

Doug, if you
have a logo, I can
insert it here.
Otherwise, I will
remove ours

HOW TO NEGOTIATE WITH DEVELOPERS

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“WHAT IS YOUR ROLE IN THE DEAL?”

FIRST QUESTION A
NONPROFIT
ORGANIZATION
SHOULD ASK WHEN
PARTNERING WITH
ANOTHER ENTITY



WHAT DO I MEAN BY THAT?

- Do you want to own the project after it is completed?
- Do you want to manage it?
- Do you want to provide supportive services?
- Perhaps one of the most important questions to ask does your organization want to become a development organization, or is this just a one off?



“SHOULD YOU ‘RENT’ YOUR NONPROFIT STATUS?”

WHAT DO I MEAN BY
THAT?





WHAT DO I MEAN BY THAT?

I used to speak negatively about this, but it depends on your role.

1. Is this a good opportunity to participate in a project where you can provide services according to your mission?
2. Will this provide a source of income for your organization?
3. Does your organization prefer to focus on your mission, as opposed to constructing or managing housing?

WHY SHOULD
YOU PARTNER
WITH EITHER A
FOR-PROFIT OR
NONPROFIT?

- QUESTIONS YOUR BOARD OF DIRECTORS SHOULD CONSIDER:

PROFIT

VS.

NONPROFIT

- Do we have the experience?
- Do we have the financial strength?
- Some nonprofit development organizations do have the necessary experience and financial strength.
- Which type of organization do we prefer?



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QUESTION.

WHY DO I PREFER A NONPROFIT
PARTNER?

REASONS I PREFER A NONPROFIT PARTNER:

- Often they will give another nonprofit a better deal.
- The mission of nonprofits is to give back to the community.

**IF YOU DECIDE THAT YOU WANT YOUR ORGANIZATION TO BE A
DEVELOPMENT ORGANIZATION WHEN YOU PARTNER WITH A
FOR-PROFIT**

Be Sure to Learn How to Fish

What does that mean?



A BIBLICAL STORY

- If you give a man a fish, you have fed him for a day, but if you teach him to fish, you have fed him for a lifetime.
 - What do I mean by learning how to fish?
-



LEARN THE DEVELOPMENT
PROCESS SO THAT ULTIMATELY
YOUR ORGANIZATION CAN DO
DEVELOPMENT ON YOUR OWN.

STONE SOUP, MY
OWN
DEVELOPMENT
COMPANY, WAS
FOUNDED BASED
ON THESE
PRINCIPLES



WHAT ARE THE MOST IMPORTANT CHARACTERISTICS OF A DEVELOPER?





IMPORTANT CHARACTERISTICS:



DEVELOPMENT IS HARD!!

OFTEN TAKES 3-5 YEARS TO
GET A PROJECT FUNDED



?????

QUESTION.

WHAT SEPARATES A LENDER OR
BANKER FROM A DEVELOPER?

PERSONALITY DIFFERENCES BETWEEN LENDER AND DEVELOPER:

