

How to be a better developer

Leading developers give advice to their colleagues

By Donna Kimura

It seems that each year gets a little tougher for developers, whether it's the competition for financing or finding suitable land for a new project.

As a result, developers have to be better than ever to succeed.

To help make the road a little easier, *Affordable Housing Finance* recently asked several leading affordable housing developers to share their advice on how to be a better developer.

Some of the tips are good common-sense reminders that aren't always followed. Other recommendations may offer new points to consider.

- **Don't forget that politics is local:** Take time to understand local issues as well as the local approval and permit process.

BRIDGE Housing is a leading nonprofit affordable housing developer that builds throughout California. The organization has a regional focus, but President and CEO Carol Galante stressed the need for understanding what's going on at the local level. There are no shortcuts, she said, when it comes to working with a local community. Developers have to reach out to the neighborhood, the planning commission and the city council and sell the project's story.

- **Identify projects that "want" to get done:** Understand which projects will help advance the objectives of key leaders and stakeholders.

When you can successfully identify a project that the community and its key leaders desire, the support will provide momentum that is rarely achieved by a developer working solely to advance its own objectives, said Greg Handberg, vice president of properties at Artspace Projects, Inc., in Minneapolis.

Jim Sari of Landmark Asset Services, Inc., and Sari & Co. in Winston-Salem, N.C., agrees, saying that he likes to talk to a city's community development people to understand the area's wants and needs.

- **Expect the unexpected:** On every project, there are bound to be surprises. Realize that those surprises are going to happen, and, at the same time, try to plan as best you can.

On a rehabilitation project, for example, perform a thorough investigation when putting together the budget, said Lawrence Davis, director of finance and housing at Portland West, Inc., in Portland, Maine.

Prepare an adequate contingency budget, especially on rehab projects. One suggestion is to allow 20% of the construction budget for contingency when doing a rehab project.

- **Develop a solid relationship with your development team:** This includes architects, engineers, contractors and financiers.

"The development team is the single greatest asset we bring to the development process," said C. Fred Cornforth, CEO of Community Development, Inc. (CDI), in Idaho.

His organization holds regular team meetings to discuss as many as a dozen ongoing projects. Architects and other team members attend the sessions and participate, even though they may not be directly involved in all of the projects on the table. Having these meetings helps identify and resolve different issues. They also keep CDI up-to-date on different industry matters, such as escalating lumber costs or increasing costs in bonding.

- **Think long term:** Plan for the future.

"At Dunn Development Corp., we focus a great deal of time and energy on designing buildings for the long term," said President Martin Dunn. "For every product we specify and install, we think about the durability and maintenance as well as the design aesthetics." Longer roof warranties, durable finishes and heavy-duty door hardware all result in diminished future maintenance for sometimes minimal or no additional upfront cost, he said.

"Energy efficiency is another area where an initial investment can yield tremendous savings over the long haul," Dunn said. Relatively simple changes like additional insulation and energy-efficient boilers, heating systems, ventilation systems, appliances and lighting have low upfront costs that will result in energy-cost savings. "For example, the incremental cost of putting light fixtures on occupancy sensors can be paid back within two years from reduced energy costs," Dunn said. "After that, there are net savings to the owner."

Jack Gardner, president and CEO of The John Stewart Co., agrees, saying there's way too much disconnect between development and management these days. He says developers should "keep the long-term operation and management of your projects firmly in mind while designing, financing and building them."

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nologies enables a developer to take advantage of them earlier, Dunn said. Some recent examples are high-performance building systems, green-building features and high-speed or wireless Internet access. Utilizing new technologies helps distinguish you from your competition. Being ahead of the curve may also lead to participation in pilot programs.

Dunn Development has invested significant resources in exploring high-performance and green-building technologies. The New York-based firm has been invited by the New York State Energy Research and Development Authority to participate in an affordable housing new construction pilot program.

- **Say what you mean, do what you say:** It's important to deliver on your promises. It sounds routine, but, unfortunately, it's not always practiced.



