound social services for formerly homeless people with special needs. The Network provides public education, research and policy analysis, advocacy, training and technical assistance to the supportive housing community, government, and the public at large. With 50,000 existing units of supportive housing across the state and 35,000 committed by the Governor and Mayor over the next fifteen years, the Network works to ensure the continued effectiveness of the model. Learn more at www.shnny.org.

Produced with support from RHYMAN CONSULTING

RHYMAN CONSULTING is a real estate advisory practice specializing in the financial structuring and execution of affordable and supportive real estate projects. Principal Rachel Hyman has over twenty years of community development experience, in multifaceted roles including not-for-profit affordable housing developer, real estate lender and executive leader. Ms. Hyman has financed and/or developed over 6,500 units of affordable housing in the NYC metro area, with total development costs of one and a half a billion dollars. Visit www.rhymanconsulting.com for more information.

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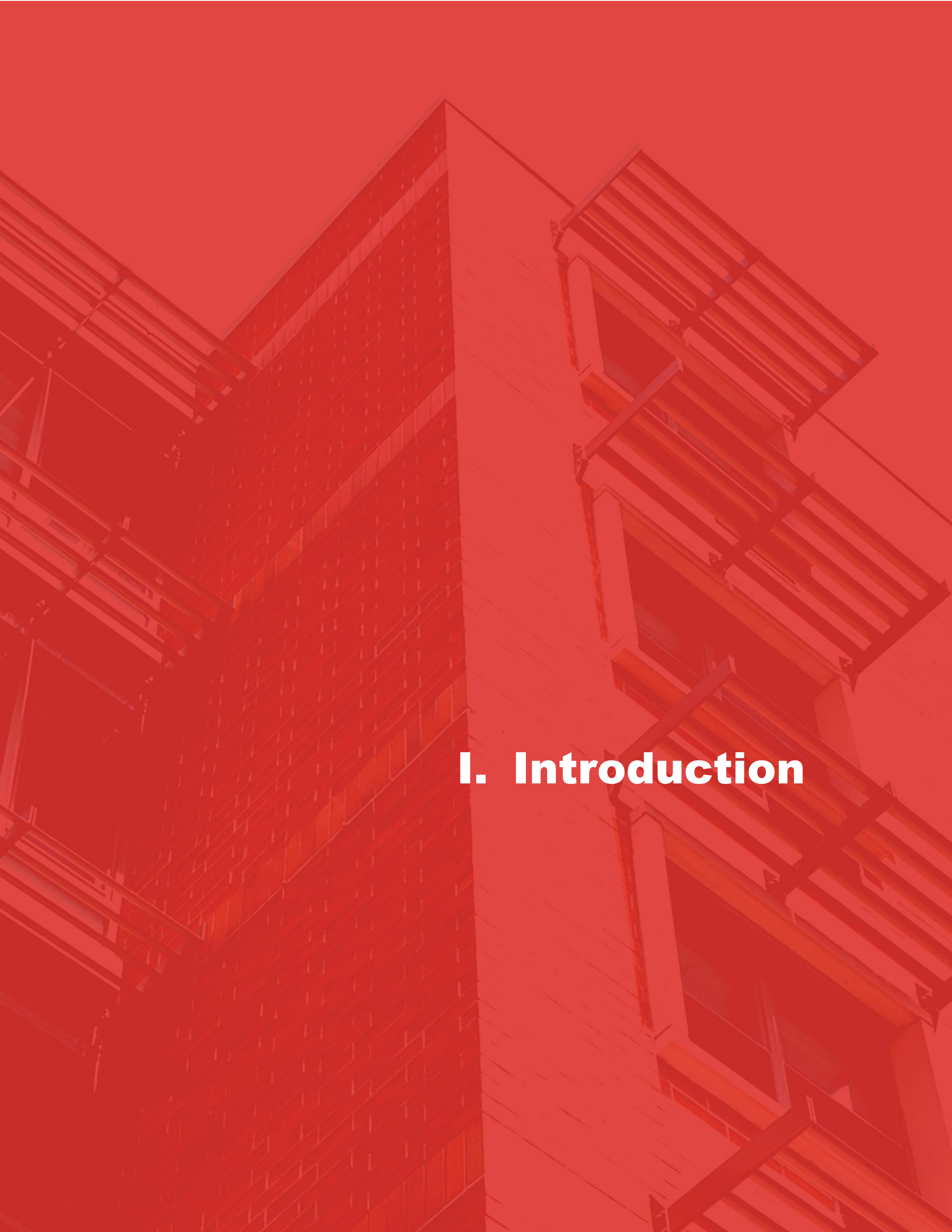

I. Introduction

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Affordable and supportive housing development in New York are not for the faint of heart. Responding to market conditions and the shifting policy landscape, developers, not-for-profits, and community-based organizations are increasingly forming joint venture (JV) partnerships. In addition, more faith-based organizations and houses of worship are interested in developing underutilized space for affordable and supportive housing and seek mission-driven developers to help them reach that vision. JVs, which refer to sharing resources for specific real estate transactions, can provide greater access to development sites, financing sources, staff capacity, and community support. These collaborative efforts demonstrate a creative and vital approach to development, and we hope this Guidebook will provide concrete tools to support them.

This Guidebook includes a series of eleven case studies of actual transactions, based on dozens of interviews with developers, both not-for-profit and for-profit. Additional interviews with other industry professionals such as bankers, lawyers, Low-Income Housing Tax Credit (LIHTC) syndicators, and government agency staff provided background and context. The case studies are not meant to serve as definitive recommendations or as a substitute for legal advice, but instead to provide an overview of a range of JV structures that have been negotiated over the past several years.

The below Fundamental Principles and Key Considerations, with supporting appendices, provide a conceptual framework for the case studies. Taken as a whole, this Guidebook gives readers a better understanding of the dynamics of a JV partnership and stimulates critical questions around the development of a deal. **Please note the Glossary in *Appendix B* defines technical development terms discussed throughout this document.**

Fundamental Principles

The case studies highlight many factors to consider when evaluating JV opportunities. It is important to acknowledge that every real estate deal is different and each partner offers its own strengths, weaknesses, and objectives. Further, the balance of all these considerations may change over time, based on factors such as real estate market conditions, the subsidy environment, and the financial positions or staffing of the organizations.

A major guiding principle in structuring a JV is the balance of risk, value, and reward. The amount of risk a party takes on and the resources it contributes generally correlate to the share of economic benefit and control that party receives.

Risk is inherent in real estate development. Projects can lose substantial time in predevelopment for a variety of reasons, such as community concerns and land use approvals, as well as securing competitive subsidy sources. Loss of time can make the project more expensive. More staff time costs money. If the project takes too long to get to a loan closing, projects can lose an award of LIHTCs or other subsidies.

