

# The Role of Faith-Based Organizations in Affordable Housing Initiatives – Part II

by Jay Shuman



As we discussed in Part I, communities nationwide are searching for innovative solutions to address the enormous national housing shortage. One option we're seeing more frequently are partnerships between private developers and faith-based organizations (FBOs).

FBOs are often well connected to their communities, and may provide permanent or semi-permanent housing or supportive services to help meet their communities' affordability challenges. FBOs are also often well-positioned and incentivized to repurpose their real estate, particularly underutilized or vacant property in expensive or distressed property markets. Private developers bring real estate, financial, legal, and strategic resources and expertise, offering joint venture or long-term leasing opportunities, providing redevelopment funds for the proposed project, and a stable, recurring financial stream to the FBO to cover overhead and the costs of their social programming. When done well, these collaborations offer immediate and long-term financial benefits in achieving the mission-based, profit-driven ownership and development of a project to each of the religious and secular partners.

Successful collaborations must address potential concerns and establish trust between the parties. The parties must delve into the details of these long-term, complex, resource-intensive projects in order to succeed. In Part I, we discussed five considerations:

1. **An understanding of each parties' strengths, weaknesses and roles in the project, as well as the perspective of their partner.**
2. **A shared vision.**
3. **Transparent and comprehensive communications.**
4. **Transparent and comprehensive community feedback.**
5. **A clear mission statement and development plan.**

Even considering all this, FBOs and their congregations face particular difficulties in a lack of financial and technical expertise. Building from the foundation of Part I, we offer some more specific, technical considerations for success in leveraging the assets of an FBO and achieving long-term goals.

## **FBOs and Private Developers as Project Partners.**

FBOs should seek to work with a development team with appropriate experience, organizational expertise, and financial capacity. Look at the developer's background and whether the developer can demonstrate a track record of delivering success on projects that are comparable in size and complexity. FBOs may consider whether the developer has an understanding of the community, a shared vision (as discussed in Part I) and a strategic commitment to development in the area. FBOs may also consider obtaining references from lenders, investors, agencies, and other professionals (e.g., attorneys, architects, contractors) who have experience working with the proposed developer.

From the perspective of a private developer, FBOs and their congregants bring advantages and disadvantages as a development partner. On one hand, they are often an institutionalized presence in the community, which engenders public trust. More often than not, their congregants are well-meaning, charitable people who are looking to help and volunteer assistance. On the other hand, FBOs, of course, usually do not have the technical and financial expertise to see a complex real estate development move from shovels-in-dirt all the way to the ribbon cutting. FBOs may also lack the organizational capacity to give projects the full time and attention they need. Again, a shared vision through collaborative frameworks, along with transparent and comprehensive communications between the FBO and the private developer (and the community at large) is a must.

## **Asset Evaluation and Due Diligence.**

There are several different ways that a faith-based organization may leverage its unused or underdeveloped land to achieve its vision. There is no "one-size-fits-all" strategy. Each project exists in its own unique circumstances and with its own demands, and will be influenced by the property, zoning regulations, the rental market, financial feasibility, and the organization's own mission. Private developers should work closely with faith-based entities to evaluate the potential of their properties for housing projects and should consider the long-term sustainability of the project, ensuring it remains affordable and meets the community's needs over time.

Predicting market demand and potential operating performance is critical. The sacred and secular development partners may consider ordering a market study to examine the local market and the financial viability of the project based on characteristics such as size, tenancy type, unit type, location, etc. Studies may specifically analyze leasing expectations, the physical characteristics of the proposed project, and comparable projects either existing, planned, or under construction.

Ultimately, an FBO may come to several different options depending on the market projections and the organization's own objectives. For example, rehabilitating or razing old structures and constructing new buildings (even for uses other than housing) may be the best path. Or does it make sense to sell all or a portion of the land outright and reinvest the proceeds or use the earnings for other pertinent endeavors? Flexibility is imperative.

### **Development Budget and Operating Projections.**

Any successful project must stand on sound financial planning, which will include a detailed budget, appropriate financing, and effective management of cash flow. Real estate development may be mission-based, but it is a difficult business, not charity, and the financial challenges in providing affordable housing are real.

Costs of a development can include costs to acquire the property, financing, construction, and contingency reserves. Sources of funds to finance the project must balance with such costs without any gaps. Affordable housing developments often cast a wide net for sources to pay such costs, including the following:

- “Hard” debt secured by the real estate and must be repaid;
- “Soft” debt payable by available cash flow and may be forgivable;
- Grants, which are not usually repayable unless the specific terms of the grant are breached;
- Developer equity, which represents a portion of the developer's fee that is deferred; and
- Net Operating Income or Cash Flow from Operations

Operating projections should be based on objective data, such as market reports to ensure the overall financial stability of the project.

### **Conclusion**

The best faith-based development practices must include careful deliberation in (i) selecting the development partner, (ii) evaluating the assets and determining a mission-based strategy, and (iii) financial analysis of projected operations. We hope this article gave some insights into potential ways faith-based organizations and their congregations may be able to use redevelopment of sacred spaces as an innovative strategy to preserve faith and expand their community service.

## **Accelerating Housing, Sustaining Communities & Residents**

*by Donald Tucker, President of AHD, a Principal of EDG Architects, and Founder and President of Communities Together Inc., and Tom Vellenga, Communities Together's Executive Director.*

Montgomery County's housing crisis – and the same impasse in every other major jurisdiction across our region – is not only about the scarcity of shelter. It is also weakening fundamental engines of our local economy and society.

A chance encounter embodied our dilemma. Car trouble brought a call to AAA. After the job, the mechanic asked for help finding an apartment. He was driving daily from a distant spot to reach Montgomery County, having spent months searching for an apartment his family could afford. His family is not participating in the county's democratic process, nor contributing to its cultural life, nor contributing to its economy through their own spending, nor sending their kids to our public schools.

Ours is a severe form of service inequality. Many service workers are forced to live far away and spend painful time daily commuting by car – at high cost to their families and to our air quality. Our local economy, culture, and democracy are hampered to the same degree.

One of the major impediments to building new affordable housing in Montgomery County is the lack of affordable land zoned for multi-family housing. The County can “free up” more land by allowing additional density for more affordability.

First, expand CRT zoning “down County” to permit more development “by right” with the “Optional Development Method.” CRT zoning allows a FAR bonus for including more affordable units than required. That zoning, in