Wallace Scruggs

Wallace Scruggs, president of the Housing Trust of America, LLC, said he is careful not to make promises that he can't keep and to ultimately do what he says he will. He recently went before officials in Maryland with plans for a new construction project. The commissioners wanted the amenities to be in place for the first residents of the 173-unit, mixed-income, bond-financed project. Scruggs said they would be and then delivered by having the clubhouse and other features ready at the recent opening of River Bay Townhomes. The commissioners remembered his promise at the ribbon-cutting ceremony, Scruggs said. That goodwill, he said, carries forward.

- **Build a margin of safety:** Good developers layer as many sources of funds as possible to create a successful low-income housing tax credit project. In most instances, federal tax credits alone won't generate sufficient funds to build a project. As a result, developers need to secure funding from other sources such as state tax credits, Federal Home Loan Bank funds, HOME funds, property tax abatement and other state and local programs, said R. Lee Harris, president of Kansas City-based Cohen-Esrey Real Estate Services, Inc. This may help eliminate deferred developer fees and provide for strong operating reserves, he said.



R. Lee Harris

For all of its projects, new construction and acquisition/rehab, Cohen-Esrey attempts to drive the hard-debt amount to the lowest possible level, Harris said. "Lower debt service generates a sufficient margin of safety for us to be comfortable moving forward with the project," he said.

- **Know the neighborhood:** Understand where and how your project fits into its surroundings.

One way to be a better developer is to recognize that a development doesn't sit there by itself. It's up to developers to think about how the project affects the community, said Fran Wagstaff, president of Mid-Peninsula Housing Coalition, a large

nonprofit in Northern California.

Dunn agrees, saying that doing contextual development, designing beautiful façades and incorporating nice landscaping are important for a number of reasons. "Not only is it morally the right thing to do, but it has business benefits as well," Dunn said, explaining that it can help with siting and securing future sites in the community and improve the value of the developer's own building.

- **Think of the big picture:** The development of a project involves thousands of details, and developers have to sweat those details. But it's important not to lose sight of the big picture, said Stanley Herskovitz, senior vice president of acquisitions at Fairfield Residential, LLC, in San Diego. Understand where you are going in the end and what you want to achieve. This helps keep the project moving in the right direction amid the many details that can bog down a deal.



Stanley Herskovitz

- **Have FAITH:** Several of the tips can be summed up in the acronym FAITH. Developer Gene Watkins has remembered the following over the years:

F – Focus on first things first.

A – Anticipate the unexpected, deal with it and move on.

I – Insist on excellence, starting with yourself.

T – Trust your gut senses, but verify your logic.

H – Hope like heck that the mistakes you inevitably make are manageable, and if they are not, try prayer.

These principles have helped on several projects, including his recent Towne Vista development in Austin, Texas. Because the project was a hillside development, the development team's immediate focus was on how best to stabilize the buildings and foundations. Although much planning was done, you cannot fully plan for the weather. The team had to adjust to a record year of rainfall, which required finding creative ways to finish on schedule. When it came to insisting on excellence, Watkins said he hired a team of top professionals, from the builder to the interior designer. He also recalled that when the project began, the Austin economy was struggling. The project team sensed that the market would recover in time for leasing. Not everyone was confident in the timing, but Towne Vista is one of the fastest-leasing properties in the city, according to Watkins.

- **Don't give up:** "Never, never, never give up on something you think is worth fighting for," said John Welsh, director of the multifamily division at AHC, Inc., a nonprofit developer in Arlington, Va. He cites the roller-coaster ride that AHC went on during its Gates of Ballston acquisition. There were other prospective purchasers, and the outstanding REMIC (real estate mortgage investment conduit) loan appeared daunting, a level that seemed beyond AHC's capacity. However, the group remained focused and worked to overcome its apparent shortcomings. In the end, hard work, political support and local advocates help AHC to acquire the 465-unit property in Arlington. ■