Construction delays or overall cost overruns can also have very serious consequences to a deal's financial structure. For example, if the project does not reach completion within the predetermined timeframe, the LIHTC syndicator can impose penalties, known as downward adjusters, which result in reduced or lost developer fees.

In addition to the financial risk associated with providing guarantees, there can also be longer term reputational risk if a project loses LIHTC allocations and/or subsidies due to project delays or mismanagement.

In addition to risk, a real estate transaction requires resources such as property, access to funding for predevelopment, and debt and equity financing. Other valuable resources include community connections and opportunities to provide programs and services to the completed project.

The major rewards in an affordable or supportive housing deal are the developer fee, ownership interest, and cash flow. On top of these financial rewards, affordable housing developments can generate significant benefits for communities and low-income households. If done well, participating in real estate development can help an organization serve its mission while strengthening its financial position.

Key Considerations

While each real estate deal is different, there is a set of common considerations that apply to most JV partnerships. Review the considerations below and think about how they apply to your deal. *Appendix A* contains a series of worksheets that a potential partnership can fill out to provide a deeper level of analysis for developing a new JV.

Selecting a Partner

- Begin due diligence on your potential partner by speaking to references: other partners, government agencies, and financial institutions with whom they have worked. In the past, have they delivered on what they are proposing to deliver in your partnership?
- It is also important to look deeper into your potential partner's financials, which banks, investors, and government partners will need to review. Some information for not-for-profit organizations is available through the mandated filing of the IRS Form 990, but financial audits represent a more thorough source of financial information, for both not-for-profits and for-profit companies.
- Sometimes an entity has the financial strength but does not want to take on the risk associated with providing guarantees. Some organizations whose primary function is not development, such as not-for-profit social service agencies, may need to spend a lot of time working through these questions with their board of directors.
- Even if an organization is capable of developing on its own, it may still seek a partner for other reasons, such as increasing the number of projects it can pursue simultaneously, added financial strength, access to pre-development funding, or expanding its territory.

Risk, Value, and Reward

- All parties need to understand the financial and reputational consequences associated with development. Regardless of whether your organization is providing guarantees, issues such as cost over-runs and project delays may impact your relationship with government and financial partners and, ultimately, your ability to participate in future deals.
- Trust from the community and relationships with neighborhood stakeholders and politicians can be difficult to valuate, but can be just as important as other more tangible contributions to a deal.
- One important reward of developing affordable and supportive housing is providing homes for people who greatly need them. However, many municipalities strictly govern the use of resident preferences. In projects financed by New York City, there are clear and universal community preference requirements, which will be outlined in the regulatory agreements.
- The shares of developer fee and cash flow often reflect the guarantee split. In affordable and supportive housing transactions, the main economic incentive is often the developer fee. For LIHTC transactions, the paid fee, or cash fee, consists of the portion of developer fee that is paid in cash around the time of conversion to permanent financing. The balance of the fee, or deferred fee, is then paid out over a 12- to 15-year period from residual cash flow – cash available after all expenses and debt service are paid. The payment of deferred fee is not certain, however, since many affordable housing transactions do not generate sufficient cash flow.
- If a single party can serve as co-developer, general contractor, and/or managing agent, then it may offer a more favorable economic deal to the partnership. Note that while often more economically efficient, it can be more difficult when the general contractor is in the JV partnership if conflicts arise involving change orders or construction delays.
- If a development partner has a long-term ownership interest in the property, it may require a smaller developer fee.
- A party that brings land often receives a share of developer fee, even if that party does not otherwise contribute financially to the deal. It is highly recommended that the party bringing the land to the partnership complete a third-party appraisal before entering into a joint venture. The value of the land should be considered a significant contribution to the pre-development and overall project budget. Development of non-revenue generating facilities as part of the project, such as a community facility, may reduce the effective value of the land contribution.
- It is crucial that all JV parties pay close attention to budgeting, especially soft and hard cost contingencies and downward adjusters, to execute a financially successful deal. If contingencies are not sized properly, more cash might be needed to keep the deal afloat. Delays in a project could result in downward adjusters from the LIHTC syndicator and, consequently, loss of developer fee. If needed, seek technical assistance from a financial consultant, intermediary, or government agency.

