Enterprise

Preservation Next Southeast Academy

Session 4:

Preservation Development Models

January 16, 2024

Today’s Agenda

A Special Thank You to the Funders of Preservation Next

MacKenzie Scott

KAISER PERMANENTE®

CIT®
A Division of First Citizens Bank

WELLS FARGO

JPMorgan Chase & Co.

BMO

StateFarm®

Georgia Power Foundation

Charles M. and Mary D. Grant Foundation

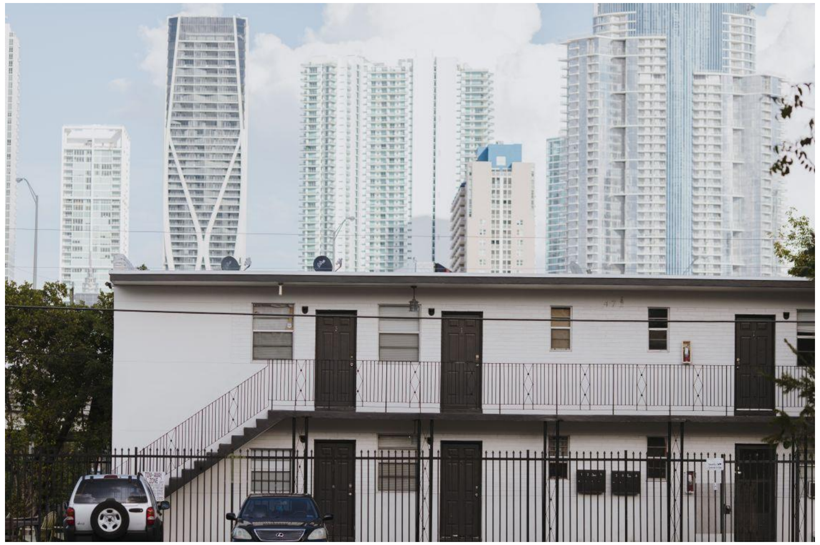
THE ANNIE E. CASEY FOUNDATION

Enterprise®

What is Preservation Next?

Preserving Affordability in Small to Medium Multifamily Properties and Protecting Residents from Displacement

Solutions at the intersection of renter and owner stability to promote an eviction prevention-first approach



Through **Preservation Next,** Enterprise is committed to preserving affordable small to medium multifamily homes and ensuring that residents have access to safe, healthy, and resilient places to live.

To truly preserve these homes and protect affordability for residents now and into the future, we must:

- Protect existing affordability where it currently exists.
- Provide housing stability and prevent displacement of existing residents and families.
- Invest in healthy, sustainable, and resilient homes.
- Foster responsible stewardship by mission-aligned owners.

Small and medium sized properties provide a crucial foundation for affordable housing in this country: 80 percent of homes in these buildings are available to people who earn less than 80 percent of the area median income

Meet Our Preservation Next Team

Preserving Affordability in Small to Medium Multifamily Properties and Protecting Residents from Displacement

Meaghan Vlkovic

ENTERPRISE, VP AND MARKET LEADER, SOUTHEAST

Meaghan leads Enterprise's programmatic work in the Southeast region, focused on providing an array of resources to affordable housing and community development partners. This includes capacity building assistance for proactive preservation and production of housing, and helping communities plan for future development, such as transit-oriented development opportunities.

Elizabeth Richards

ENTERPRISE, SENIOR PROGRAM DIRECTOR

At Enterprise, Elizabeth leads program development and delivery for the National Preservation Next program. Elizabeth has 20+ years of experience funding and managing nonprofit community development organizations, implementing local, city-level and cross-market initiatives, and delivering policy and finance solutions for affordable homes and communities.

Gabriella Lott

ENTERPRISE, SOUTHEAST FELLOW, HOUSING PRESERVATION AND PRODUCTION

At Enterprise, Gabriella supports the Southeast Market Office's preservation, coordinated investment, and faith-based development programs. She also helps to organize the Southeast Market Office's collaboration with community-based organizations, public agencies, and affordable housing developers.

Join Us!

