ARTICLES

Changing the Paradigm: Creating Scale and Keeping Local Expertise in Nonprofit Affordable Housing Development—How to Stop Competing with Fellow CDCs and Embrace a Joint Ownership Structure

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I. Introduction

Over the past forty years, New York City's nonprofit Community Development Corporations (CDCs) have rebuilt some 100,000 units of housing, helping to transform many disadvantaged communities from slums to thriving, vibrant, and safe places to live and work. However, today the

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pendulum has swung the other way: communities that were once plagued by blight are now facing gentrification. In the context of a bullish real estate market, the housing options for many households at the bottom of the economic ladder have worsened. While housing prices have risen, the income of many New Yorkers has declined. According to Coalition for the Homeless, homelessness in New York City has reached its highest levels since the Great Depression of the 1930s.[1] And according to City officials, there are 700 applicants for every unit of affordable housing.[2] With regards to housing, we are witnessing a serious market failure. Even those that can "afford" housing are severely rent burdened. Nearly one-third of *all* New York renters, and almost two-thirds of *low-income* New Yorkers, spend more than half of their incomes on housing.

New York City government has recognized the insufficient supply of affordable housing, with Mayor Bill de Blasio declaring in 2014 that we have "a crisis of affordability on our hands" and setting forth a comprehensive plan to build and preserve 200,000 affordable units over ten years to support New Yorkers with a range of incomes.[3] Yet, even with a comprehensive plan to tackle this issue, the reality is that we are losing affordable housing every day. Regulatory restriction periods for many affordable housing projects are expiring while market pressures and opportunities are pushing these projects to go to market rate.[4] At the same time, tax reform has lowered the federal corporate tax rate and subsequently cut the subsidy created by Low Income Housing Tax Credits (LIHTC). With more market demand and lower public subsidy, the maximization of profit motivates developers to drop the "affordable" from their housing plans. The market need for and the pressures against affordable housing have crashed head-on, leaving low-income individuals out in the cold. But we remain hopeful. We believe that by merging market realities with mission in a smart—dare we say a paradigm-shifting way—a solution can be found. We are already seeing heartening success.

A critical player to ensuring that New York City has sufficient affordable housing is the city's nonprofit community-based development sector. The recently formed The Joint Ownership Entity New York City Corp. (JOE NYC), a joint ownership and management structure for property owned by nonprofit CDCs, leverages the mission-driven community-based know-how of CDCs and brings it to a citywide scale. Developed after a two-year

1. *See* Coalition for the Homeless, Basic Facts About Homelessness—New York City, http://www.coalitionforthehomeless.org/basic-facts-about-homelessness-new-york-city.

2. *See* Shirley Chan, *New Yorkers "Lose Hope" While Applying Again and Again for City's Affordable Housing Lottery*, Pix11 (Feb. 28, 2018), https://pix11.com/2018/02/27/new-yorkers-lose-hope-while-applying-again-and-again-for-citys-affordable-housing-lottery.

3. Mayor Bill de Blasio, City of New York, Housing New York Plan: A Five-Borough, Ten-Year Plan (May 5, 2014) http://www.nyc.gov/html/housing/assets/downloads/pdf/housing_plan.pdf.

4. Kim Barker, *Behind New York's Housing Crisis: Weakened Laws and Fragmented Regulation*, N.Y. Times (May 20, 2018), https://www.nytimes.com/interactive/2018/05/20/nyregion/affordable-housing-nyc.html.

process by a working group of some of New York City's leading CDCs known as the CDC 4G Initiative, JOE NYC now serves as a vehicle to enhance the viability of CDCs to help them address the pressing need to preserve long-term affordability within existing projects, and to develop new projects and opportunities for nonprofit ownership of affordable housing. JOE NYC intends to achieve long-term affordability by improving operating margins of projects through economies of scale and other measures designed to increase the economic efficiency of projects. JOE NYC also seeks to create liquidity across its portfolio in the use of operating reserves that are currently segregated by project. JOE NYC has the balance-sheet strength required by lenders, syndicators, and governmental agencies to allow it to acquire, refinance, and recapitalize projects, without the need to joint venture with a for-profit development partner, and has the ability to act as a co-guarantor for its members on new affordable housing transactions, freeing members from the current necessity of joint venturing with for-profit development partners on new transactions. Finally, JOE NYC helps to create asset management standards for property management by which projects in the JOE NYC portfolio may be measured.

In this article, we explain how we are helping and empowering some of New York City's leading mission-driven organizations to leverage their local expertise AND group capacity to compete in the market to create more affordable housing at greater levels of affordability, for longer, even permanent, periods of time. We will explain how this new model works, what problems this model was meant to solve, and what attributes it was required to have. We will close with some initial successes, and what might be applicable to other jurisdictions.

II. The Evolution of CDCs in NYC Affordable Housing

Charitable and philanthropic organizations have been helping house those in need since the need began. Predating government involvement, these organizations played an integral part aiding the evolution of government involvement once it started. CDCs came into existence in New York City in response to "white flight" and the fiscal crises of the 1960s and 1970s that followed. CDCs individually filled the market failures in their local communities nearly fifty years ago, and today, by banding together, CDCs can again fill the market failures in their communities and beyond.