Banker is a risk minimizer

Developer is a risk-taker

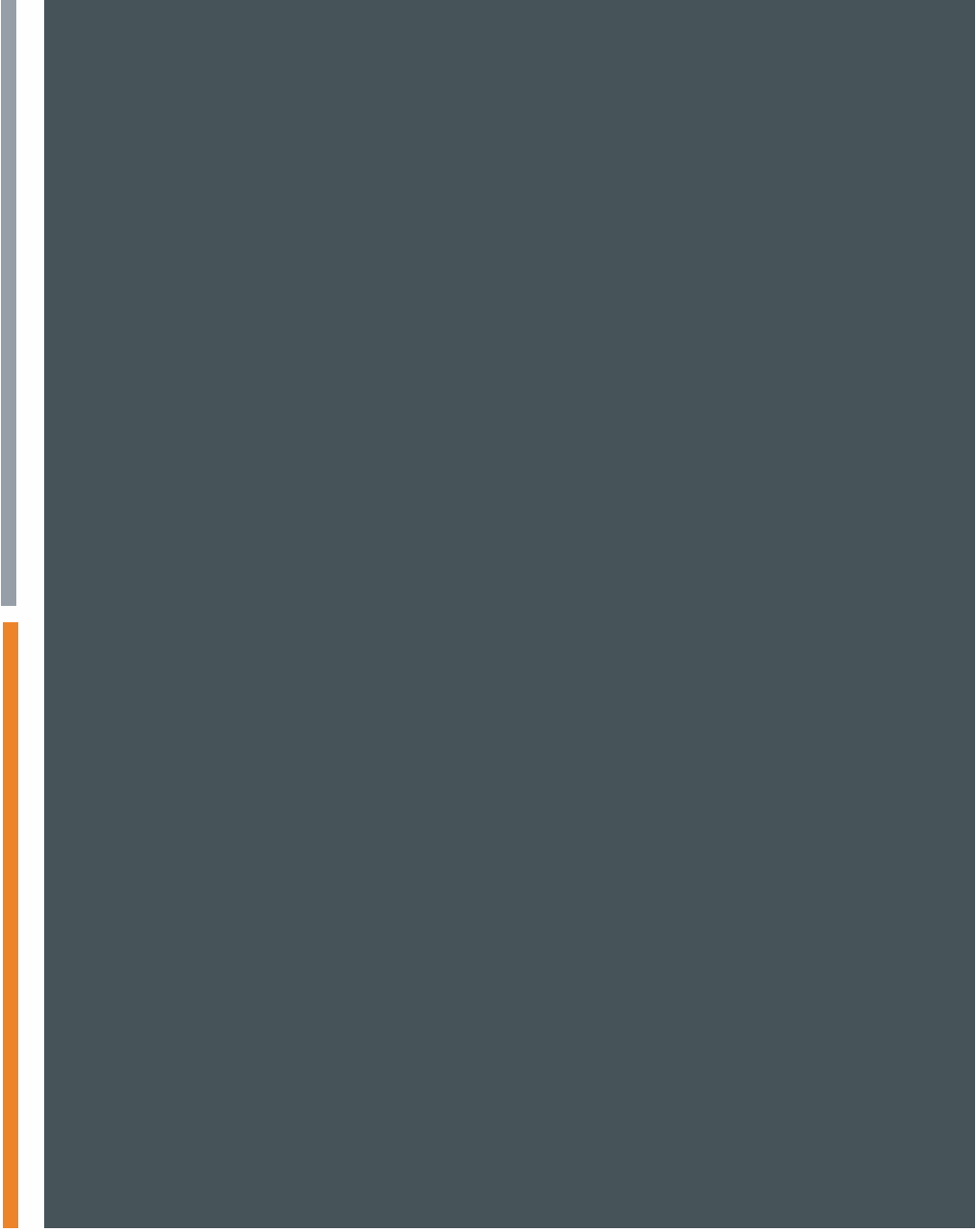
My father always said a car needs a brake and an accelerator!



???? QUESTION:

- What is the minimum percentage of low-income housing tax credits that the federal government requires go to nonprofit organizations?

ANSWER:

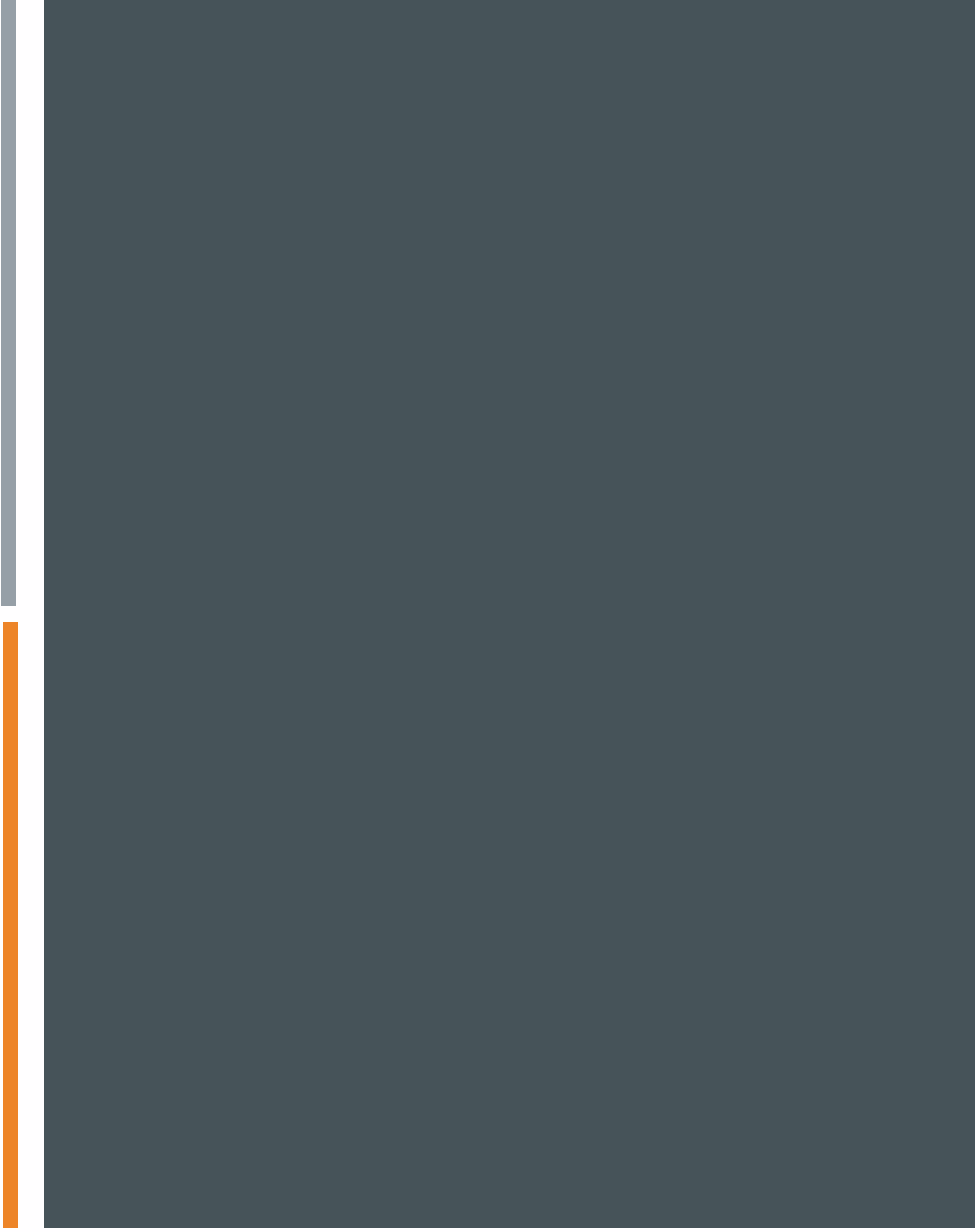




???? QUESTION:

What is the standard for a deal to be considered a nonprofit deal?

ANSWER:





??? QUESTION:

If the ownership interest is 51%, why isn't the share of the developer fee required to be higher?



ANSWER:

- Gulfside Estates
- In 2004 Jubilee CDC partnered with Related Group
- Received \$100,000
- If they had to give us 25% it would have been at least half a million dollars.



GET YOUR ATTORNEY INVOLVED EARLY IN THE PROCESS!

Before committing a non-profit's time and resources to an affordable housing development, be sure you understand the non-profit's role in the transaction and the full scope of the non-profit's rights and responsibilities.

- Make sure your business arrangement is properly documented
- speak with an attorney before you commit to a project
- ALWAYS speak to an attorney before you:
 - sign any contracts,
 - purchasing land
 - or receive donated land.



