

Dev. Seminar Series

Workshop 1: Intro to Development

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under contract to NY DHCR/HTFC

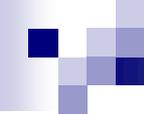
Overview of the Seminar Series

■ Objectives

- To build local capacity to develop affordable housing
- To facilitate project planning & expedite implementation

■ 6 workshops:

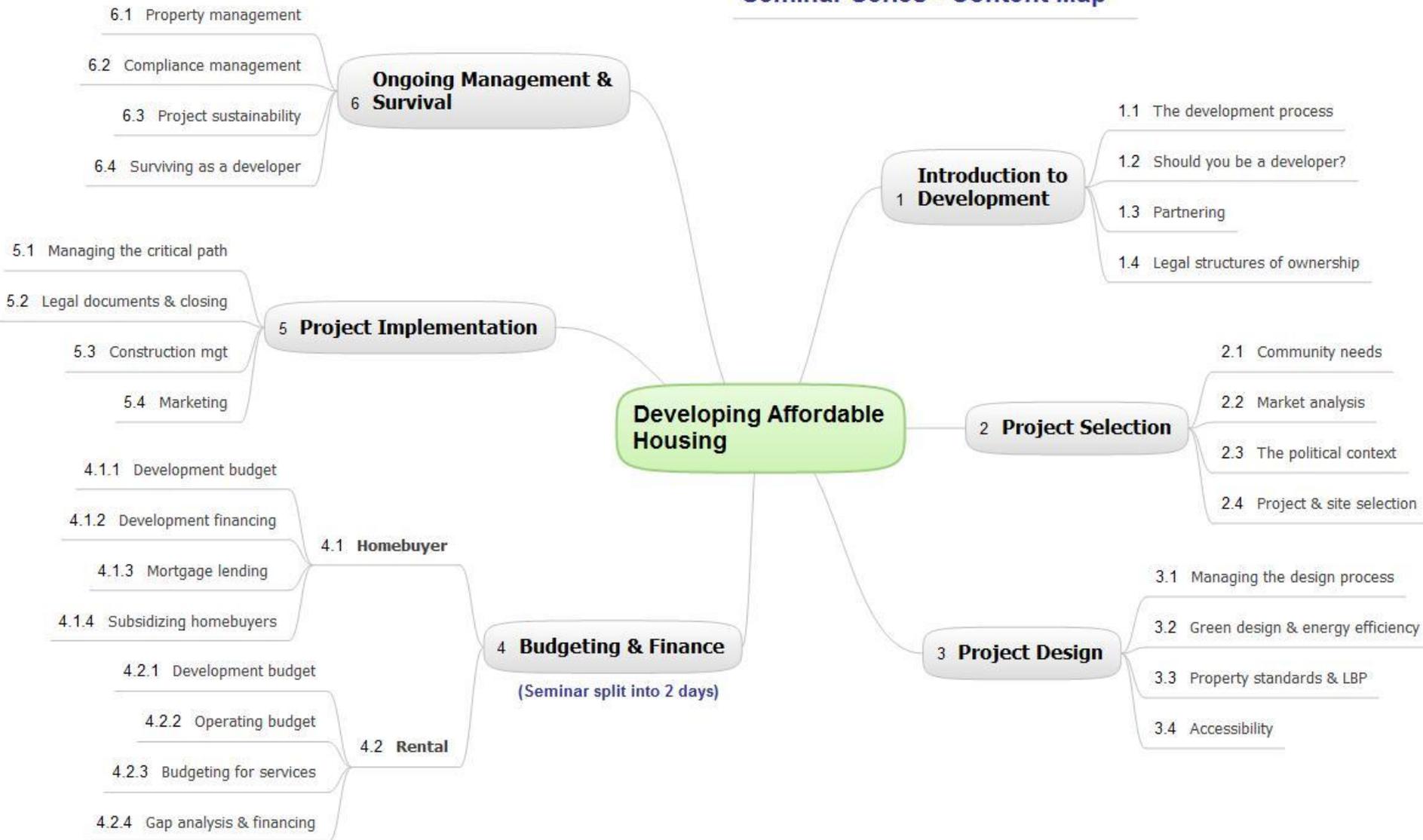
- Introduction to Development
- Project Selection – June
- Project Design – July
- Project Finance – September (split: Rental & Homebuyers)
- Project Implementation – October
- Ongoing Management & Org Survival - November



LPA Mini-Series

- Working with Homebuyers - June
- Lead Based Paint Overview – July/August
- Managing Housing Rehab Programs - October

