

Corporation for Supportive Housing/Connecticut Program

PILOTS Housing Development Guide - Section 3: Getting Started

Projects that are financed through the Pilots Initiative will involve three different types of funding. The program has been designed to coordinate the separate financing sources in order to simplify the application, project development and compliance requirements. The three types of financing include:

- **Capital financing** from Connecticut Housing Finance Authority (CHFA) (using funds from CHFA, DMHAS and DECD) to finance the development and new construction or rehabilitation of housing;
- **Operating subsidies** to provide funding to cover the difference between what tenants can afford to pay and how much the project costs to operate;
- **Supportive services funding** provided annually by the Departments of Mental Health and Addiction Services (DMHAS).

Although this coordinated financing makes your project sound like a "done deal", the project will not happen without your involvement. Nor would you necessarily want it to. Building new housing or rehabilitating an existing property gives your organization greater control over aspects such as apartment layout, types of common areas, rent levels and lease terms. In this way, you can incorporate the unique features of supportive housing that are not typical of existing housing developed on the private market. However, developing housing requires a considerable up-front financial investment, can expose the sponsor to considerable financial risk and, of course, requires much more time and attention on the part of your organization and its governing board.

Fortunately, your organization has a choice in the type of role it wants to play in the development of new housing. The following section will give you some suggestions and tools for determining what your role will be throughout the development process. As you will see below, your involvement could range from handling all project related tasks and the overall management of the project in-house to hiring a development consultant to manage the project with your solicited input.

Organizational Issues

The first step when starting the housing development process is to determine whether the process will be managed by in house staff, by a hired housing development consultant, or possibly by staff of a development partner. When making this decision, it is important to consider the project manager's set of responsibilities. They will typically include:

- Assembling the development team of experts who will design, build, finance and manage the project;
- Identifying and obtaining control of a suitable site for the housing;
- Working with the development team, particularly the architect, to design the physical space;
- Working with legal and accounting staff to obtain appropriate financing for the development from private lenders and public agencies;
- Implementing and monitoring the construction process with the construction team;
- Selecting and hiring property management services; and
- Monitoring the property management agent as it implements initial lease-up to tenants.

If your organization decides to manage the project in house, it is important to understand that the development of a real estate project requires at least ½ the time of a full time employee to act as the project manager who is responsible for the day-to-day management tasks of the project. It should be clear from the outset who this staff person is, and he or she must have the authority to make decisions and to get things done. All outside professionals - the architect, attorneys, consultants, etc. - should report to this person. The project manager should also serve as the liaison with the project's funding sources.

On the other hand, these services can be hired outside of the organization. Compensation for these services and responsibilities can be structured in a number of ways. There is no hard and fast fee structure. If your organization has entered into an agreement with a development partner, all or a portion of a development fee may be negotiated which ranges up to 15% of the total development cost of the project. The developer fee is an eligible project cost that covered by the project's permanent financing – it does not come out of the developer's pocket. Compensation for a development consultant is typically based on a negotiated scope of services and ranges in cost from a few thousand for minimal advice to as much as \$100,000 or more depending on the scale and the complexity of the project. As one expert states, "developers (and development consultants) come in dozens of shapes and sizes. The relationship and value-added have to be closely scrutinized

before negotiating a fee." It is important to remember that a development consultant's fee comes out of the sponsor's developer fee.

Many service providers that sponsor supportive housing consider acting as developers without the help of a development consultant or development partner. However, most organizations find that the demands of developing real estate take them away from their mission, not closer to it. If housing development is not already a central part of your mission or if the organization does not have staff experienced in development or staff with the time to dedicate to careful project management, we suggest you contract with an individual or organization for assistance with your development. Depending on how you negotiate your scope of services, this may give you control over the development process without the burden of developing the expertise in-house.

Selecting a Development Consultant

In many cases, the Sponsor may have neither the staff experience, capacity nor time to enable an employee of the organization to perform all of the duties of a project manager. In these cases, the Sponsor should contract with an experienced housing development consultant. The Sponsor may choose to have the consultant serve as the project manager or to have the consultant assist the Sponsor's in-house project manager with specific tasks, such as the development of the project budget and preparation of financing applications. In either case, the Sponsor and consultant should meet regularly to keep each other well informed of progress and issues related to their respective tasks. It is critical that the contract with the consultant lay out clearly the role and responsibilities of the consultant and the basis for the consultant's fees.