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BEFORE ACCEPTING DONATED LAND:



???

ANOTHER QUESTION:

Is the property in a QCT, SADDA, or Urban Center?

QCT – QUALIFIED
CENSUS TRACT

SADDA – SMALL
AREA DIFFICULT
DEVELOPMENT AREAS

URBAN CENTER-
LARGE AND DENSELY
POPULATED (SOUTH FL,
ORLANDO, TAMPA, JAX)

• Critical to winning Tax Credits and obtaining Basis Boost



NEGOTIATIONS 101:



WHAT DOES
YOUR
ORGANIZATION
BRING TO THE
TABLE?

- What does this mean?

BEFORE ANY
NEGOTIATIONS:

•KNOW YOUR
WORTH

- ❖ **Does your nonprofit own any land? Or, can you get local government to give you land?**
- ❖ **Is your nonprofit organization well known and respected as an outstanding asset to your community?**
- ❖ **Do you have political strength?**
- ❖ **Do you have financial strength?**
- ❖ **Is part of your mission under your Articles of Incorporation to foster affordable housing? If not, add it now.**
- ❖ **Make sure you have value! Always be prepared to toot your own horn and tell the world about the great things your nonprofit does for the community.**
- ❖ **Bring something more to the table than just an appetite!**



SPEAKING OF LAND:

- What determines the value of land?



LOCATION, LOCATION, LOCATION

ALSO, ZONING
(WHAT ARE YOU
ALLOWED TO
BUILD ON THE
LAND)



AFTER YOU HAVE
A SITE AND
CHECK ITS
ZONING -

WHAT ELSE DO YOU
NEED TO DECIDE
BEFORE YOU START A
PROJECT?



HOW DOES THE NEW LIVE LOCAL ACT IMPACT A NONPROFIT DEVELOPMENT?



LIVE LOCAL ACT: BRIEF SUMMARY

- Land owned by a nonprofit and subject to a long-term lease which is used for affordable housing is now tax-exempt (the project/building is still taxed)
- If a nonprofit owns property that is zoned industrial, commercial or mixed use, can now be used for residential purposes
 - Any of your property in these classifications are now more



WHAT TYPE OF PROJECT ARE YOU DOING?

- HOMEOWNERSHIP OR APARTMENTS?
- WHY IS THIS IMPORTANT???



SOURCES OF FUNDING ARE DIFFERENT

DEPENDS ON:

HOW MANY UNITS?

MIXED INCOME OR MIXED USE?



MIXED USE VS. MIXED INCOME:

WHAT IS AN EXAMPLE OF MIXED INCOME?

EXAMPLE OF MIXED USE?

EXAMPLES OF SPECIAL NEEDS HOUSING POPULATIONS

- Homeless
- Frail Elderly
- Youth Aging out of Foster Care
- Mental illness
- Veterans
- FYI – HUD defines special needs housing as a project where the residents require on-going supportive services



WHAT IS THE MOST BASIC WAY TO

QUESTION:

DETERMINE IF YOUR
DEAL IS VIABLE?



VIABILITY:

**WILL THE RENT SUPPORT (PLUS ANY OPERATING
SUBSIDY) COVER THE OPERATING COSTS PLUS
ANY DEBT?**

Examples of Operating Subsidy?



WHAT IS DEVELOPER FEE?

QUESTION:



DEVELOPER FEE?

- REWARD FOR DOING THE HARD WORK
- ALWAYS “AT RISK” UNTIL THE PROJECT IS COMPLETED.
- WHAT IS “AT RISK”?

HOW IS DEVELOPER FEE PAID?

- DO YOU GET YOUR MONEY
ALL AT ONCE?



NO! IT IS PAID AT CERTAIN MILESTONES:

- 20% at Closing
 - 20% at 50% completion
 - 20% at Certificate of Occupancy
 - 20% at Qualified Occupancy
 - 20% at Stabilization
-



WHAT IS DEFERRED DEVELOPER FEE?

