



Helping Nonprofits Solve the Affordable Housing Conundrum

Understanding the Process, Pitfalls and Best Practices

By Stewart A. Grubman, CPA

For many nonprofits, the affordable housing world seems like an ideal way to create a big impact. Nonprofits can advance their missions by connecting the populations they serve to stable housing and all of the socio-economic benefits that come with that stability. At the same time, an effective affordable housing program generates income and fees that can help nonprofits defer program costs and support their bottom lines. It seems like an obvious win-win.

Yet, when entering the world of affordable housing, nonprofits are also entering a world of full-time investors and Wall Street mentalities. There's an inherent disconnect between the mindset of a nonprofit focused primarily on achieving its mission and for-profit partners who prioritize maximizing the return on their investment. This disconnect creates a common set of pitfalls nonprofits should look out for starting in the earliest stages of any affordable housing development.

Nonprofits shouldn't be discouraged, however. Many successfully tackle affordable housing development and are able to considerably impact their missions by entering into effective partnerships with full-time investors. Here's a closer look at four best practices nonprofits should be conscious of when considering participating in affordable housing development.

1. Go in With Eyes Wide Open

Right from the get-go, nonprofits need to recognize that they are not getting something for nothing with these partnerships. This starts with closely evaluating the partnership agreement as it takes shape and knowing all it entails before it's signed. All stakeholders at the nonprofit need to be well versed in the terms of the agreement and understand exactly what the organization has agreed to.

Investors and partners have expectations surrounding how the development will be run and particularly clear expectations in terms of the return they're expecting based on their capital investment. Nonprofits need to keep this perspective top of mind and remain focused not just on

the social outcome of the development, but the financial outcome as well. Recognizing this priority for partners is a useful way to maintain perspective on the overall process and avoid any potential surprises along the way.

2. Be Realistic About Capabilities

Successful affordable housing ventures demand that nonprofits take a close look at their operations. A nonprofit needs to honestly evaluate if it has the capabilities and mindset to essentially run a for-profit operation within their organization. Investment partners, often banks, have entire departments dedicated to budgeting, returns and tax considerations, yet it often falls on nonprofits with limited experience in these areas to serve as developer and manager with final oversight of the property.

A nonprofit has to determine if it has the staff, tools and competencies internally to act as an effective landlord. That includes ongoing duties such as managing the property, handling all accounting duties, navigating tax consequences and a host of other responsibilities. In some cases, hiring an outside property management company or expanding the capabilities of internal staff, including training in accounting procedures, are useful and ultimately more efficient solutions.

3. Build the Right Team

Armed with a realistic evaluation of what the partnership entails and where organizational strengths and weaknesses lie, nonprofits can start building an affordable housing development team. This team typically includes an experienced CPA, an attorney and general contractor or architect with multifamily housing experience.

For organizations seeking access to potential investment partners and help evaluating different options, a syndicator can be particularly useful. Syndicators help connect investors and financing sources to specific development opportunities. There are syndicators who specialize in not-for-profit development, and in many cases organizations benefit greatly from their expertise.

Housing consultants are invaluable to nonprofits with less overall experience in this area. They can help set up the initial process and advance the organization's overall understanding of affordable housing development.

The importance of developing this team early cannot be overstated. Nonprofits should utilize this expertise as early in the process as possible. Specifically, this team should be deeply involved in drafting and revising specific terms of the partnership agreement. After the property is placed in service, many team members largely exit the process, leaving it to the nonprofit to ensure things stay on track. For all organizations, gaining as much insight and expertise before that happens is crucial.

4. Understand Potential Consequences

Effectively navigating the affordable housing process includes recognizing what happens if things don't go according to plan. If the development does not meet the milestones required under the partnership agreement, the investor may require a repayment of development fees previously paid to the nonprofit. In extreme cases, the nonprofit may even be asked to step aside.

Nonprofits should not assume leniency from lenders or investors in any part of the process. Being unrealistic about expectations or failing to make the necessary organizational adjustments can jeopardize the future of the development and the not-for-profit organization.

The Power of Scale – Affordable Housing Done Right

Nonprofits that can successfully execute affordable housing development often find that successive initiatives run more smoothly and more efficiently. With the right process in place, building internal capabilities, and forging strong partnerships can make the second or third affordable housing venture more profitable and more successful. Scaling operations in this way can turn affordable housing development into a considerable organizational advantage.

It's important to take a more long-term perspective on early affordable housing initiatives. Nonprofits should not get disheartened by initial challenges and the potential stumbling blocks and instead use them as valuable lessons

learned for future efforts. The result will be more successful developments that can empower a nonprofit to maintain financial stability and advance its social mission.

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Contact Us

Stewart A. Grubman, CPA

Partner

sgrubman@pkfod.com | 240.534.2810

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