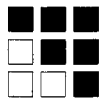


New Hampshire College
Graduate School of Business

Community Economic
Development Project

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The Garden
Street Initiative



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Final Paper

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The Garden Street Initiative

Introduction

The Garden Street Initiative was an attempt at partnering with The City of Lawrence, MA Community Development and one or two non-profit agencies (Lawrence Neighborhood Planning and Development Corporation and the Lawrence Minority Business Council) for the redevelopment of a severely neglected section of the 23rd poorest city in the United States. The approach was to first package a viable housing renovation project based on recommendations and opportunities made known to us by the city, and then take it to an established non-profit housing developer for support and incorporation into their immediate development plan. The Initiative was envisioned as a project under the umbrella and as a partner to the non-profit. The Initiative would have brought technical capacity and a package of assets to the non-profit development entity, while at the same time meeting possible program goals of the agency. The project was planned during a period when the Lawrence Neighborhood Planning and Development Corporation was being revitalized through city intervention. Concurrently, the city was carrying out planning for its comprehensive services plan (Consolidated Plan) as mandated by US HUD for entitlement communities. The agendas of principals in both these activities in many ways precluded the acceptance of the Initiative.

Reasons for the Garden Street Initiative

The opportunities lay ripe in Lawrence for something like the Garden Street Initiative, with compelling political, social and economic reasons to pursue a neighborhood revitalization project.

One of the underlying problems in the city of Lawrence, resulting in its continuing decline, is disinvestment in the assets of the community, as manifested in abandoned housing stock and the social problems which thrive on this disinvestment. Occupied dwelling units were frequently found to be in deplorable condition compounding the problems associated with a lack of pride in home. At the same time, available expertise, programs and monies remained underutilized in combatting the problem. The Initiative saw a need and prepared to fill it. Its principals truly felt they had a partner in the community through associations made through the NHC CED process. These partners included initially one staff person in the community development office, a friend at the Minority Business Council. A for-profit developer was one of the early introductions which resulted in the formation of a limited liability company which carried out the predevelopment work of the Initiative.

The Initiative saw some of the community's problems stemming from local ownership and control. Vandalism, drug trafficking and other illicit activities could be curbed by resident control and ownership, coupled with aggressive property management of rental stock in the community.

The Initiative's Objectives

The goals for the Initiative included identifying, packaging, securing financing for and acquiring residential multi-family properties for renovation and rent up at affordable rates, or sale to first time or low income families.

In order to achieve this, the Initiative knew that as a goal it would have to create allies in the community. Identifying potential partners was easy, getting them on board was an other matter.

Obtaining commitments to a portion of the city's HOME monies through inclusion in the Consolidated Plan was a most important goal for the Initiative's proposed first project's success. Based on those commitments, we would then reach out to the community and foundations and businesses to fund the project.

The establishment of a formal organization/business entity to define and protect the interests of the principals involved in the project became a goal.

A fifth goal was providing income for the three principals which constituted the Initiative. Linked with this goal would be repaying the investment made by Klaas Nijhuis in salaries, printing, incidentals and the other costs associated with the early predevelopment phase of the work.

The goals for the community as summarized in the executive summary of the report prepared by the Initiative included stabilizing property values, providing employment opportunities, creating strong personal relationships, involving the community in defining its destiny and reducing crime.

Methods

The major objective of the Initiative was to come out of the gate with a project that the community could readily buy into. An affordable rental housing project, with strong property management support was identified as the vehicle. This would allow tapping into resources which the principals of the Initiative were familiar with, would provide instant appreciation of property values, would add to the city's tax base, would provide employment and housing opportunities to a significant segment of the community's inhabitants and would serve as a rallying point for community and political involvement.

The Initiative took the following strategy in its effort:

Create an entity that could carry out the work. The three principals (co-directors) formed a New Hampshire registered Limited Liability Company known as CityPartners to carry on the tasks. The principals brought the following necessary skills to the organization:

- Real Estate Valuation
- Financial Analysis
- Project Planning
- Affordable Housing Design
- Property Management
- Housing Development
- Non-profit Leadership
- Community Economic Development
- Renovations and Construction.

Identify a target neighborhood for redevelopment. This neighborhood needed to be on the fringes of deterioration with a strong possibility of being turned around. The neighborhood needed to be identifiable geographically, and needed to have a ready

supply of redevelopable properties.

Identify particular properties for assembly into the project. Nearly 40 properties were investigated including title searches, tax and lien investigations, locating owners and agents, finding out if the property could be purchased, walking the property, preparing cost estimates for rehabilitation, preparing pro-formas, selecting for or culling from project, making an offer, and incorporating into the master pro-forma.

Gain city support. Talk out the Initiatives goals and objectives with city officials including community development and mayor staff.

Court potential non-profit partners. After it became apparent that the Initiative politically could not become the CDC for this project, we courted the recently revitalized Lawrence Planning and Neighborhood Development Corporation to become our sponsor and director. Alliance with the Minority Business Council was achieved in principle early on, and continued through the project's life cycle. One of the tasks performed by the Initiative was to draft a joint venture agreement that described the roles and responsibilities of the CDC and the Initiative. This agreement went so far as to describe the technical assistance the Initiative would provide the CDC, the funding sources, as well as the ultimate ownership and disposition of the developed assets. The form of agreement is found in the report prepared for the city and the CDC which follows this paper.