Communication and Relationships

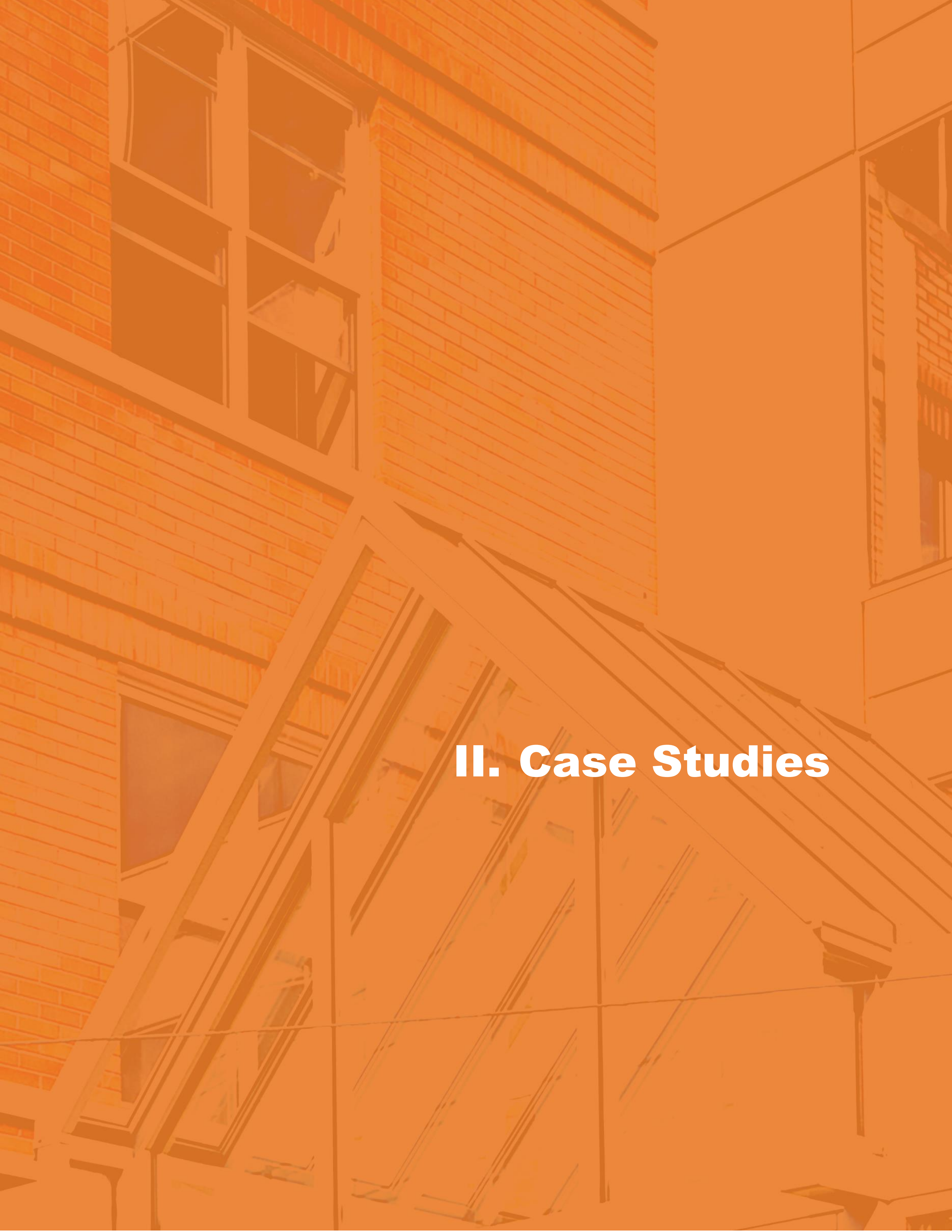
- Open communication, trust, and respect are key to a successful partnership.
- Working with a partner requires frequent collaboration, discussion, and reaching consensus. This can slow the process down, particularly during pre-development.
- All partners should fully understand each negotiation point of a JV agreement, especially major decision-making roles. Otherwise, you can lose the ability to have input on issues that are important to your organization.
- Clearly delineate roles and responsibilities for each phase of the project.
- Negotiate key items up-front, even when you are applying for a Request for Proposal (RFP). Assuming that major roles and economic rewards can be "worked out later" is a dangerous mistake. Many projects have experienced delays, distress and/or dissolution of the JV because the partners did not agree on enough of the deal points early in the process. Delineate projected percentage splits on developer fee and cash flow, priority on cash flow distributions, and other economic incentives, with the caveat that these may be re-negotiated once all business terms are known.
- Clarifying key programmatic aspects is critical, particularly in supportive housing projects, in which the specific population and referral source changes the nature of the project. Communicate other key priorities, such as mutual commitments to local hiring and training.

Guarantees and Control

- Ownership splits do not always translate to decision-making power. Pay attention to who has the power to decide what.
- It can be more efficient for one party to have final say. However, if there are a lot of shared responsibilities and decision-making, it is important to have a clear timeline and dispute resolution process.
- The organization providing guarantees will likely expect to make decisions involving financial matters, including decisions related to changes to scope or change orders, and selecting the lender and/or LIHTC syndicator.
- Using an RFP to find a co-developer can help ensure that the party controlling the property can evaluate its options and make decisions that best fit its mission and objectives.

Decision-making

- Be aware of your internal decision-making process and how it may align or conflict with your partner's. Some not-for-profit organizations rely heavily on the board of directors to approve decisions. If that is the case, can decisions be approved in between board meetings?
- It is important for both parties to deal with problems as they arise and not delay in working on resolution. Outline what the process will be if the parties are unable to reach agreement, such as bringing in an arbitrator.



II. Case Studies

II. Case Studies

Every real estate development project is unique and therefore there are an infinite number of ways to structure a joint venture agreement between parties. These case studies are intended to serve as a reference point for possible approaches to joint venturing. Reviewing other partnership scenarios can help raise important questions about your own deals. Each partner should consider its own business objectives and consult with attorneys to determine the best way to negotiate a specific agreement.

These case studies highlight the key aspects of the partnership arrangement, such as details on the split of ownership, developer fee, division of responsibilities, and decision-making. All case studies highlighted below are financed with either 4% or 9% Low-Income Housing Tax Credits (LIHTC). Deals that utilize 4% LIHTC, sometimes referred to as “bond deals,” include tax-exempt private activity bonds (housing bonds) and a bank letter of credit to enhance the bonds. Deals that utilize 4% or 9% LIHTC include City and/or State subsidy.

All case studies describe projects developed over the past several years in New York State, and the majority are in New York City. The broad categories and sub-categories presented in this Guidebook are:

Joint Venture Types

Turn-Key: The hallmark of a turn-key transaction is that the primary development partner is not part of the long-term ownership structure and does not receive long-term economic benefits from the project.

Typically, the primary development partner provides all or most of the guarantees during the construction term and usually sources some or all of the pre-development funding. It is also common for the development partner to have an affiliated company that is the general contractor. The development partner is generally not involved beyond conversion of the project to permanent financing.

However, there are some situations in which the development partner may exit the transaction at a later point in time: a) if the full share of developer fee is not available at conversion, or b) if the LIHTC syndicator requires the partner to stay in for longer, such as through a three- to five-year operating deficit guarantee period. Remaining in the ownership structure and retaining a decision-making role for the term of a specific guarantee can help mitigate risk for the partner that has made the guarantee.

Long-term: In this type of transaction, both partners retain an ownership interest and some type of economic benefit over the life of the compliance period. At the end of this compliance period, one party may have the right of first refusal to purchase the property. During the compliance period, both parties may share in the distribution of deferred developer fee and cash flow.

Development Types

New Construction: A new construction development is built from the ground up.

Preservation: In a preservation deal, new resources are brought in to rehabilitate an existing property and bring it into a new compliance period, typically after an existing compliance period (tied to a subsidy program) has expired. In many joint venture situations, one of the partners has owned and operated the property for a significant period of time before the new transaction.

Housing Types

Affordable Housing: All the projects highlighted in this Guidebook represent affordable housing of some type. Affordable housing, for our purposes, is defined as housing that is restricted to low- or moderate-income tenants. Various government subsidy programs require the properties to keep rents affordable to households at specific income levels.

Supportive Housing: Supportive housing is a special form of affordable housing for people who have experienced homelessness and who have one or more disabilities, such as severe mental illness or substance use disorder. Social services are voluntary to the tenants and provided on-site. Supportive housing is a three-pronged approach: it requires capital subsidy, just as affordable housing does, but it also requires operating subsidy (to keep rents affordable to tenants who are all extremely low-income), and services subsidy (a reliable source of funding for staff to provide social services).

Supportive housing typically combines apartments for people with special needs and affordable apartments for the general community in a single residence. A residence where a small portion of the available apartments are supportive is often described as affordable housing with a supportive set-aside.