Developing Affordable Housing Seminar Series - Content Map

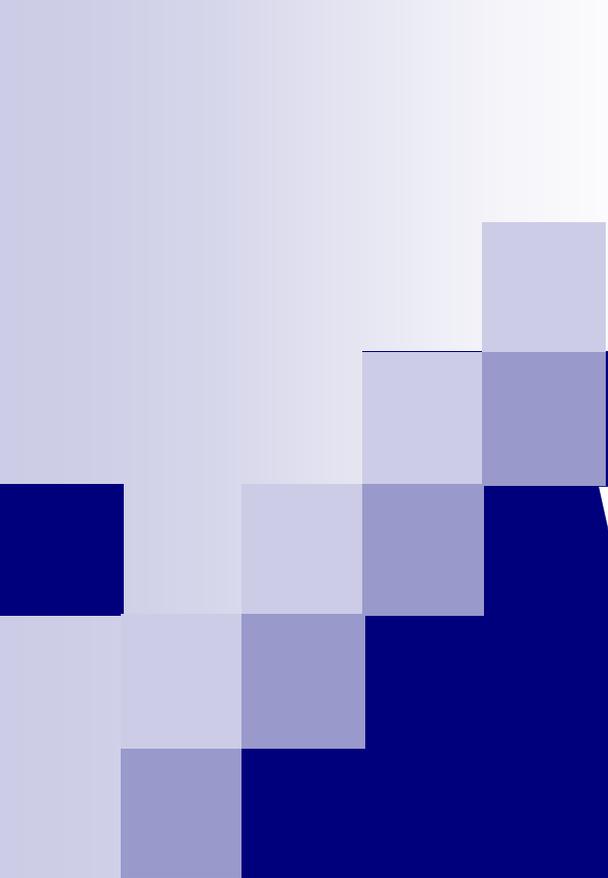


Materials

- Reference manual
 - Supplemental discussions of series topics
 - For review outside of class
- Each seminar, add:
 - Overheads for note-taking
 - Tools for project planning

Seminar 1 Agenda

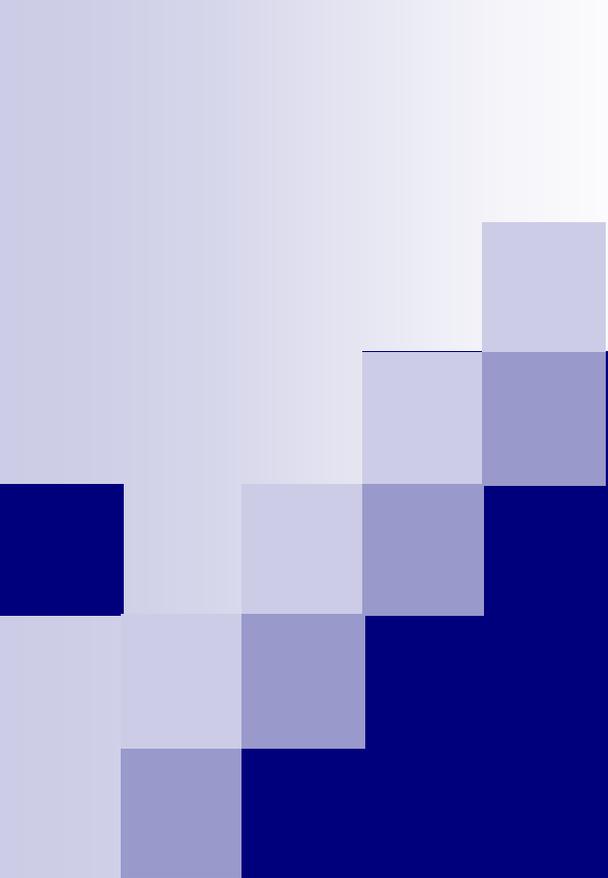
- Why do you want to develop?
- What a developer does
- Are you ready to be a developer?
- Overview of the development process
- Partnering
- Legal structures of ownership



Why Do You Want to Be a
Developer?

Why Do You Want to Develop?

- Address community needs
 - Address low-income housing needs
 - Build/revitalize communities
 - Create jobs/economic flow
- Achieve organizational goals
 - Expand asset base
 - Earn fees/income
 - Build capacity, skills, job opportunities
- Successful developers accomplish both



What A Developer Does

What A Developer Does

- Define the project scope
- Select and supervise the team
- Obtain local approvals
- Manage community relations
- Secure the financing
- Manage the budget and schedule
- Oversee marketing and occupancy



Developer Skills

- The key developer skills are:
 - People management
 - Time/task management
- Technical skills can be taught

The Development Team

- Key Team Members
 - Architect/Engineer
 - Contractor
 - Marketing/Occupancy Manager
 - Investors
- Stakeholders at the Table
 - Lender(s)
 - Municipality and Neighbors
 - Customers



Developer Tools

- Market study: Keeping focus
- Critical path and schedule: Time Is \$
- Budgets: Manage the bottom line
- Team meetings: They work for you (TBV)
- Disbursements: The Golden Rule!
- Lender/funder relations: Silence is not golden
- Neighbor relations: You can't hide

Financial Rewards of Development

- What are the potential financial rewards of real estate development?
 - Fees
 - Cash flow
 - Tax benefits
 - Sales proceeds/residuals
- What are the rewards of affordable housing development?