Things To Consider When Hiring A Development Consultant

If you don't already have a development consultant that you are interested in working with, ask CSH to provide you with a list of development consultants who have experience providing development consultant services to supportive housing projects in Connecticut. The consultant you decide to work with does not need to be on this list, but it will provide you with a place to start if you don't already have someone in mind.

In order to be considered, a housing development consultant should have at least 3 years experience as a consultant or have successfully completed 3 projects, whichever is greater. The consultant should also be able to provide at least three letters of reference regarding past performance on projects of similar type and size. One of the best ways to get a sense for a consultant's work style and effectiveness is to talk to staff from an organization who

worked with him or her in the past. A good consultant should also be able to provide you with a sample scope of services.

Beyond these minimum requirements, there are a number of things you should know about a consultant before making your selection. Here are some of the questions to ask:

General Questions:

1. How many years has the consultant been in business?
2. What is the professional experience of the principals of the company as well as the key staff who will be working on this project? You might want to request resumes.
3. How many of staff are currently employed by the company? What is the total number of minority staff and the total number of minority professional staff.
4. Ask them to describe their company's "culture" or individual work style, if a sole proprietor. What types of services do they provide? What services do they anticipate providing to this project?
5. Have they ever defaulted on a contract? If so, why and what were the circumstances?

Questions Related To Experience

1. Ask them to provide a list of housing projects developed by their company (as a development consultant or developer), including address, # of units, type of housing (family, elderly, special needs, etc, rehab or new construction, type of ownership), status of project, and major financing sources.
2. For the projects where they served as the development consultant, ask them to provide the name of the client, their address, the contact person and the phone number. Also, they should identify major project funder(s), contact people with those agencies, and their phone numbers. The consultant should describe the scope of services he/she provided for each project.

As mentioned above, you should contact the consultant's former clients and funders on the quality and timeliness of the consultant's work.

3. Ask them to describe their experience in projects similar in scale and nature to your proposed project, including projects providing housing for persons who are homeless or have special needs.
4. Ask them to describe their experience developing projects involving low-income housing tax credits and equity syndication.

5. Ask them about their current workload. Find out what other projects the consultant is working on which might take his or her time away from your project. Are they going to be working on any other Pilots projects?

Questions Related to the Development Consultant's Fee

1. What is the basis the consultant uses for calculating their fees? Do they charge hourly, hourly with a not-to-exceed cap, a lump sum, a percentage of the total development costs of the project, or other (specify)?
2. Are the consultant's hourly rates fixed for the term of the contract? If not, how and when are they adjusted?
3. Ask them to list the hourly rates of key personnel who would be working on the project.
4. Which expenses does the consultant consider to be reimbursables – or outside of the contact price? Would additional cost be charged to you for travel, printing costs, overnight courier and under what conditions, photocopying, telephone, or other costs (specify)?
5. Will your organization be expected to pay the consultant out of your own funds prior to the construction closing in the event sufficient predevelopment loans or grants are not available to cover the consultant's fee?
6. What is the process for defining what will be handled by the consultant and what will be handled by your organization?
7. If selected, would the consultant subcontract any portion of the work to a third party? If so, who?
8. What are the payment terms? What percentage of fees incurred can be deferred to the construction loan closing for payment?

A housing development consultant should be able to provide you with any or all of the following services:

- Obtaining site control from private or public entities
- Financial analysis and planning
- Preparation and submittal of financing applications, including predevelopment funds, and pursuit of financing and resource commitments
- Preparation and submittal of tax credit application and pursuit of tax credit allocation
- Selection of architect and design planning
- Coordination of the development team
- Monitoring of project progress and schedule
- Obtaining planning board, zoning and other local approvals

- Obtaining local tax abatement, deferral, or PILOT (real estate tax abatement) agreement
- Obtaining environmental inspections, abatement services and environmental clearances, and related matters
- Designing an appropriate project ownership structure
- Bidding and contractor selection
- Selection of management agent
- Coordination of loan, grant and investment closings
- Monitoring of construction
- Preparation and submittal of construction-period requisitions
- Oversight of completion, rent-up and development closeout
- Other tasks relevant to the successful completion of the development