Senior Housing: In the context of the JV Guidebook, senior housing is affordable housing that is age-restricted. Depending on the source of subsidy and its requirements, senior housing may either serve tenants 55 and older or 62 and older. Some senior housing provides social services but some does not.

Partners

Developer: The developer manages the real estate transaction, from securing financing to overseeing construction. As this Guidebook explores, there are many ways for entities to participate in development and to come together to see development through. Developers can be for-profit companies, individuals, or not-for-profit organizations. Some not-for-profit organizations focus primarily on the development of affordable, supportive, or senior housing, and others participate in that work as a complement to their primary activities.

Social Service Agency: A social service agency is a not-for-profit organization that provides services such as case management, counseling, or access to healthcare. All supportive housing must have a social service agency to secure the services subsidy and operate its contract. Some social service agencies have become developers; others find that they can scale up their development participation over time as they gain expertise and financial resources (often from developer fees from prior transactions).

Faith-Based Organization: Faith-based organizations, such as churches, synagogues, mosques, and temples, can play a valuable role in affordable housing development. The faith-based organization may have land upon which to build – often a scarce resource– as well as a mission to serve its community. It is important to note that the New York State Office of the Attorney General must approve all dispositions of land held by tax-exempt faith-based organizations.

Turn-Key #1

Case Study Categories	Turn Key New Construction Supportive Housing
Partners	Not-for-profit social service agency (NFP) For-profit developer (FP)
Context	NFP had land and was looking for a JV partner with development experience and expertise, financial strength, and relationships with government agencies and financial institutions. NFP selected FP through an RFP process.
Project Summary	114 apartments - Studios, 1, 2, & 3 bedrooms and community facility space
Total Development Cost	$43 million
Financing Sources	4% LIHTC
Ownership	NFP - 100%, FP developer participated through a site development agreement
Developer Fee & Cash Flow	FP received 66.66% of the developer fee, all of which was paid out of the cash fee at conversion to permanent financing. NFP received 33.33% of the developer fee, after FP was paid. The NFP fee was paid out of the remaining available cash fee at conversion or out of the deferred fee over 12-15 years.
Guarantees	FP provided all construction-related guarantees. NFP provided operating deficit and repurchase guarantees.
Exit Strategy	NFP is sole owner and has right of first refusal at the end of the LIHTC compliance period.
Pre-development	NFP secured pre-development funding from a NFP lender and bank foundations.
Division of Responsibilities	FP controlled financial decisions that affected the guarantees during construction and handled day-to-day project management, procuring and negotiating bank and LIHTC financing, and provided technical and real estate development expertise. NFP managed community and political relationships as well as programming of community and social services space. NFP holds supportive housing social service contract. The partners shared responsibility on design and decision-making around which government sources to pursue for subsidy.
What each party brought to the table	FP brought development experience and expertise, and financial strength. NFP brought property with existing building and parking lot, access to certain government funds only available to NFPs, social services expertise, and community and political relationships.

Turn-Key #2

Case Study Categories	Turn Key New Construction Affordable Housing
Partners	Not-for-profit developer (NFP) For-profits (FP)
Context	FP acquired the land and approached the NFP to partner. FP was looking for a NFP with a strong reputation, banking, government and community relationships, development experience, and the ability to provide guarantees. NFP created additional affordable housing and received a developer fee to further its mission.
Project Summary	85 studio apartments and community facility space
Total Development Cost	$26.3 million
Financing Sources	4% LIHTC, Brownfield Tax Credits
Ownership	NFP - 52%, FP - 48% (until developer fee is paid out)
Developer Fee & Cash Flow	NFP - 52%, FP - 48%. Once FP paid out its share of developer fee, then ownership goes 100% to NFP and all cash flow goes to NFP.
Guarantees	NFP provided guarantees except for completion guarantee. The general contractor, who was part of the JV entity, provided the completion guarantee.
Exit Strategy	NFP has right of first refusal at the end of the LIHTC compliance period.
Pre-development	NFP provided pre-development funding through NFP lender.
Division of Responsibilities	NFP had final say but all parties participated. NFP provided guarantees, which resulted in greater decision-making authority. NFP also handled community and political issues. FP handled the bulk of the tasks associated with securing financing, with assistance from the NFP, as needed.
What each party brought to the table	FP brought technical expertise and land. FP includes the general contractor. NFP brought community and political relationships, financial strength for guarantees, experience with development, and credibility with financing sources.

Turn-Key #3

Case Study Categories	Turn Key Preservation Senior Housing
Partners	Not-for-profit (NFP) For-profit (FP)
Context	NFP owned the building and sought a partner with development and contracting expertise in preservation. It was also looking for a partner who could provide pre-development funding, financial strength and relationships with financing sources.
Project Summary	139 apartments - Studios & 1 bedrooms
Total Development Cost	$52.7 million
Financing Sources	4% LIHTC
Ownership	FP owner is a special limited partner with nominal ownership interest through project stabilization and permanent conversion. After stabilization, NFP assumes ownership.
Developer Fee & Cash Flow	FP received 40% of fee out of cash fee available at conversion to permanent financing. NFP received 60% of developer fee.
Guarantees	FP provided all construction guarantees.
Exit Strategy	NFP has right of first refusal at end of compliance period. FP exits at conversion.
Pre-development	FP provided pre-development funding.
Division of Responsibilities	FP took on the bulk of the responsibilities - pre-development work, securing financing, loan and project management. FP had control over financial and day-to-day decisions only to the extent that it affected their guarantee obligations. Both parties weighed in on decisions such as design.
What each party brought to the table	FP brought development, contracting, building management experience, and financial strength. NFP brought the property, and community and political expertise.

Turn Key #4

Case Study Categories	Long-Term Preservation Affordable Housing
Partners	Not-for-profit (NFP) For-profit (FP)
Context	NFP owned the buildings and needed a partner with construction expertise in preservation, as well as financial strength, in order to re-finance the buildings.
Project Summary	360 apartments across multiple buildings – Studios, 1, 2, & 3 bedrooms
Total Development Cost	$62 million
Financing Sources	4% LIHTC
Ownership	NFP - 40%, FP - 60%
Developer Fee & Cash Flow	NFP - 40%, FP - 60%
Guarantees	FP provided all guarantees.
Exit Strategy	FP can exit when 5-year operating deficit guarantee expires, as required by LIHTC syndicator.
Pre-development	FP provided pre-development funding.
Division of Responsibilities	FP served as developer and general contractor, secured financing and made major decisions on financial and day-to-day matters. FP and NFP shared other key decisions. NFP participated in all conversations and meetings.
What each party brought to the table	FP brought financial strength, development and construction expertise, and relationships with government agencies, financial institutions, and LIHTC syndicators. NFP brought properties and local community relationships.