Southeast Preservation Academy Sessions

October 2023 – April 2024

Academy Goals:

- **Expand awareness** of SMMF housing preservation and its role in to advancing housing affordability and racial justice.
- **Help you** identify the role you can play in advancing SMMF preservation
- Prepare you **to pursue SMMF preservation deals** as a developer, partner, resource provider, or policy maker.

Dates	Sessions
	PART 1: Defining the Opportunity
October 17, 2023	Understanding Small/Medium Multifamily
November 14, 2023	Organizational Sustainability and Business Planning
December 5, 2023	Property Identification, Evaluation, and Acquisition
	PART 2: Preparing for Preservation
January 16, 2024	Preservation Development Models
February 6, 2024	Policy Impacts on Preservation and Housing Stability
March or April 2024	Financing SMMF Preservation
	PART 3: Tackling a Project
March 19, 2024	Navigating Rehabilitation and Sustainability
April 9, 2024	Sustainability, Resilience, and Health for SMMF
April 30, 2024	Property & Asset Management

Enterprise

PRESERVATION NEXT
JOINT VENTURES

Joint Ventures

1

How to **evaluate** if a Joint Venture (JV) is right for you

2

A **guide** to key decisions you will need to make to form a successful JV

Why Joint Ventures?

Is a Joint Venture (JV) right for you?

***Definition*:** a Joint Venture is a formal partnership structure that facilitates resource-sharing for specific real estate transactions.

Relationships
- Community
- Local Government
- Funders

Finances
- Balance sheet
- Borrowing
- Guarantees

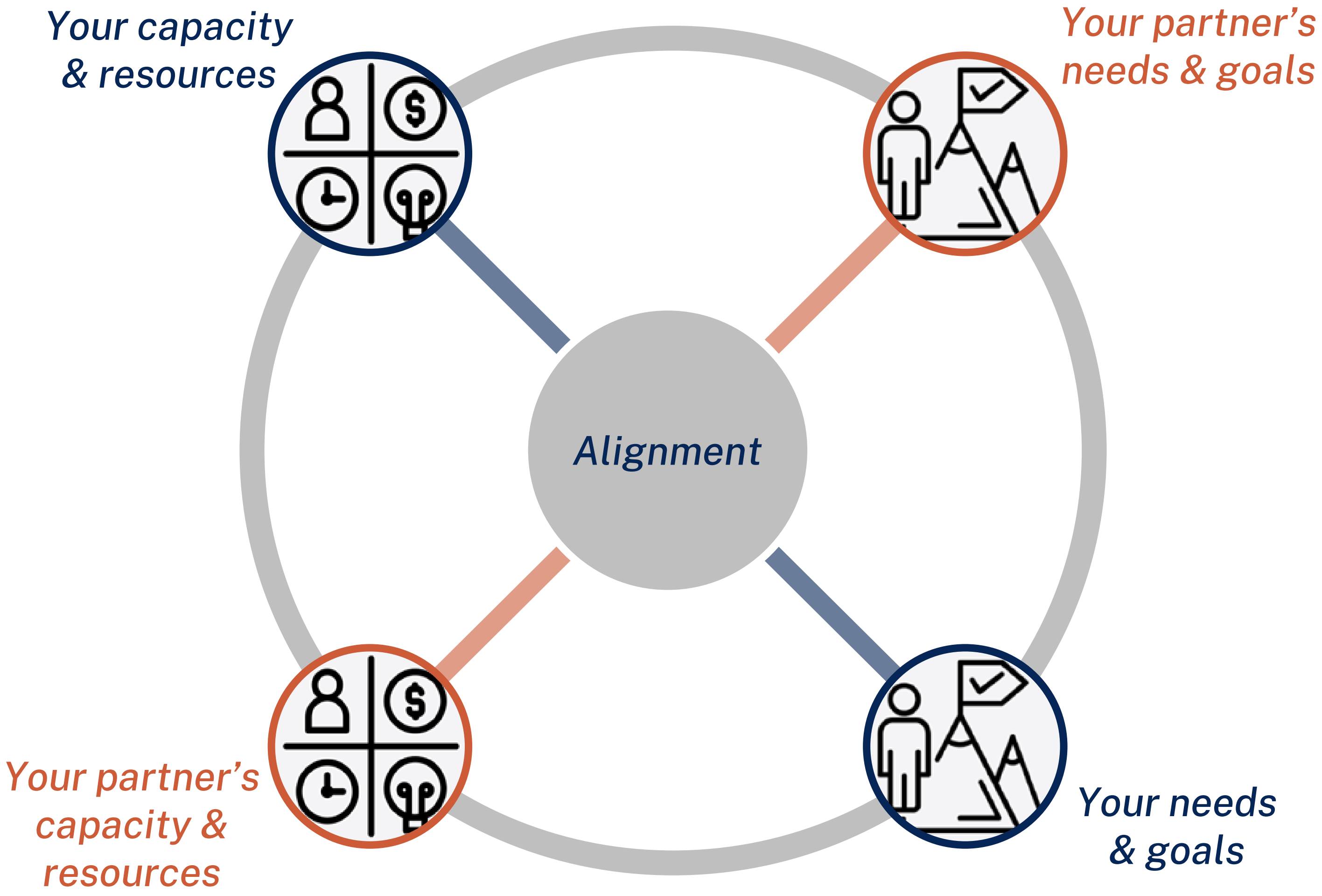
Expertise
- Past projects
- Operational capacity