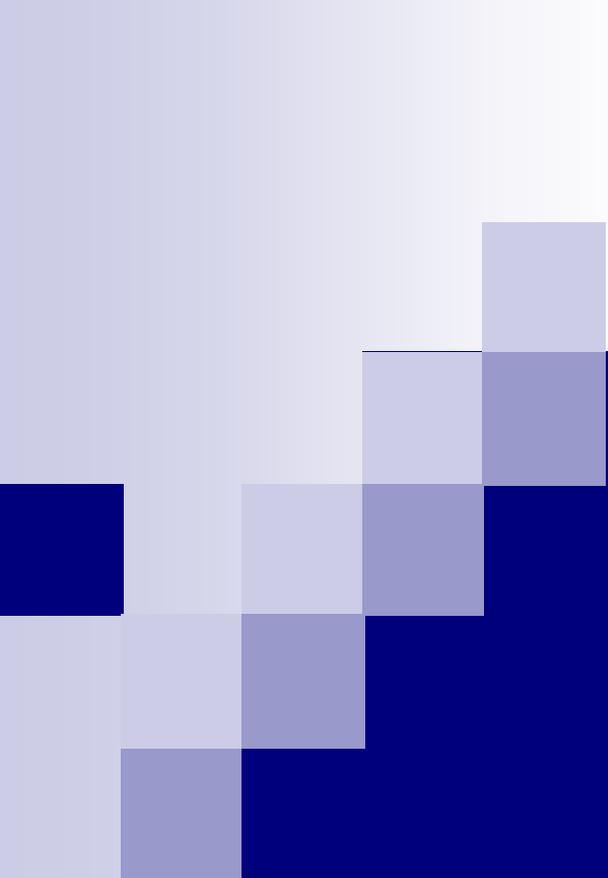
Developer Fees



- Fees are for developer services rendered
 - Consultant costs – out of fees
- Profit (cash flow) is return on equity invested
 - Many nonprofit deals have no equity or cash flow
- Fee v. cost structure
- What's an appropriate fee?

Your Role in Development

- Advocate
- Sponsor
- Funder/lender
- Developer: Sole or joint venture developer
- Owner/operator/manager
 - Turnkey or continuing developer role
- Service provider

