A Vintage Non Profit Learns New Tricks

Being an economic development practitioner often requires a marshaling of all of one's creativity. Much economic development entails real estate development and innovation is often an integral part of the real estate development process. From my vantage point non-profit institutions in the affordable housing space often take it to a higher level. They must. They must meld together a variety of financing sources, leverage those dollars and nimbly navigate numerous obstacles to meet their objectives.

By way of example, I highlight the challenges that confronted Project Place as it successfully developed in 2007 an $11.1 million mixed-use building that resulted in (i) housing for formerly homeless individuals, (ii) newly-expanded space for its social enterprises and (iii) retail activity that helped accelerate the pace of local economic revitalization. It is also important to note its use of the then relatively new New Markets Tax Credit (NMTC) program to wring an additional $2.8 million dollars out of the funds being put into the deal.

Affordable Housing Challenges

Project Place's primary mission is to improve the lives of homeless individuals, which may include the provision of life skills, literacy training, food, jobs and housing. With the explosion of property values in Boston in late 90's it became increasingly difficult for Project Place to secure housing for the population it served. Compounding the problem was the reduction of available Section 8 program subsidies.

Project Place identified an opportunity to develop affordable housing for its clients and seized it. The City of Boston sought bids to develop a parcel of land within a few blocks of Project Place's operations. The city and the local community groups wanted the proposed development to incorporate retail activity and housing. Project Place wanted to develop housing and relocate into a larger space to support its operations. Project Place shaped its bid to meet all of the foregoing requirements.

Project Place constructed a mixed-use six-story building, with a full basement on the site. The first floor included retail activity to both satisfy community concerns and to help subsidize housing operations. The top two floors have fourteen efficiency units of affordable rental housing, each with separate kitchenettes and bathrooms. Project Place rents solely to very low-income individuals that were formerly homeless. Floors two through four are used to accommodate Project Place's offices and social enterprises.

Additionally, Project Place implemented environmentally-friendly green building features, which increased short term costs but will ultimately reduce long-term energy-related operating costs. It hopes to receive a high rating on its LEED Certification, awarded in connection with the Leadership in Energy and Environmental Design (LEED) Green Building Rating System. The system was developed by the US Green Building Council, which provides a suite of standards for environmentally sustainable construction.

Doing the Deal

This endeavor entailed a pivotal shift for a stable and financially healthy non-profit organization. How does an organization act on relatively short notice to undertake a significant real estate development for the first time? First, for years Project Place's staff and Board had consulted lawyers, development consultants, and fellow non-profits with relevant experience. When the time to act had arrived, Project Place's Board was sufficiently knowledgeable enough to do so, and quickly.

Second, Project Place had cultivated longstanding relationships with government agencies and the relevant community. Project Place was a known quantity with a solid reputation. It had worked in the community for decades and any community reservation about housing homeless people was allayed by Project Place's strong track record and the fact that many of the social needs of Project Place's residents were on-site and readily available.

Third, Project Place assembled a development team with ties to the local community, many of which had provided Project Place with advice in the past. With the assistance of an experienced development consultant, Project Place presented a professionally prepared bid and in July of 2004, the City of Boston selected Project Place to develop the parcel.

Financing

To minimize or eliminate the development's debt, Project Place did a variety of things. First, it made a direct investment in excess of $2.0 million in cash. Since Project Place owned its prior building debt-free, it was able to secure a bridge loan for the cash contribution by pledging the eventual sale proceeds of its building as collateral.

Second, to enhance the effect of its equity investment and the other funds raised for the project, Project Place took advantage of the then relatively newly-enacted NMTC program. In short, the purpose of the NMTC program is to encourage investment in distressed areas by providing tax credits to investors in community development entities (CDE), which in turn invest in eligible activities. The mixed-use project proposed by Project Place qualified.

By investing the project funds in a CDE established by the quasi-public Massachusetts Housing Investment Corporation (MHIC), which in turn invested in the mixed-use project, Project Place generated an additional $2.8 million in equity investment or 26% of the project cost. In essence, this additional equity resulted from the sale of tax credits owed to Project Place as a result of its investment in the CDE.

MHIC essentially sold the tax credits to a tax paying person or entity at a discounted price. The tax credits were of little use to Project Place since its tax obligations were negligible. The use of the NMTC enabled Project Place to stretch or leverage its equity investment.

It is important to note that at the time, MHIC had a thirteen year track record of lending and investing in affordable housing. This experience must have figured prominently in its designation in March of 2003 as one of the initial 66 organizations to be allocated tax credits for dissemination to investors. MHIC's experience gave Project Place and its advisors comfort that MHIC had the processes in place to properly conduct its fund and minimize the risk of recapture on the tax credits taken by its investors.

Third, Project Place sought and received funds from other public and private sources such as $700,000 from the City of Boston HOME program and an additional $1.9 million from various state sources. Because of its jobs programs, Project Place sought and received a $400,000 grant from the Office of Community Services at the US Department of Health and Human Services.

Fourth, Project Place conducted a capital campaign to help fund the development. Capital campaigns to fund brick and mortar projects for non-profits are easier to promote successfully than most other capital campaigns. The capital campaign was vitally important in light of impending budget cuts to federal programs.

In order to alleviate any funding shortfall to cover operating expenses, Project Place incorporated a $200,000 "sinking fund" or operating reserve into the costs of doing the development. This fund is a source of money that Project Place set aside specifically to help subsidize the housing's very low rents, when the housing subsidies are depleted. Fortunately, Project Place has not had to tap the "sinking fund." Rather, it secured a HUD (McKinney Vento) grant to subsidize 10 of the 14 units for 5 years and 4 vouchers from the Massachusetts Voucher Rental Program to subsidize the four remaining units. The subsidies are considered project-based rather than individual-based. Provided individuals meet income eligibility requirements, the subsidies stay with Project Place, no matter who rents the units.

In conclusion, Project Place undertook a thoroughly investigated journey to relocate from a building it owned debt-free to a newly constructed building that it now owns with minimal debt and the added features of increased operational space and affordable housing. It was a task teeming with trials, and yet replete with rewards.

Rutledge A. Simmons is deputy general counsel, Neighborhood Reinvestment Corporation, and a past board member of Project Place, a non-profit combating homelessness for more than 35 years.