Selecting a Development Partner

Many organizations that do not have development capacity or want the responsibility of developing a housing project decide to partner with another non-profit organization that has this expertise. Projects involving two or more co-sponsors require a clear delineation of the roles of each organization in the development. It is helpful early in the project to develop a memorandum of understanding or other agreement between the co-sponsors, which lays out the responsibilities of each organization and identifies those aspects of the development, which require the involvement, and consent of all parties. For example, the Sponsor may develop the project budget, but a joint committee of the co-sponsors may select the architect. Some sticky issues to negotiate might include the division of the developer's fee or the number of representatives of each organization allowed to sit on the board of the partnership created to develop, own and manage the housing. More information on partnering with other non-profit organizations can be found in CSH's publication: "Not a Solo Act: Creating Successful Partnerships to Develop and Operate Supportive Housing."

Partnering with a for-profit developer

Partnering with a for-profit developer is also an option for less experienced groups that want to develop new housing units. A for-profit/non-profit partnership, however, is not a model that is used too often in the affordable and supportive housing industries. In general, for-profits developers do not look to partner with non-profits since making a profit is either not feasible or limited in subsidized projects. It can also be difficult for a non-profit and a for-profit developer to reconcile their different reasons for undertaking a project for a hard-to-house population. CSH's past experience has shown that a for-profit/non-profit collaboration can include a rocky development period, where decisions are made that do not support the non-profit's

mission or its original vision for the project. One of the greatest risks to the non-profit is creating a project that does not provide the best environment for their target population.

In some cases, however, the for-profit developer and the non-profit developer may need each other. An experienced for-profit developer can bring the expertise, reputation and political clout necessary to get a project built. And a non-profit partner can bring to the table funding sources that the for-profit would not have access to on their own. The for-profit developer may also need to include an affordable or supportive housing component in a larger, market-rate development because of inclusionary zoning requirements or other local restrictions.

If you decide to work with a for-profit developer, it is critical that you examine their motivations and reasons for being involved in your project. When the non-profit organization is aware of the for-profit developer's interests, it is easier for them to anticipate and identify aspects of the project that they need to watch closely. Examples of these issues might include: decisions regarding the design of the apartment interiors; the number and location of the supportive housing units; the amount of program or community space in the project; and the structure of the project financing to maximize affordability and ensure long-term viability. If the non-profit organization plans to own and manage the property, or at least the supportive housing component, they should be particularly sensitive to decisions that will determine the level of building maintenance required in the years to come, such as the quality of the building materials and finishes and the mechanical and electrical systems. One great strategy for ensuring the for-profit's long-term interest in the project is to require in your partnership agreement or contract that they will appoint a representative to sit on the project's board for several years after the project is occupied.

Another issue to be mindful of when working with a for-profit developer is the distribution of the developer fee. It is reasonable to expect that each partner will receive a portion of the developer fee to compensate them for their involvement in the development of the project. Even if the for-profit takes on most of the responsibility for completing the development tasks associated with the project, the project could not be done without the non-profit's involvement and they should be compensated for their value. Furthermore, developer fee dollars are extremely useful for non-profits since they don't typically have access to these sorts of unrestricted funds.

In addition, it is important to keep in mind that just because a for-profit developer has a track record of completing market-rate projects quickly, it does not necessarily mean that they will be able to complete a subsidized

project more efficiently and in less time than a non-profit. When a project is financed with many government funding sources (which is the case with supportive housing projects), the timing associated with applying for, securing, complying with and disbursing these funds tends to determine the overall project timeline. Even a for-profit developer, no matter how efficient and aggressive, will not be able to avoid those realities.

Turn-Key Projects

The turn-key approach is also an option for less experienced groups that want to develop new housing units but are not interested in developing the capacity in house. A turn-key project is a project developed by a for-profit firm who takes the project through completion and then "turns the key" over to the owner, or in this case, the non-profit supportive housing provider. Many of the issues raised above about for-profit/non-profit partnerships also come up in the turn-key model. Some may argue, however, that the turn-key approach is even more risky for the non-profit because their involvement during the development phase can be even more limited. If you decide to go this route, make sure that you take the time to define in an agreement or contract your role regarding the critical issues outlined above, such as the extent of your involvement in the project's development, the key decisions you want to have a say in, and how the developer fee is divided.

And as you would with any consultant, check the references and capacity of the turn-key or for-profit developer at the time they would be working on your project. You will want to make sure that they are not also working on several other projects, which will compromise their ability to focus adequately on your development.