QUESTION:





Definition of Deferred Developer Fee:

The portion of the Developer Fee that is paid from the project's annual operating cash flow after the project has completed construction, been placed in service and converted to permanent financing and achieved stabilization.



WHAT IS THE SINGLE LARGEST SOURCE OF

QUESTION:

FUNDING FOR THE
DEVELOPMENT OF
LOW-INCOME

STATES



SINGLE LARGEST SOURCE OF FINANCING FOR LOW-INCOME HOUSING:

The federal Low-Income Housing Tax Credit



HOW MUCH DOES EACH STATE RECEIVE IN LIHTC EACH YEAR?

QUESTION:



PER STATE FUNDING FOR LITHC:

FORMULA-DRIVEN BASED ON STATE'S POPULATION.
FOR EXAMPLE: FLORIDA'S POPULATION IS 21.5 MILLION
AND THE CURRENT FEDERALLY ESTABLISHED RATE IS
\$2.60 PER PERSON.
SO: 21.5 MILLION x 2.60 = 55.9 MILLION IN 9% TAX
CREDITS



WHAT IS TAX CREDIT EQUITY?

QUESTION:



**MONEY
YOU DON'T
HAVE TO
PAY BACK!**

**• IT REALLY ACTS LIKE A
GRANT**

- Does anyone need an explanation of how tax credits are calculated?

CALCULATION OF TAX CREDIT EQUITY – ELIGIBLE BASIS:

- What are Hard Costs? – Bricks and Sticks
- What are Soft Costs? – Attorney, Architect, Accounting, Building Permits, Impact Fees
- Total Financing Cost – includes construction loan interest
- Developer Fee – 16-18% of Eligible Basis
- Land Costs (No! Land and reserves, such as maintenance are not part of basis)
- Tax Credit Calculation – Eligible basis X9% x tax credit price x 30% basis boost



WHAT ARE THE 2 TYPES OF LIHTC?

QUESTION:



ANSWER: 9% AND 4% CREDITS

Q: WHAT IS THE DIFFERENCE BETWEEN THEM?

9% - MORE EQUITY
9% will fund 75-85% of
your total project cost!
HIGHLY COMPETITIVE –

LOTTERY IS KING!

4% - WILL FUND ABOUT
35-45%. MUCH LARGER
FUNDING GAP TO FILL
NON-COMPETITIVE AND
EASIER TO OBTAIN. FIRST
APPLY FOR TAX-EXEMPT
BONDS



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QUESTION.

WHO HAS BOND AUTHORITY?



BOND AUTHORITY IN THE STATE OF FLORIDA:

FLORIDA HOUSING FINANCE CORPORATION

BUT....

Almost every county in Florida also has a housing finance authority



?????

QUESTION.

What are tax-exempt bonds?



TAX-EXEMPT BONDS:



?????

QUESTION.

What can you build with tax credits?



RENTALS





CAN TAX CREDIT BE USED FOR HOMEOWNERSHIP PROJECTS?

QUESTION:



TAX CREDITS FOR HOMEOWNERSHIP?

Generally no but there are some rent-to-own projects that were built with LIHTC.

Also, New Market Tax Credits (could be another entire presentation) which can be used to finance affordable homeownership.



LEGAL CONSIDERATIONS

SEEK INDEPENDENT LEGAL
COUNSEL TO PROTECT
YOUR NONPROFIT'S
INTEREST

DON'T RELY ON THE
DEVELOPER'S ATTORNEY TO
WRITE UP THE DEAL



PUT IT IN WRITING - MOU BETWEEN YOU AND THE DEVELOPER

- Share of the Developer Fee and Cash Flow
- Land Lease or Purchase Price
- Responsibilities of each Party
- What approvals do you want?

● Conceptual Design?



REMEMBER:

THE MORE YOU BRING TO
THE TABLE, THE STRONGER
YOUR NEGOTIATING
POSITION!!

KNOW YOUR WORTH!





THANK YOU!

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