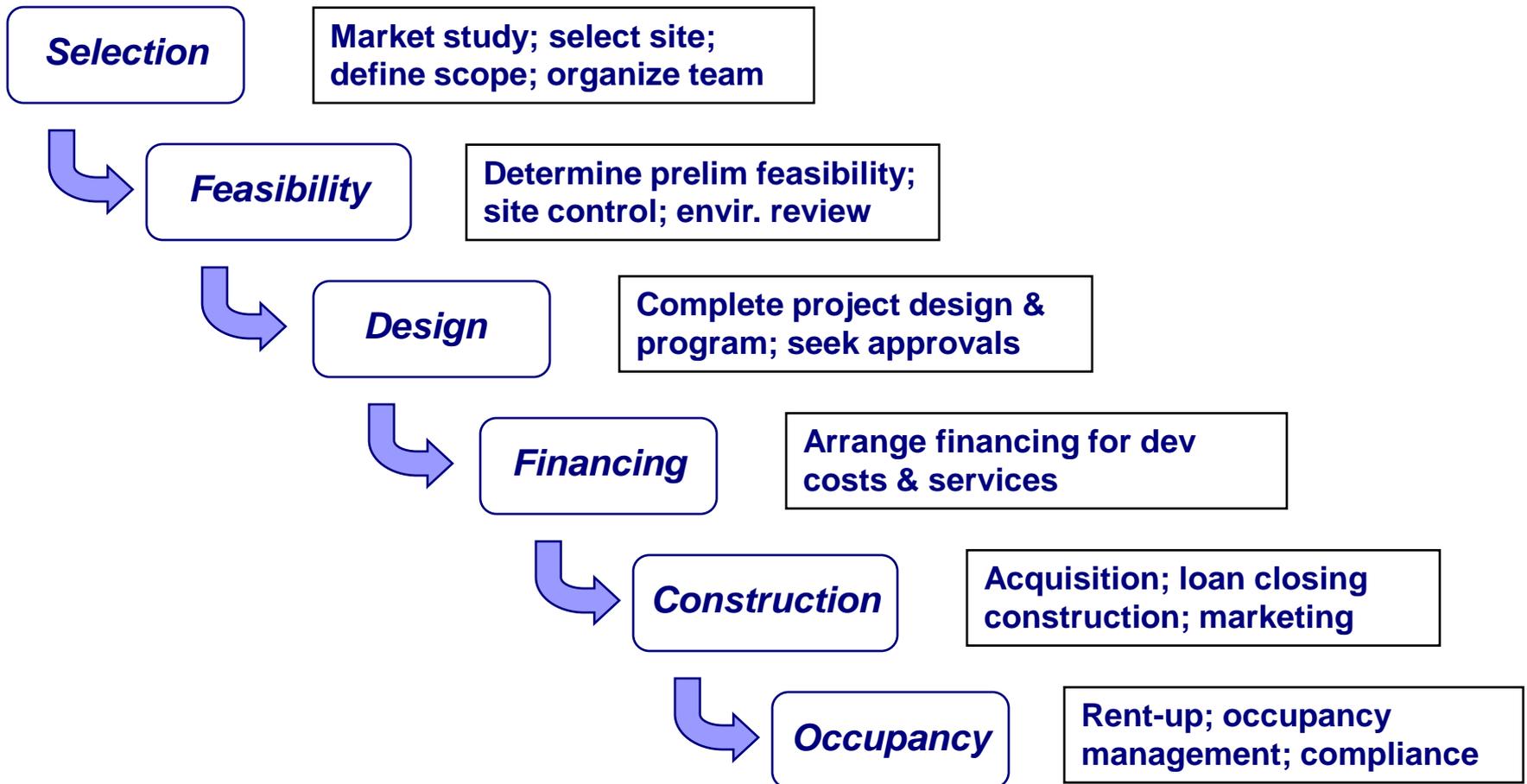


Overview of The Development Process

The Development “Process”

- **Process: multiple activities, actors, skills**
 - Success defined as delivering feasible & viable housing occupied by LI HH
- **No single process or fixed stages**
 - Varies by local factors, site, project, team
 - Phases are not mutually exclusive; many simultaneous activities
- **The Developer is the manager of the process**
 - We’ll talk about the management task tomorrow

The Development Process



What Is The “Critical Path”

- Management tool for scheduling, tracking & adjusting inter-related tasks on a project
- “Critical activities” are those that have “consequences” for the overall project schedule & budget if they don’t happen on schedule

Why Lay Out the Critical Path?

- Determine sequence of activities
- Identify the critical activities
- Develop schedule
 - Shortest time in which you can complete a project
 - Resources needed
- Identify interim milestones for monitoring
- Measure progress & identify remedial actions

Building the Critical Path

- What are all the tasks necessary to complete the project?
 - Are there categories or clusters of tasks?
- How long will each task take?
 - Best case - worst case time frames
 - Outside deadlines
- What resources are needed for each task?
 - Human
 - Financial

Building the Critical Path, cont.

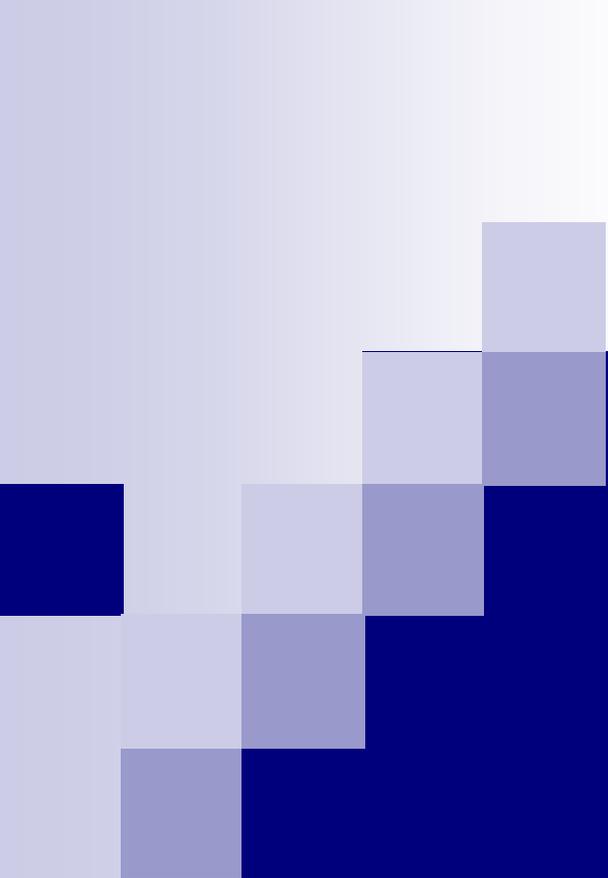
- What is the “order” of tasks?
 - Identify dependencies – tasks that are “dependent” on the accomplishment of other tasks
 - Identify parallel tasks – tasks that can be performed without disrupting the flow of other tasks
 - Sequence – put in chronological order
- Which tasks can be delayed?
 - While resources are reallocated or secured?
 - To catch up on other tasks?