Preservation
- Similar scale projects
- Work with residents

Even organizations capable of developing on their still seek partners to increase project volume, expanding territory, or better leverage their strengths.

What are you bringing to the table?

Is a Joint Venture (JV) right for you?



Be clear about what each partner brings ...

- *Site control*
- *Community relationships*
- *Expertise with the population served and affiliated services*
- *Access to different types of financing*
- *Development expertise*
- *Property management experience*

...and what you need to consider the partnership a success. For example:

- *A completed project that preserves affordability*
- *On-the-project learning/capacity building*
- *Increased access to resources*
- *New/expanded relationships*

What are your priorities?

Is a Joint Venture (JV) right for you?

Before pursuing a JV, reflect on the following questions…

Control over Design, Construction, Finance

- Do you want to be a part of every aspect of the work?
- Do you want veto power?

Development Team

- Do you have strong preferences about for your development team composition?
- If so, you and your JV partner will need to agree on team members.

Developer Fee

- Are you willing to take more over time, with the risk that it might not ultimately be paid out as projected?
- Is it more important for you to paid an earlier, more predictable sum, even if it's a smaller amount?

Ownership

- Is ongoing ownership a priority for you, even if it may require a smaller developer fee?

Property Management

- Do you want to manage the property on your own?
- Do you want oversight of or say in the selection of the property manager?

Evaluating a potential JV partner

Tips for forming a successful Joint Venture (JV)

Now that you've considered your priorities, think about your potential partner...

Capacity

- Do they have expertise, skills, and financial capacity to complement what you bring to the table?

Communication

- Is there transparent communication?
- Do you feel comfortable getting into a long-term business relationship based on discussions you have had to-date?

Alignment

- Do your missions/goals align?
- If they aren't completely aligned, are they complementary?

Decision making

- Do your internal decision-making processes align?
- Timing and pace are important factors in a partnership

Two important considerations in vetting a joint venture partner:
seek references, and consider using an RFP process to find a co-developer

Negotiation points for the deal

Tips for forming a successful Joint Venture (JV)

Let's consider some key negotiation points you and your partner(s) will need to discuss…

- **Pre-development resources** – Who is bringing them to the table? What are the sources?
- **Ownership** – What percentage will each partner own? Is it commensurate with the equity contribution? Is land factored in as equity, or via a ground lease to retain long-term ownership?
- **Developer fee** – What percentage will each partner get of the cash fee at closing, if any? What percentage will each partner get of any deferred developer fee?
- **Cash flow** – What percentage will each partner get? Is it commensurate with the equity split?
- **Guarantees** – Who is providing the required financial guarantees, or how are they split?
- **Timing and Duration** – When do partners exit? Is this a turn-key partnership or long-term? If it's a long-term partnership, what happens when regulatory periods expire?
- **Decision-making** – How will you make decisions and resolve disputes?

A checklist of negotiation points is available in Appendix A of Enterprise's Joint Venture Guidebook, along with and additional details and examples of JV projects.