Long-Term #1

Case Study Categories	Long-Term New Construction Supportive Housing
Partners	Not-for-profit (NFP) For-profit (FP)
Context	NFP had a property and was looking for a partner with financial strength. The NFP had worked with the FP in the past. In prior deals, the FP had been a consultant.
Project Summary	44 studio apartments
Total Development Cost	$12 million
Financing Sources	9% LIHTC
Ownership	NFP - 60%, FP - 40%
Developer Fee & Cash Flow	NFP - 60%, FP - 40%
Guarantees	FP provided all guarantees.
Exit Strategy	NFP has right of first refusal at the end of the LIHTC compliance period.
Pre-development	Not-for-profit lender and FP provided pre-development funding.
Division of Responsibilities	FP had control over all financial decisions related to the guarantees, drafted and submitted financing applications, and handled day-to-day project management. NFP had strong community and political relationships and therefore was primary contact for community and political approvals. NFP and FP shared all decisions about project design and the general contractor. Both share responsibility for long-term operations, including asset management.
What each party brought to the table	FP brought development and technical expertise, ability to provide guarantees and pre-development funding, as well as relationships with banks and LIHTC syndicators. NFP brought land, community and political relationships, and access to capital funds associated with supportive housing. Both partners had strong relationships with various government agencies. A third-party NFP provides social services in the building.

Long-Term #2

Case Study Categories	Long-Term New Construction Supportive Housing
Partners	Not-for-profit (NFP #1) Not-for-profit (NFP #2)
Context	Partners came together to respond to a NYC-issued RFP. NFP #1 took the lead in putting the team together and approached NFP #2, based on their complementary missions, the social service expertise of NFP #2, and the strength of its local community and political relationships.
Project Summary	160 studio apartments
Total Development Cost	$116 million
Financing Sources	4% LIHTC
Ownership	NFP #1 - 70%, NFP #2 - 30%.
Developer Fee & Cash Flow	NFP #1 - 70%, NFP #2 - 30%.
Guarantees	The NFPs split the guarantee requirement 70% and 30% to reflect the ownership, developer fee, and cash flow split.
Exit Strategy	NFP #1 has right of first refusal at the end of the LIHTC compliance period.
Pre-development	Each NFP secured a pre-development loan.
Division of Responsibilities	NFP #1 had control over general contractor, architect, and financial decisions, and took lead on predevelopment, financing, and project management. The organization also serves as the property manager. NFP #2 took the lead on community and political issues and securing social services funding. It participated in decisions and gave input on design and social services spaces. It also serves as the social service provider.
What each party brought to the table	NFP #1 brought development expertise, financial strength, and relationships with government agencies, financial institutions, and LIHTC syndicators. NFP #2 brought local community and political relationships and social services funding.

Long-Term #3

Case Study Categories	Long-Term New Construction Affordable Housing
Partners	Not-for-profit (NFP #1) Not-for-profit (NFP #2) For-profit (FP)
Context	Partners came together to respond to a NYC-issued RFP. The FP took the lead in putting the team together. Based on the site location, FP sought out NFPs for their local community and political relationships and mission-based expertise. This is a mixed-income development that includes moderate-income rental apartments.
Project Summary	230 apartments - Studios, 1, 2, & 3 bedrooms
Total Development Cost	$116 million
Financing Sources	4% LIHTC, developer equity (required because of NYC's mixed-income program requirements)
Ownership	NFP #1 - 20%, NFP #2 - 15%, FP - 65%
Developer Fee & Cash Flow	NFP #1 - 20%, NFP #2 - 15%, FP - 65%
Equity	NFP #1 - 10%, NFP #2 - 7.5%, FP - 82.5%
Guarantees	FP provided all guarantees.
Exit Strategy	At sale or re-finance, revenue shared amongst the partners according to ownership split after residual equity is repaid.
Pre-development	All parties funded pre-development in same proportion as the equity split: NFP #1 - 10%, NFP #2 - 7.5%, FP - 82.5%.
Division of Responsibilities	FP took lead on pre-development, financing, and project management. NFP #1 is property manager. NFPs took lead on community and political issues/approvals and securing additional government financing.
What each party brought to the table	FP brought financial strength, development and construction expertise, along with relationships with government agencies, financial institutions and LIHTC syndicators. NFPs brought community and political relationships and development experience.

Faith-Based #1

Case Study Categories	Long-Term New Construction Senior Housing
Partners	Not-for-profit (NFP) Faith-based organization (FBO)
Context	FBO is a church that had land and was looking for a partner to serve as developer. NFP had significant development experience; a staff member at the NFP made the connection.
Project Summary	40 1-bedroom apartments
Total Development Cost	$13.5 million
Financing Sources	4% LIHTC, HUD Section 202
Ownership	During construction term: NFP - 51% and FBO 49%. Upon stabilized occupancy, the ownership percentages flipped and FBO had 51% and NFP 49%.
Developer Fee & Cash Flow	NFP - 75%, FBO - 25%
Guarantees	NFP provided all guarantees.
Exit Strategy	FBO has right of first refusal at the end of the compliance period.
Pre-development	Not-for-profit lender provided pre-development funding.
Division of Responsibilities	NFP had major decision-making control, secured pre-development financing, and handled day-to-day project management and property management. FBO was consulted on major design decisions and change orders above a certain dollar amount.
What each party brought to the table	The NFP brought development expertise and a complementary mission. FBO brought the land and initial proposal to develop senior housing.

Faith-Based #2

Case Study Categories	Long-Term New Construction Senior Housing
Partners	For-profit (FP #1) For-profit (FP #2) Faith-based organization (FBO) Not-for-profit (NFP)
Context	FP #1 had a relationship with the FBO (a church), as well as strong community and political relationships. FP #1 formed a JV with FP #2 to complement strengths, leverage its balance sheet, and position itself to be competitive in a NYC 9% LIHTC application. FBO owned the land and entered into a development agreement with FP #1. The FP joint venture acquired the land from the FBO for $1 million and built out the community facility space for the FBO to own and operate. NFP entered for the formation of the Housing Development Fund Corporation (HDFC), as required by the subsidy program.
Project Summary	89 studio apartments and community facility space
Total Development Cost	$46 million
Financing Sources	9% LIHTC
Ownership	FP #1 and #2 entered into a joint venture with 51%/49% ownership, respectively. They subsequently entered into a second joint venture with the FBO as a 1% member. FBO owns the community facility space. NFP is a 50% member of the HDFC and received a flat fee to serve as the HDFC.
Developer Fee & Cash Flow	FPs split cash flow from the residential condominium 50%/50%. FBO keeps revenue from the community facility space.
Guarantees	FPs share all guarantees equally.
Exit Strategy	FBO has right of first refusal at the end of the LIHTC compliance period.
Pre-development	FPs provided pre-development funding.
Division of Responsibilities	FPs manage day-to-day development, provide technical expertise, have decision-making control over all financial matters related to the guarantees, as well as design. They also worked collaboratively on project management and securing private and government financing. FP #1 took lead on negotiations with the FBO and gaining local community support and the necessary approvals from the Attorney General's office. FP #2 controls ongoing property operations, including asset management responsibilities. All parties shared responsibility for receiving political support, with FP #1 serving as lead.