How to Develop The Critical Path

- How is the critical path developed and monitored?
 - Project management software
 - The “liveware” approach
 - Critical Path Worksheet

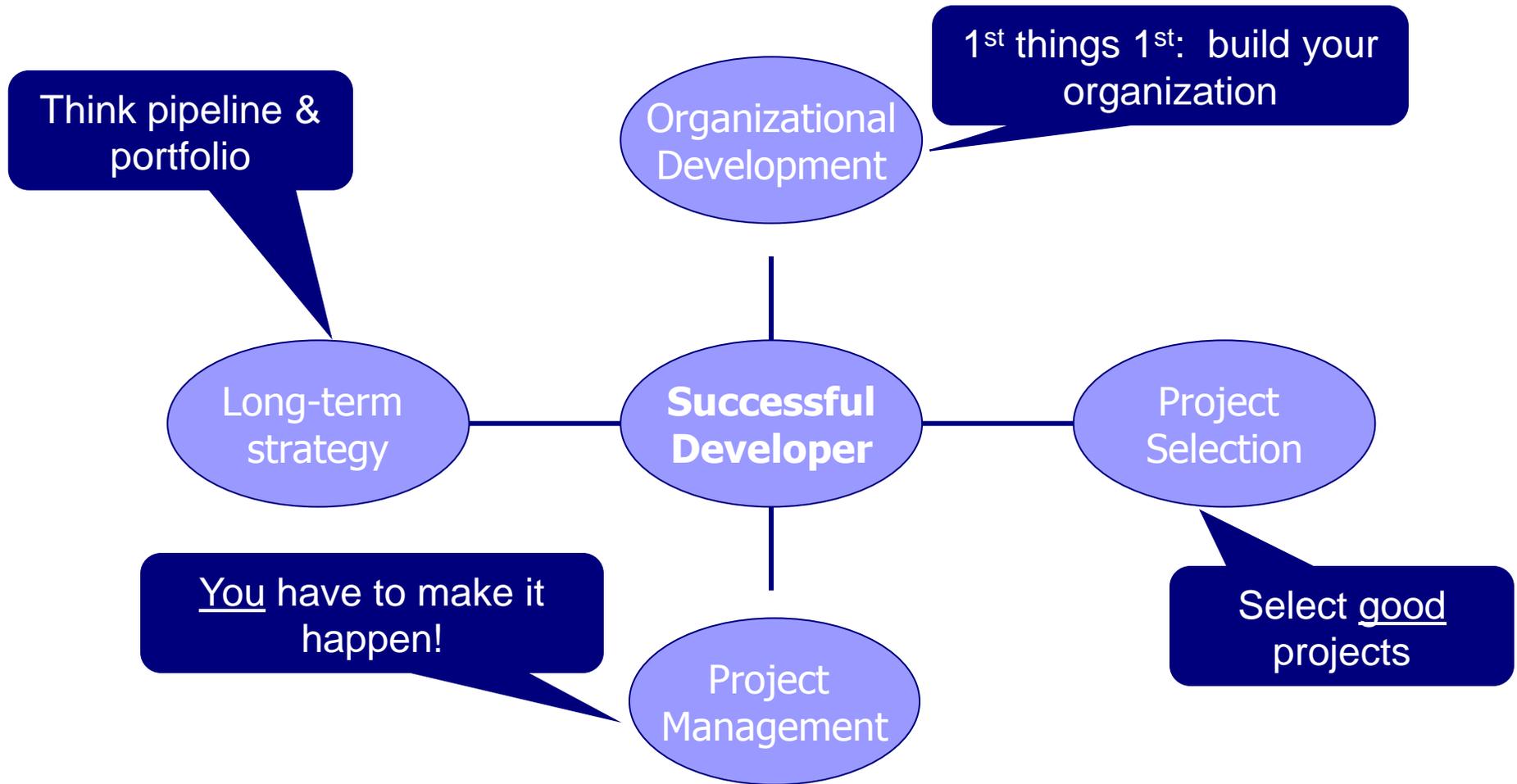
Critical Path Worksheet

- A worksheet for constructing your critical path
 - Generic categories
 - Add other tasks specific to your project
- Iterative – revise as you proceed through the Seminar Series & the planning of your project
- Look through it now



Are you Ready To Be A
Successful Developer?