Approach banks for construction financing. Get their interest and support and critical endorsement for packaging the proposal in the Consolidated Plan. A major bank in the community held a number of buildings which we targeted for acquisition. We made the pitch that the bank would win in several ways. They would get these non-performing assets off their books, receiving money in exchange. They would have the opportunity to lend money for relatively safe construction loans which in essence would be converted to permanent financing by others, secured by a close to

two-thirds equity position.

Make the community aware of the Garden Street Initiative's goals and strategies. This was done at networking time before and after Consolidated Plan public meetings and hearings as well as in scheduled meetings with key players in the community.

Find permanent financing and equity commitments for the project. The Initiative obtained preliminary endorsements from the Mass Housing Partnership for permanent financing and assistance in syndication of tax credits.

Getting written into the Consolidated Plan. Discussion in the public hearings for the Consolidated Plan focused on getting the Initiative's objectives and funding requirements on the table, and ready for inclusion in the Plan

At this point the Initiative failed. However, had the Initiative been successful, the next steps would have been followed:

Option all properties targeted for acquisition.

Establish a storefront office.

Start an outreach program for the community, offering technical assistance and soliciting support for the catalyst project.

Secure the financing and follow through with the One-Stop Application for Low Income Housing Tax Credits.

Sell or syndicate the tax credits.

Develop a construction training program in conjunction with the vocational school in

the city.

Prepare designs and specifications for the rehab of the acquired properties.

Bid out the work, favoring contractors who committed to using local labor trained through the Initiative's vocational program.

Establish a management arm committed to the most aggressive property management program necessary for ensuring the project's success.

Lobby the Housing Court to make them appreciative of the fact that aggressive management is required to ensure a turn around in the community.

Conduct resident led/participatory meetings leading to other neighborhood revitalization projects.

These steps are more fully defined in the accompanying report. A preliminary time table was also offered.

We saw the Initiative closing on its first project by December of 1995, starting construction. Of course, fate took another course.

Results

The Initiative did not succeed in getting written into the Consolidated Plan.

The timing of the development of the Garden Street Initiative was in large part driven by the HUD mandated Consolidated Plan process being carried out by the City of Lawrence. Because we knew that a large portion of our operating and project funding would have to come from the city, and the city would distribute those funds according to the guidelines of the Consolidated Plan, we had to have a clear methodology and plan in place prior to the finalization of the Consolidated Plan.

Early on it became evident that the Initiative would have to have local sponsorship. We looked first to the Minority Business Council with which we quickly built strong ties based on mutual respect for a piece of the support. Major development support however would have to be seated in a Community Development Corporation. Lawrence had such an entity in the particular neighborhood targeted by the Initiative. When we first came to town, this CDC was without an executive director, and had not lived up to the city's expectations. The city was ready to pull the plug, but instead infused more operating support and assisted in selecting and hiring an executive director. This proved to be a mixed blessing. There now was a viable CDC which could sponsor us, but along with its revitalization, was the restrengthening of preexisting ties. While we were courting the CDC so was another developer - a former Lawrence town planner, who had consulted to the CDC in the past and brought his own project.

The Initiative did not have the time or resources to foster relationships with individual board members of the CDC. It was unable to make strong enough ties within the community, although the groundwork was laid with real estate agents, banks, the city's community development department and an influential non-profit ally (The Minority Business Council). Although the Initiative received the support and endorsement of the Mass Housing Partnership - a major funder for affordable housing development projects in the state, it was

not strong enough to overcome the withdrawal of support by the CDC, which favored the other developer's project.

On a more personal level, the project proved costly to the author. Predevelopment costs were born exclusively by me. Because the project did not get written into the Consolidated Plan it has no chance for success as represented by Community Development staff, and hence no means of recovering my losses. My indirect losses are attributable to the fact that I was focusing my and my staff's time on the Initiative, and hence not developing other business for my firm. The ripples of that are still felt with a lack of backlog.

Analysis, Conclusions and Recommendations

Taking on a project of this size and scope in untested waters should not be attempted without strong financial backing and some political inroads. The financial risk is great, and not appreciated by players who I believe generally have not had their own money at risk.

Of the various contacts made in the life of the Initiative, I was only able to speak candidly with the president of the Lawrence Planning and Neighborhood Development Corporation. In discussing where we went wrong, he noted that I should have courted the individual board members weeks in advance of requesting their endorsement, to gain an understanding of their agendas and objectives. He pointed out that in the case of at least two board members there was a definite anti-redevelopment sentiment. Others, luke-warm on our presentation, could have been made to appreciate the potential good resulting from the partnership. We also should have been more keenly aware of preexisting relationships between the CDC and our competitors. On a positive note, the president did express that our packaging was impressive and well prepared. He even suggested that the door was not closed to possible future joint ventures, although I wonder if I would ever again embark on a project such as this. Recovery seems most improbable.

Furthermore, working in a timeframe other than naturally directed by the project itself can be difficult. Pressured by the Consolidated Plan process, we were forced to select and court our bride, much before she could be won over.

Finally, looking back at our pitch to the city and to the CDC, our presentation could have been clearer, and more concise. I doubt, that aside from the critical read given by our primary contact in the Community Development office, the possibilities described in the Initiative remain unnoticed.