What each party brought to the table	FBO brought property to the transaction and assisted with gaining the needed community approvals. FP #1 holds the relationship with the FBO and took the lead with local political and community relationships and approvals. FP #2 had development experience and technical expertise, relationships with government agencies, and financial institutions.

Faith-Based #3

Case Study Categories	Long-Term New Construction Affordable Housing
Partners	Not-for-profit (NFP) For-profit (FP) Faith based organization (FBO)
Context	The FP had a relationship with the FBO (a church) as well as strong community and political relationships. FBO entered into a development agreement with FP. FP and FBO worked with City and local council member on a possible site rezoning. While FP had development expertise, NFP was brought in later because of its track record of securing competitive 9% LIHTC. NFP had its own political relationships but the project was of particular interest to the NFP because it was looking to expand its housing portfolio to new communities.
Project Summary	67 apartments - Studios, 1, 2, & 3 bedrooms, community facility space, and new FBO worship space. Community facility and worship space are each in a separate condominium unit that the FBO owns. FBO retains long-term ground lease on the entire project.
Total Development Cost	$32 million
Financing Sources	9% LIHTC
Ownership	NFP - 80%, FP - 20%. FBO owns the long-term ground lease.
Developer Fee & Cash Flow	NFP - 80%, FP - 20%. Revenue to FBO is comprised of ground lease rent and rent on community facility space. FBO received an upfront ground lease entrance payment that extinguished the organization's debt and allowed for the building of two condominium spaces: one for religious use and the other for a revenue stream. It also provided proceeds for rent for another property to be used as worship space during the construction period.
Guarantees	NFP provided all guarantees. Initially both entities provided guarantees, but as the ownership structure was finalized, the FP determined that a guarantee was unnecessary based on the final ownership split.
Exit Strategy	NFP has right of first refusal at the end of the LIHTC compliance period, while FBO retains 60-year ground lease.
Pre-development	NFP provided pre-development funding.
Division of Responsibilities	FP took lead on negotiations with the FBO and gaining local community support, as well as the necessary approvals for the transfer of ownership from the Attorney General's office. FP provided technical expertise and had decision-making control over all

	financial matters related to the guarantees, as well as architecture and design. FP also participated in decisions around GC and other matters. NFP took the lead on project management and securing private and government financing. Responsibility for gaining political support and approvals was shared, with FP taking the lead.
What each party brought to the table	FBO brought property to the transaction and assisted with gaining required community approvals. FP holds the relationship with the FBO and took the lead with local political and community support and approvals. NFP had development experience and technical expertise, relationships with government agencies and financial institutions, and some local political relationships.

Social Service Agency Case Study: Strategic JV Options Over Time

Presented below are three ways that one not-for-profit social service agency (NFP) participated in supportive housing development with for-profit (FP) developers. All three deals furthered the mission of the organization by providing more units of supportive housing in NYC, and represent a spectrum of joint venture participation and priorities, rather than just financial gain. However, the developer fee is not unimportant to the social service agency. In fact, it presents a rare opportunity to receive unrestricted funds that can be used to help pay for future development, especially acquisition and pre-development costs, as well as for other programs within the agency.

As shown in these deals, the NFP's overall long-term strategy resulted in more access to critical unrestricted funds. In Deal #1, the NFP participated to develop a relationship with the FP partner, but did not have a significant share of the economic benefits or control. In Deal #2, the NFP took a middle-ground approach through which it was able to participate in decision-making, receive a portion of the developer fee, and deepen its understanding and experience in real estate development. In Deal #3, the NFP equally split the developer fee and controlled more major decisions, which reflected an evolution of its relationship with FP partners.

All three deals were financed by LIHTC, either 4% or 9%, in combination with City and State subordinate financing and bank loans. The NFP brought respected reputation to aid in LIHTC awards as well as social service expertise and ability to access capital, operating, and services subsidies only available to NFPs. Both parties shared responsibility for garnering community and political support.