Setting clear roles and responsibilities

Tips for forming a successful Joint Venture (JV)

Setting clear roles and responsibilities upfront:

Financing

- Who will prepare budgets and submit applications to agencies and financial institutions?

Relationship Management

- Who will serve as lead point of contact for key stakeholders like your bank, government agencies, etc.?

Team Selection

- How will each development team member be selected and who will be involved? Architect, general contractor, property manager, etc

Construction Management

- Who will lead? How will you make determinations on change orders?

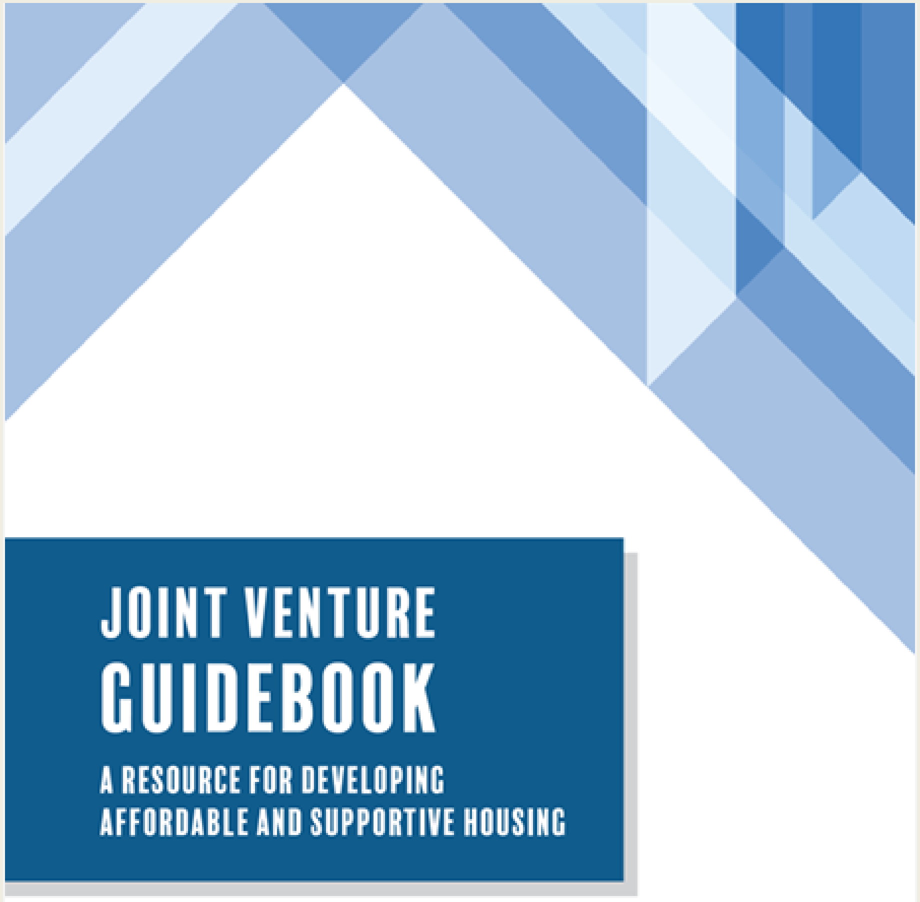
Property & Asset Mngt.

- What can each partner do regarding property management?
- Have parties agreed to rent charging, rent collection, and eviction procedures?

The *Coalition for Responsible Community Development's* template MOU tool walks through and documents respective roles and responsibilities in a joint venture.

REVIEW: Joint Ventures

- A Joint Venture (JV) is a formal partnership structure that facilitates resource-sharing for specific real estate transactions. All parties should have needs fulfilled by participating.
- Before pursuing a JV, it is important to be clear on your priorities and what you can bring to the table.
- Evaluate a potential JV partner carefully, considering their capacity, mission alignment, communication style, and references.
- There are many deal points you will have to negotiate when establishing a JV. Don't forget to set clear roles and responsibilities upfront in the process to avoid strife later.



POLL: What are your needs and goals for your next SMMF preservation deal?