Keys to Success as a Developer



1st Things 1st

- Why does the pre-flight safety briefing say: “...*Put your oxygen mask on 1st before assisting others...*”
- Are you set up to thrive as a developer?
 - Are you capable?
 - Are you foregoing other opportunities?
 - Do you know the roles of board, staff & consultants?
 - Are you structured legally?
 - Are you liquid?
 - Are you taking care of the business side?

Are You Capable?

- Capability/capacity to be a developer
 - Long-term independence as developer
- Factors to consider:
 - Board stability/skills
 - Financial management practices
 - Staff development & project management skills
 - Structure & procedures for development

Are You Foregoing Opportunities?

- What is “opportunity cost”?
- Development has high opportunity cost
 - Financial and staff time requirements
 - Board focus/distraction
 - Conflict with service provider/advocate role
- Will development take away from other things you can or are doing?

Does Everyone Know Their Roles?

■ Board role: strategic

- Development “direction”
- Project approval
- Financing authorization
- Review of progress
- Review portfolio performance
- Asset management (preservation of asset)

■ Staff role: tactical

- Project search
- Packaging
- Execution
- Day-to-day oversight of dev team
- Tracking & reporting

Are You Structured for Development?

■ Benefits of subsidiary:

- Risk isolation
- Focus
- Funding eligibility

■ Concerns:

- Admin costs of entity
- Control of entity

■ Decisions:

- Direct ownership v. subsidiary entity
- Single-purpose (project) entity v. multi-project/umbrella entity
- For-profit v. nonprofit [501(c)(3) v. 501(c)(4)]
- Funding program designations: CHDO

Are You Liquid?

- Affordable housing: liquidity, not equity
 - Pre-development costs
 - Cash advances prior to reimbursement
 - Liquidity for overruns, changes, unforeseen costs
- Time is money, money is time...
- Rule of thumb: 5–10% of TDC in liquid funds
- Sources:
 - Working capital, lines of credit, pre-dev loans

Are You Taking Care of Business?

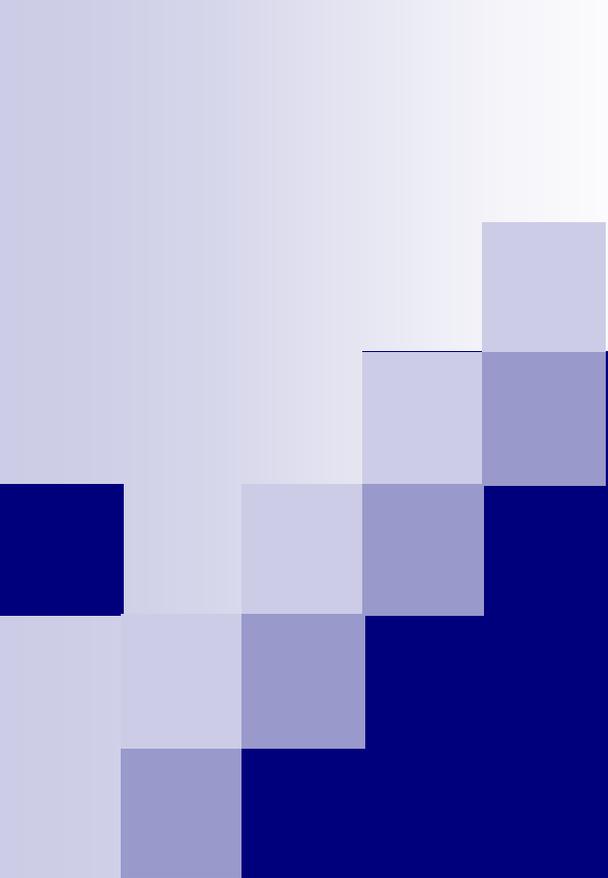
- Financial statements important for:
 - Underwriting, reporting, management, monitoring
- Timeliness of statements/audit is a red flag
 - If you can't report, how can you have the info to manage?
- Policies: consistent, fair treatment & succession
 - Procurement
 - Conflict of interest
 - Financial management
 - Intake
 - Reporting: project-based

Organizational Self-Assessment Tool

- Self-assessment tool: capacity Q's in 4 areas
 - Organizational status & mission
 - Board composition
 - Development capacity
 - Financial management capacity
- Review it now & ask questions
 - Take it back and go through it before next seminar with your bosses/board

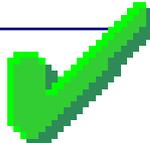
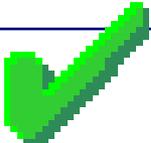
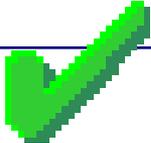
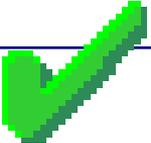
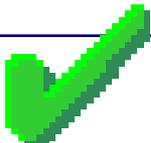
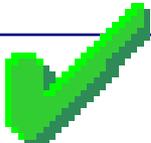
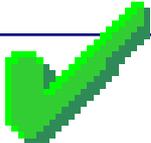
Summary: Are You Ready?