Deal #1

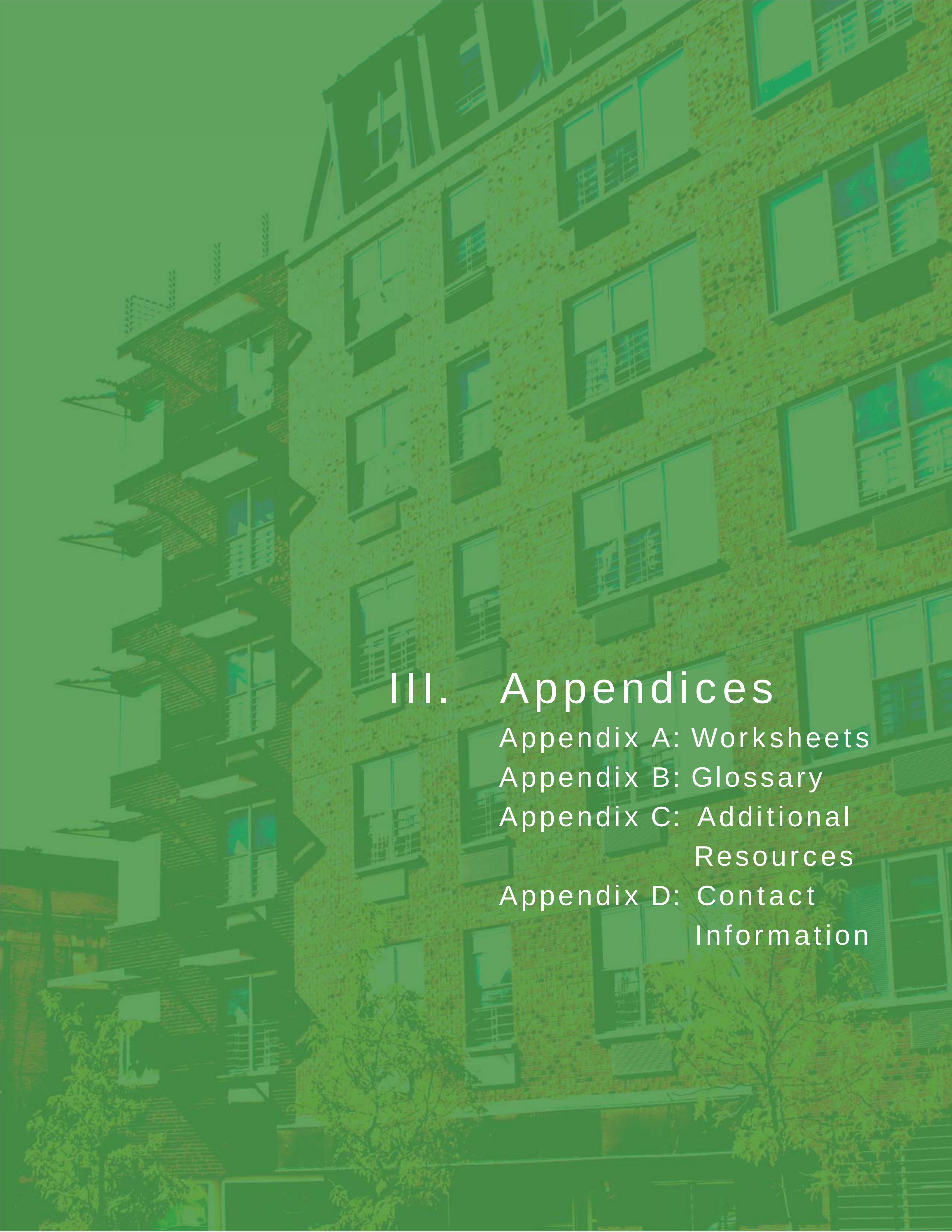
Case Study Categories	New Construction Affordable Housing (with Supportive Set-Aside) Long Term
Project Summary	25 supportive apartments, part of larger project
Ownership	FP - 50%, NFP - 50%
Developer Fee & Cash Flow	NFP received no developer fee. NFP received $100,000 at closing and receives an annual partnership maintenance fee and expense reimbursement. NFP provided project with NFP status through forming of the Housing Development Fund Corporation (HDFC) ownership interest and provides social services.
Guarantees	FP provided all guarantees.
Exit Strategy	FP has right of first refusal at end of LIHTC compliance period.
Division of Responsibilities	FP was responsible for all pre-development financing. FP took on day-to-day management, pre-development, and securing financing. NFP secured social services funding and brought in capital and operating subsidy funds that only NFPs can access.

Deal #2

Case Study Categories	New Construction Supportive Housing Long Term
Project Summary	134 apartments with supportive and affordable units and commercial space.
Ownership	FP - 50%, NFP - 50%
Developer Fee & Cash Flow	NFP received 25% of the developer fee but took no construction risk, and the two FP partners jointly received 75% of the fee. One FP brought the land, and the other provided guarantees and pre-development funds, reflected in the fee split.
Guarantees	FP provided all guarantees.
Exit Strategy	NFP has right of first refusal at end of the LIHTC compliance period.
Division of Responsibilities	FP was responsible for all pre-development financing. FP handled day-to-day management, pre-development, and securing financing, and had major decision-making control during construction NFP secured social services funding and brought in capital and operating subsidy funds that only NFPs can access. NFP has major decision-making control during operations.

Deal #3

Case Study Categories	New Construction Supportive Housing Long Term
Project Summary	94 apartments with supportive and affordable units.
Ownership	FP - 50%, NFP - 50%
Developer Fee & Cash Flow	FP and NFP split developer fee and cash flow. NFP brought the land to the transaction, which is reflected in the developer fee split.
Guarantees	FP provided all guarantees during construction. NFP participated in operating deficit guarantee.
Exit Strategy	Parties share right of first refusal at the end of the LIHTC compliance period.
Division of Responsibilities	FP did day-to-day management, pre-development, and secured financing. NFP secured social services funding and brings in capital and operating subsidy funds that only NFPs can access. NFP and FP brought pre-development funding. FP controlled decision-making for everything associated with guarantees but NFP is consulted. NFP had input on design and social services space planning. Decision-making and property management is shared once building is operating.



III. Appendices

Appendix A: Worksheets

Appendix B: Glossary

Appendix C: Additional Resources

Appendix D: Contact Information

Appendix A: Worksheets

Step One: Preliminary Assessment

Contribution	Team Member(s)	Additional Information
Access to land *e.g. Value of land? Rezoning needed?*		
Development experience/expertise *e.g. Years of experience? Number/type of completed real estate projects?*		
Staff available for division of responsibilities *e.g. # FTE staff? Staff experience? Skill sets?*		
Financial strength to provide guarantees		
Pre-development resources		
Relationships with banks and LIHTC syndicators		
Track record securing subsidies and competitive resources such as tax credits		
Eligibility for special government programs, such as tax abatements and exemptions		
Access to social service funding		
Expertise with the population served and affiliated services		
Community and political support		
Property management experience		

Step Two: The Partnership

Does your team collectively have the proper expertise, technical skills, and financial capacity?	
Can you agree on who is on your development team and who will be on the long-term operational team?	
Do your strengths and weaknesses complement those of your partner?	
Are you able to articulate your top priorities and objectives for the proposed project and partnership? Do they match your partner's?	
Is there transparency in your communication?	
Did early negotiations go well enough that you feel comfortable getting into a long-term business relationship?	
Is it important to you that your missions align, and if so, do they?	
What happens if tenant rent payments fall below expectations?	

Step Three: Negotiation Points for the Deal

Pre-development Resources	Partner name: Source:
Ownership Interest	Partner name: Percentage: Partner name: Percentage:
Cash Developer Fee (if any)	Partner name: Percentage: Partner name: Percentage:
Deferred Developer Fee (if any)	Partner name: Percentage: Partner name: Percentage:
Cash Flow	Partner name: Percentage: Partner name: Percentage:
Guarantees *e.g. List required guarantees; Partner providing/split*	
Turn-Key (Yes/No*)* *If "yes," when does partner exit?*	
Long-Term JV (Yes/No) *e.g. List relevant regulatory periods; what happens when they expire?*	
Decision Making *e.g. Describe decision-making process and how each partner will participate; describe dispute resolution process*	

Step Four: Division of Responsibilities

Role	Team Member(s)	Additional Information
Preparing budgets		
Submitting applications to agencies and financial institutions		
Financial consultant (if necessary)		
Political consultant (if necessary)		
Bank point of contact		
Syndicator point of contact		
Government agency point of contact		
Architect • How will the architect be selected? • What interest does each partner have in the design and how will design decisions be made?		
General contractor (GC)		

If GC is not JV partner: • How will GC be selected? • Who is point of contact with GC? • Will JV entity hire owner's rep?		
If GC is a JV partner: • Will the other partner hire an owner's rep?		
Construction loan and requisition management		
Construction management		
Lease-up management • How will the lease-up manager be selected? • If third party, who will manage them and ensure benchmarks are met?		
Property management • How will property manager be selected? • If third party, who will oversee property manager? • What are the rights and responsibilities of the other partners around property management? • Have all parties agreed to rent charging, rent collection and eviction procedures?		
Asset management and compliance		

Social Services (Applicable to Supportive Transactions)

Social service provider	
How will social service team and property management work together?	
What social service contract(s) are being pursued?	
Do social service contracts include rental assistance? If yes, how much will be allocated to services and how much to rental assistance?	