Access the Menti Poll link in the chat or join menti.com and enter code **9728 3764**

- **Where do you see your organization's greatest value-add in an SMMF preservation deal?**
- **What is most important to you in your next SMMF preservation deal?**

PRESERVATION NEXT

AFFORDABLE STEWARDSHIP MODELS

Affordable stewardship models

1

Three models:
Deed restrictions,
Limited equity cooperatives,
Land trusts

2

Impact of different models on the development process

Deed restrictions

What model for preserving long-term affordability is right for you?

- *Method*: **attach a restriction** to the **title** of the property, restricting its use to affordable housing for people at certain income levels, for a set period.
- *Timing*: ensures affordability for the length agreed to in the funding agreement (often 15-30 years minimum) but **can vary in length** from 10 years to perpetuity.
- *Flexible* – rental or homeownership:
  Rentals: restrict leases to income-eligible tenants at an affordable rent.
  Homeownership: restrict any subsequent sales to income-eligible borrowers at an affordable price.
- *Applicability in a building*: can apply **to all units** in a property **or a portion** of the units, which can facilitate mixed-income buildings.
- *Uses other than affordability*: commonly used by developers or condo associations for aesthetic choices, such as exterior paint colors or fence types
- *Ownership*: **developer often maintains long-term ownership** (unless a transfer is specified after rehabilitation – for instance, in a turn-key joint venture)

Deed restrictions are the most typical model for preserving long-term affordability, used for most subsidy sources.

Limited Equity Cooperatives (LEC)

What model for preserving long-term affordability is right for you?

- *Method:* typically, in multifamily development, a households purchases a "share" and receives a right to occupy one unit and vote on building matters. A monthly fee covers common maintenance.
- *Setting a price*: each LEC operates under its own bylaws (and/or shareholder agreement), which sets the formula to determine share prices. Increases in price for future sales can come from: property's **appraised value**, flat **interest rates**, or **economic indexes**, or **affordability for the next purchaser** within the target income level the LEC serves
- *Selling*: when a member is ready to move or leave the cooperative, they sell their share at the current share price, benefitting from any appreciation that has occurred.
- *Profit-sharing*: some LECs are structured to provide profit-sharing to members throughout their tenure (e.g., 2% of rent cash-back each month, annual profit-sharing).
- *Eligibility to purchase*: usually limited to households at certain income levels, since the goal is to create wealth-building opportunities for people with incomes that otherwise might not afford homeownership.
- *Flexibility*: can be combined with Community Land Trusts.

LECs are a form of "shared equity" homeownership that **balances two goals**: long-term affordability and resident wealth-building.

Community Land Trusts (CLT)

What model for preserving long-term affordability is right for you?

- *Method*: residents **purchase an entire home** (or unit) **but not the land** it sits upon. This contrasts with a LEC in which residents purchase shares.
- *Governance*: a key characteristic is **collective governance** structure. CLTs are generally managed by a nonprofit, but ultimate oversight over operations comes from a **board of community members.**
- *Land Ownership*: a separate board of community members maintains the land and conveys the property via a "**ground lease**" that specifies the terms for resale, including price. Typically, a small monthly ground lease fee covers administrative costs and property repair reserves.
- *Price*: sale price is determined by a **resale formula** to ensure long-term affordability. A CLT's resale formula usually accounts for some **appreciation**, which is how the seller builds wealth.
- *Flexibility*: can be applied to both **residential** and **commercial** spaces in a property.
- *Number of units*: generally, a **portfolio** of scattered site **single-family** or **multifamily** units. Increasing trend of CLTs applied to select units within multifamily buildings, enforced via deed restriction.
- *Resident Support*: many offer ongoing support to residents (e.g., homeownership classes, resources for property maintenance and improvement, financial education).

Like LECs, CLTs balance wealth-building opportunities with long-term affordability.

Impact of different models – key factors

How might these models for long-term affordability impact your approach?

	Deed Restrictions	Limited Equity Coop	Community Land Trust
Property Identification & Acquisition			
Financing			
Rehabilitation			
Property & Asset Management			

Impact of different models – key factors

How might these models for long-term affordability impact your approach?