- Create/build/acquire development capacity
- Create legal structure for development
- Build liquidity to pay costs
- Consider opportunity cost
- Tool: a self-assessment aid for you and your board



Partnering for Affordable Housing

Do You Need Help?

Need to:	Partner	Consultant
Acquire skills		
Leverage capacity		
Raise equity or resources		
Share the risks		
Add mgt capacity (long-term)		

Different Types of Partnerships

- Program partnerships
 - Advocacy
 - Technical assistance
 - Financial intermediaries (are funders “partners”?)
- Project level partnerships:
 - Joint ventures by co-developers
 - Developer – investor partnerships
 - Turnkey partnerships – developer & operator

When Should You Partner?

- When project requires it
 - Tax credits: equity (limited) partners
- When project exceeds nonprofit capacity
 - Specific skills/expertise
 - Equity
 - Access to construction & other loans
- When you must leverage capacity: opportunity cost
 - Lack of staff to take on additional project
 - New kind of housing project

Selecting A Partner

- What do you look for in a partner?
 - Developer skills – mgt skills
 - Technical skills
 - Compatibility: experience working with partners, especially nonprofits
 - Trustworthiness
- How/where do you find a partner?

Key Parameters of a Joint Venture

1. Scope of project
2. Ownership interest
3. Decision-making
4. Equity calls
5. Division of responsibilities
6. Split of developer fees
7. Guarantees
8. Dispute resolution
9. Termination
10. Buyout – if applicable

Negotiating Tip 1



Prepare by analyzing the differences and the shared interests

- How are we different?
- What can we each bring to table?
- What are our shared interests?

Negotiating Tip 2

Identify/disclose the “non-negotiables”

- What are deal-killers for you? E.g.:
 - Income levels served
 - Control of occupancy
 - Community participation
 - Financial issues (risks, rewards)
- What are deal-killers for your partner?



Negotiating Tip 3



Seek the win-win, or the 3rd alternative

- You can't have a successful partnership with an unhappy partner
- But you can't be unrealistic in your expectations either
- Both sides have to give to get
- Can we achieve a partnership deal that achieves both of our needs?

Negotiating Tip 4



- Balance the 4 R's for all parties:
 - Rule (control)
 - Risk
 - Responsibilities
 - Rewards
- Balance
 - Control v. risk/liability
 - Responsibilities v. fees & other rewards
- Consider risk management

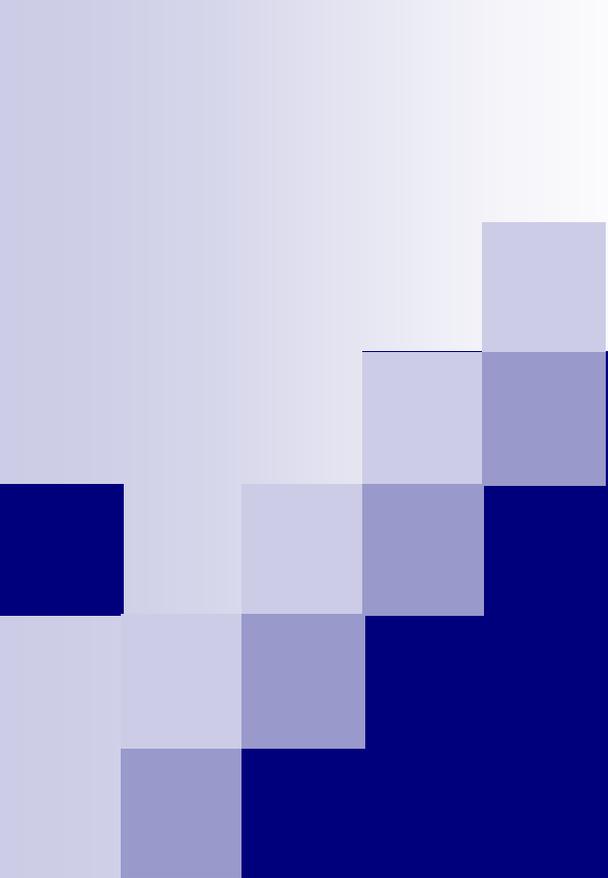
Negotiating Tip 5



- Put the business deal in writing
 - Trust, but document it!
 - Document the business deal before turning it over to the lawyers
 - Don't sign till you understand!