Appendix B: Glossary

Asset Management
A strategy to optimize and preserve an organization's housing portfolio. Asset management achieves this through monitoring and analysis of property performance, site visits, and ongoing communication with developers, general partners and property managers.

Cash Flow
The income produced by a property after deducting operating expenses and debt service.

Change Order
A change in a project's scope of work.

Closing
The occasion where the sale of real estate and/or the making of a loan is finalized. Usually marks the official start of the development project.

Community Facility
Facilities in mixed-use developments used for community purposes such as social services, not-for-profit office space, non-market rate commercial businesses, and recreation centers.

Community Preference
For New York City financed deals, the property developer must give a preference for half of the affordable housing units to income-eligible residents of the community district where the property is built.

Compliance Period
The 15 years that a project must meet LIHTC requirements. Projects in New York typically must also retain affordability for at least 15 additional years through an extended use restriction.

The regulatory period typically refers to the period of time the project is required to remain affordable, as stipulated in the City or State subsidy regulatory agreement.

Condominium
Individual ownership of a unit in a multiunit structure or on land owned in common.

Cost Contingencies
A reserve in the budget for estimated unforeseen hard and soft costs during construction.

Developer Fee
A fee that a developer earns based on the total development cost of a project. This is often the main economic incentive in affordable and supportive housing transactions because cash flow is limited.

Cash Fee

The portion of developer fee that is paid in cash around the time of conversion to permanent financing.

Deferred Fee

The portion of developer fee that is paid over a 12- to 15-year period from cash flow.

Downward Adjuster
A penalty imposed by the LIHTC syndicator when a project has significant delays, resulting in delayed tax credit delivery to the investor. The developer often makes up for this delay through reducing its developer fee.

Ground Lease
A long-term lease of land. The tenant of the ground lease constructs and owns a building on the property for a specified period of time (generally up to 99 years).

Guarantees
A written promise to a lender or investor that the guarantor will repay a portion of loan defaults or of undelivered investor benefits.

Payment

Guarantees that the borrower will repay the loan based on the terms in the original debt agreement.

Operating Deficit

Guarantees funding for future operating deficits of the development.

Repurchase

Guarantees that the general partner/managing member will purchase the investors' interest in a development under certain circumstances, e.g. the project fails to meet the rent restriction test under the Tax Code, construction loan conversion does not take place by a particular date, etc.

Housing Bonds (See *Private Activity Bonds*)

Housing Development Fund Corporation (HDFC)

A corporation organized under New York State's Private Housing Finance Law for the development of low-income housing projects. An HDFC project may be a cooperative apartment building or a not-for-profit rental housing project.

HUD Section 202

Federal program that provides capital assistance and operating assistance to finance low-income (50% of AMI) senior housing. It is only available for housing owned by not-for-profit organizations or by limited partnerships in which the sole general partner is a not-for-profit organization. Because of HUD-provided project-based rental assistance, tenants pay 30% of their income on rent.

Letter of Credit

A document from a bank guaranteeing that a buyer will make on-time payments on a purchase. If the buyer is unable to make these payments, the bank is liable for the remaining balance.

Low Income Housing Tax Credit (LIHTC)

An income tax credit used to generate private equity investments into affordable rental housing. Investors, in exchange for this equity, are able to claim tax credits on their federal income tax returns over a 10-year period.

4% LIHTC

An as-of-right tax credit program used in conjunction with tax-exempt bond financing.

9% LIHTC

A deeper allocation competitively awarded by the City and State housing agencies.

LIHTC Partnership

An ownership structure that includes a managing owner, known as the "general partner," and an investor(s) owner as the "limited partner."

General Partner

Typically a developer or developers who own 0.01 percent of the interest in the limited partnership. The General Partner oversees the day-to-day operations.

Limited Partner

Typically an investor or investors who own up to 99.99 percent of the interests in the limited partnership. The limited partnership is a vehicle for investors to receive a return on their investment, often in the form of tax credits. The Limited Partner has no role in day-to-day property operations.

Private Activity Bonds

Bonds issued by state or local governments to fund private activities that have a public benefit, like affordable and supportive housing development. Though federally allocated, states issue their own "volume cap," or the amount of private activity bonds that will be exempt from federal and state taxes. They also decide how allocate their bond cap to each qualifying use.

Regulatory Period (See Compliance Period)

Request for Proposals (RFP)

A competitive application process often used in situations where a public agency invites developers to submit proposals for the development of the site. The RFP outlines site details and the criteria for selection of the chosen developer(s).

Right of First Refusal

A right offered to an entity at the end of a specified period. They are granted the right to purchase the property at a Minimum Purchase Price, which is equal to the principal amount of indebtedness secured by the property, and all taxes (federal, state and local) from the sale. This right may or may not require an offer from a third party to purchase the real property.

Stabilization

The point at which a development produces stable income. This comes after the development reaches completion, lease-up and generates ongoing income and expenses.

Subordinate Financing

If a property has multiple mortgages, subordinate financing has a lower priority for repayment than the others. The subordinate mortgage is repaid only after the primary mortgage(s) are repaid.

Subsidy

A government resource that is available to developers to fund aspects of projects in exchange for a public benefit.

Capital

A subsidy that funds the capital requirements of a project. Capital subsidy usually takes the form of low-interest subordinate loans with favorable payment structures.

Operating

A subsidy that provides ongoing expense funding above what the tenants can afford to pay in rent.

Services

A type of subsidy that funds on-site services in supportive housing developments, including staffing and service activity that allows tenants to living independently.

Syndicator

An entity, e.g., Enterprise Community Investment, that raises capital for investment in low-income housing through the Low-Income Housing Tax Credit program.

Appendix C: Additional Resources

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Appendix D: Contact Information

For further questions regarding the Joint Venture Guidebook, please contact:

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