	Deed Restrictions	Limited Equity Coop	Community Land Trust
Property Identification & Acquisition	• Check any pre-existing deed restrictions via a title search	• Use your market analysis to identify areas with demand for lower-cost homeownership and/or facing displacement pressure • Typically used in multifamily properties	• Use your market analysis to identify areas with demand for lower-cost homeownership and/or facing displacement pressure • May be applied towards scattered site single or multifamily, or units within a multifamily building • Look for existing resident/ neighborhood governance structures that could lend themselves to CLT governance
Financing			
Rehabilitation			
Property & Asset Management			

Impact of different models – key factors

How might these models for long-term affordability impact your approach?

	Deed Restrictions	Limited Equity Coop	Community Land Trust
Property Identification & Acquisition *Financing* *Rehabilitation* *Property & Asset Management*	• Factor in limited rent growth to maintain compliance with deed restrictions in your financial assumptions • Ensure you are prepared to comply with the longest deed restriction if you have multiple subsidy sources with different restriction periods	• Need to determine formula by which share prices will be set • Few subsidies are specifically designed with LECs in mind	• Need to determine formula by which resale prices will be set • Few subsidies are specifically designed with CLTs in mind • Determine whether you will use ground lease structure or deed restrictions to enforce ongoing affordability

Impact of different models – key factors

How might these models for long-term affordability impact your approach?

	Deed Restrictions	Limited Equity Coop	Community Land Trust
Property Identification & Acquisition			
Financing			
Rehabilitation	• If applying deed restrictions to an occupied property, you may need to prepare residents for the new rules/processes that come along with them (e.g., annual income certifications) • Period of compliance will start after rehabilitation	• If building is occupied already, you will need to determine which tenants will be eligible (e.g., all tenants in good standing) to buy-in	• Need to form a community governance structure (and identify nonprofit steward if different than developer) as you pursue any rehabilitation to ensure the body is ready to operate when the property comes on-line
Property & Asset Management			

Impact of different models – key factors

How might these models for long-term affordability impact your approach?

Property Identification & Acquisition

Financing

Rehabilitation

Property & Asset Management

Deed Restrictions

- Ongoing monitoring to maintain compliance with deed restrictions

Limited Equity Coop

- LEC members share responsibility for maintaining common areas & admitting new members (or may jointly decide to hire a professional property management company)
- May require managerial support of a nonprofit partner to facilitate the LEC long-term

Community Land Trust

- Determine if current monthly fees are viable to sustain CLT operations or if ongoing operational subsidies will be needed
- Prospective purchasers will need to qualify for a mortgage – CLTs may want to build relationships with lenders to increase comfort with CLT purchases
- Provide support to homeowners to facilitate stewardship as rehab needs emerge over time

Case studies

What model for preserving long-term affordability is right for you?




700 Simmons Ave (Los Angeles, CA)

- Joint venture partnership transitioned ownership to a CLT
- Residents partnered with a local CDC to form a community land trust, in response to rising market pressures
- CDC transferred property to CLT after rehabilitation
- JV was facilitated by LA County's Community Land Trust Partnership Program, which worked with five emerging CLTs, offering subsidies for preservation

Montview Manor (Denver CO)

- Used deed restrictions to achieve mixed-income housing
- Occupied by residents with incomes at 20% to 120% of AMI
- Developer reduced rents for low-income residents who were housing cost-burdened and phased in rent increases for higher income residents over time
- A 60-year affordability covenant was recorded
- Trust with residents built through communication during rehabilitation

REVIEW: Affordable stewardship models

- **Deed restrictions** secure long-term affordability by attaching a use restriction to the title of the property, specifying the depth and length of affordability that must be provided. Most subsidy sources for affordable housing will use deed restrictions. Developers maintain long-term ownership of the property.
- **Limited Equity Cooperatives (LECs)** allow households to purchase a "share" of the building and receive a right to occupy one unit, as well as a vote in communal decisions. Residents build wealth when they sell the share and through ongoing profit-sharing. Share prices are set by formula to balance appreciation with long-term affordability.
- **Community Land Trusts (CLTs)** sell homes but retain ownership of the land the structures are built upon, in order to reduce the upfront purchase price and maintain long-term affordability. CLTs are governed by community representatives, who may be supported by a nonprofit managing ongoing operations. Purchasers must comply with certain resale provisions, including limiting the resale price so it is affordable to households in the qualifying income range.
- These models may be **employed separately or combined.** Whichever you choose will influence considerations at each stage of the development process.