Things to Remember About Partnering

1. If you need specific task/skill, hire a consultant; if you need resources, risk sharing &/or mgt, get a partner
2. Seek compatible partner you can trust
3. Negotiate seeking win-win
4. True partnerships balance control, liability & rewards
5. Control = ownership interest = equity
6. Dev fees for services rendered: split tasks, then fees
7. Plan for all outcomes of the venture
8. Document business deal; then legal deal



Legal Structures of Ownership

Why Consider Development Entities?

- Strategic – organizational considerations:
 - Isolate risks of development/asset mgt
 - Opportunity cost – distraction of entity from other activities
- Tactical – project requirements:
 - Required by funding sources
 - Unique set of partners for the project
- Considerations
 - If funders permit “firewall”
 - Costs of separate entity

Ownership Decisions

- Direct ownership v. subsidiary entity
- Single-purpose (project) entity v. multi-project/multi-function umbrella entity
- For-profit v. nonprofit [& 501(c)(3) v. 501(c)(4)]
- Funding program designations/requirements: CHDO, CBDO, other

Subsidiary Entity?

■ Key reasons:

- Protect parent & portfolio from liability
- Protect parent's nonprofit status
 - If non-low-income aspects of venture (for-profit subsidiary)

■ Separation of entities

- Avoid identical boards
- Separate financials (even if consolidated)
- Independent staffing or services agreement

Single Purpose Entity?

- Required by funding source
- Unique “partners” for the project
 - LIHTC limited partners
- Desire to achieve separation of development or management risks from rest of activities

Costs of Separate Entities

- Incorporation & filing costs
- Annual tax returns
- Tax burden: for-profit earnings
- Overhead and operating costs
- Meetings
- Lender treatment of new entity & separation
 - Cross-collateralization?
- Control

For-Profit or Nonprofit?

For-profit

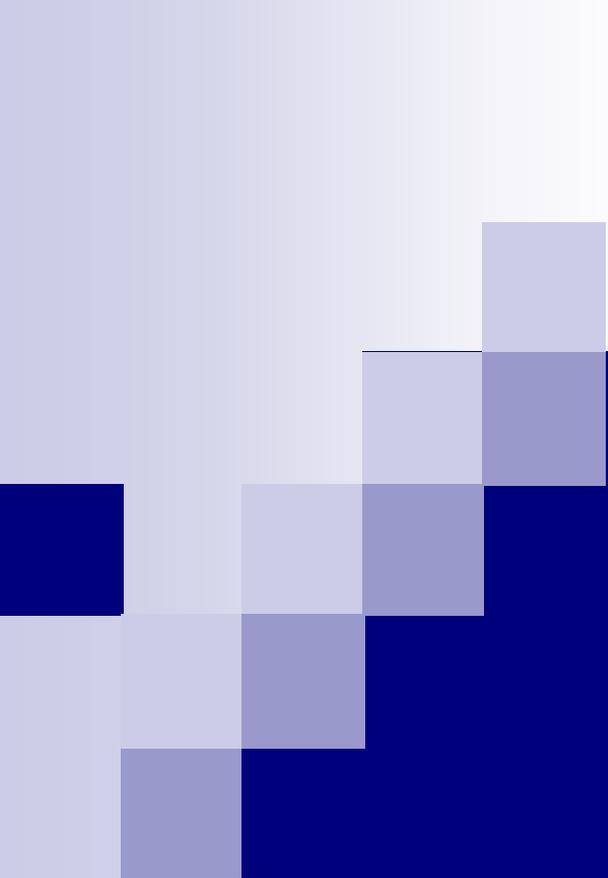
- Quick formation
- No approvals
- Unrestricted powers
- No restriction: asset sale
- Stock control
- Profit distribution
- Taxable
- Subsidy sources limited

Non-profit

- Longer formation process
- Gov't approval required
- Restricted powers
- Restriction on asset sale
- Limitation on profits
- No profit distribution
- Tax-exempt
- Subsidy sources broad

Subsidiary Formation Checklist

- Board of directors
- Tax status: 501(c)(3), (c)(4), pass-thru
- Stock ownership or membership
- Subsidiary entity meetings
- Employees v. contracted services
- Working capital
- Arms-length transactions between parent/subsidiary
- Recordkeeping
- Financial reporting



Wrap Up & Evaluation

- Final questions?
- Evaluation
- To do: self-assessment tool, critical path tool
- Next seminar: Project Selection
 - Buffalo: 6/12
 - Syracuse: 6/13
 - Albany: 6/17
 - New York City: 6/18
- MLFranke@aol.com