PANEL DISCUSSION
DEVELOPMENT MODELS

Preservation Next Toolkit

A Preservation Toolkit for Small-to Medium-Scale Multifamily Properties

Guidance and Best Practices

The Toolkit’s issue briefs guide developers and practitioners across different stages of the small to medium multifamily preservation development process

Localized Resources

Preservation landscape analyses, inventory of local funding resources, and local & regional data on the small to medium multifamily stock

Case Studies

Successful and creative approaches for small to medium multifamily preservation in different housing markets

Tools

A Financial Modeling Tool to help you understand the financial viability of your preservation development.

PRESERVATION NEXT

Meet Our Panelists

Preservation Development Models

ATLANTA NEIGHBORHOOD DEVELOPMENT PARTNERSHIP, INC.
Building the region's future, neighborhood by neighborhood

Cecilia Leal

DIRECTOR OF MULTIFAMILY DEVELOPMENT, ATLANTA NEIGHBORHOOD DEVELOPMENT PARTNERSHIP (ANDP)

Cecilia manages ANDP's multifamily development, including site acquisition, financing, and construction of LIHTC and other subsidized multifamily projects. Prior to joining ANDP, Cecilia worked as the Housing Policy & Development Manager for Atlanta BeltLine and as an Urban Planner with the City of Sandy Springs.

Meet Our Panelists

Preservation Development Models

Saki Bailey

EXECUTIVE DIRECTOR, SAN FRANCISCO COMMUNITY LAND TRUST

Saki Bailey has a decade of experience in non-profit management and program development roles, as well as, in facilitation, teaching and training. Saki holds a J.D. and a PhD in law and legal theory, her research focused on the legal regulation around CLTs, Co-op formation, and incorporation. Saki is also a licensed attorney and advocates for policies which advance community land trusts and other shared equity housing models.

Prior to coming to SFCLT, Saki worked at Bay Area Community Land Trust (BACLT) where she developed experience in real estate acquisition and program management, and in that capacity worked to develop the City of Berkeley's first pilot "Small Sites" project aimed at stopping displacement in smaller buildings between 5-25 units.

Meet Our Panelists

Preservation Development Models

CRCD
PARTNERS LLC

Ramon Mendez

CHIEF OPERATING OFFICER, CRCD PARTNERS LLC

Ramon joined CRCD Partners in 2021 to lead the implementation of the strategic plan, coordinate and increase organization efficiency, and increase grants procurement to deliver quality housing connected to services and programs. Ramon is a passionate and visionary leader who builds, trains, and empowers multidisciplinary teams to achieve by creating strong partnerships that drive results in real estate development, management, resident services, strategic partnerships, governance, and institutional advancement.

Ramon's previous roles include serving as the Director of Solutions and Strategic Priorities at Enterprise Community Partners and a 10-year tenure at California Housing Partner Corporation.

SESSION CLOSEOUT
DEVELOPMENT MODELS

SURVEY

bit.ly/pnsurvey4

Join us for our next session on Feb. 6!

Policy and its Impacts on Preservation and Housing Stability

Guest Speakers to be announced!

What to Expect This Session

- Participants will develop an understanding of how the Southeast policy landscape can aid in preservation efforts at the local, regional, and state level
- Participants will learn policy approaches that have facilitated preservation from other localities and states

Enterprise

Thank you

Contact Us:

Meaghan Vlkovic
VP, Enterprise Southeast and Preservation Next
mvlkovic@enterprisecommunity.org

Elizabeth Richards
Senior Program Director, Preservation Next
erichards@enterprisecommunity.org

Gabriella Lott
Preservation and Production Fellow, Enterprise Southeast
glott@enterprisecommunity.org

Cecilia Leal
Director of Multifamily Development, Atlanta Neighborhood Development Partnership (ANDP)
cleal@andpi.org

Saki Bailey
Executive Director, San Francisco Community Land Trust
sbailey@sfclt.org

Ramon Mendez
Chief Operating Officer, CRCD Partners LLC
ramon@crcdpartners.com

Resources:

[Preservation Next Small to Medium Multifamily Toolkit]

[Preservation Next]