In New York City, studies have shown that CDCs that develop affordable housing create a longer-lasting community impact and are more prone to preserve affordability past regulatory-restriction periods than their for-profit colleagues. Conducting a qualitative and quantitative analysis on the impact of CDCs on urban neighborhoods, the Urban Institute found that physical redevelopment of neighborhoods by CDCs, and their efforts to involve community residents in that change, produced lasting effects on neighborhood quality.[5] Researchers cited a litany of positive effects resulting

5. Urban Institute, The Impact of Community Development Corporations on Urban Neighborhoods 4 (2005).

from CDC investment in a neighborhood, which include (1) demonstrating the potential market to outside investors by making leading investments in communities; (2) increasing property values; (3) raising the living standard for those occupying CDC homes and apartments or for those who work in CDC-supported economic development investments; and (4) stimulating community activism that endures beyond the specific development project and that becomes available for other community change efforts. By becoming the intermediary within neighborhoods between their community actors and citywide sources of financial, technical, and political support, CDCs lead citizen involvement in neighborhood improvement, which is "an extremely important contribution . . . unlikely to have been made by public agencies or private for-profit, developers."[6] CDC-owned housing has also been found to offer longer durations of affordability than for-profit privately-owned affordable housing. A recent paper published in the *Journal of Housing Economics* concluded that community-based housing is less vulnerable to expiring-use risk than for-profit, privately-owned affordable housing. Over time, this choice provides a greater investment return on City capital dollars.[7]

The history of community-based housing development through CDCs is a story of several generations, each arising out of the challenges and opportunities presented at that particular time. Each generation represents an innovation to the fundamental concept that local stakeholders are crucial to true sustainable development in poor areas. Essentially, in New York City, there have been three eras or generations of CDCs: (1) the early years when CDCs served as community leaders, bringing social and economic programs to neighborhoods; (2) the middle years when CDCs grew to become neighbor-based developers and landlords preserving abandoned private housing stock; and (3) the late 1980s to the present, which saw the advent of LIHTC and the ascension of private developers and mega-projects in affordable housing.

A. CDC 1G—Pioneers and Activists

The first generation of CDCs took off in the 1960s when the "notion that community residents could define and control development in their communities was considered radical."[8] Tired of the social service-oriented "war on poverty" narrative promulgated by the federal government, neighborhoods, churches, and community activists mobilized philanthropists and politicians to focus programs and funding on building new economic bases for development. The Bedford Stuyvesant Restoration Corporation in Brooklyn pioneered the CDC model by combining community control

6. *Id*. at 58.

7. Vincent Reina & Jaclene Begley, *Will They Stay or Will They Go: Predicting Subsidized Housing Opt-Outs*, 23 J. Hous. Econ. 1 (2014).

8. Neil R. Peirce & Carol F. Steinbach, Corrective Capitalism: The Rise of America's Community Development Corporations, Report to the Ford Foundation 12 (1987).

and economic development to build and rehabilitate housing in the neighborhood, spur job creation, and generate local businesses, while continuing to deliver social programs for its residents.[9]

B. CDC 2G—Scrappy and Sophisticated

The second generation of CDCs flourished in the 1970s and mid-1980s despite, and perhaps even because of, government austerity and major inner-city disinvestment. With New York City near bankruptcy and the Reagan administration's withdrawal of support for community development, new groups formed and organized in direct response to the effects of the economic and political environment at the time—landlord abandonment, resident flight, blight, crime, and arson. As described by Harold DeRienzo in his recounting of community development in the Bronx, "When conditions were truly terrible, many residents fled, but many others organized and fought back."[10] The innovation of the CDC movement in this second generation was not only its resilience in hard times, but the sophistication with which they pieced together complicated deals out of the matrix of banking, corporate, philanthropic, and public funding available to support community economic development as a vehicle to help poor communities. In doing so, CDCs became prolific housing producers in the city and across the country, replacing public agencies as the cornerstones of the low-income housing industry.

C. CDC 3G—Rise of the For-Profit Developer

The third generation of CDCs has seen their housing development efforts joined and often eclipsed by for-profit developers, whose involvement was spurred in large part by the implementation of the LIHTC. These tax credits are supply-limited: they are allocated by the Internal Revenue Service to states and local housing agencies, which then allocate them in a competitive process to for-profit developers or nonprofit organizations. Over time, nonprofits, at least in New York City, have witnessed a decrease in the proportion of tax credits allocated to them as compared to for-profit developers, in large part because for-profit developers propose larger-scale projects. Reporting on the proportion of affordable housing development between the for-profit and nonprofit sectors under Mayor de Blasio's housing plan, one reporter concluded that "[m]ost indications are that nonprofits play a considerable role, though for-profit firms generally dominate."[11] With the private financial incentives baked into LIHTC and other public-private partnership development initiatives, major for-profit real estate

9. *See* Bedford-Stuyvesant Restoration Corp. (2017), https://restorationplaza.org.

10. Harold DeRienzo, The Concept of Community: Lessons from the Bronx 47 (2008).

11. Jarrett Murphy, *Community Developers Say City's Housing Plan Leaves Them Behind*, City Limits.org (Apr. 4, 2017), https://citylimits.org/2017/04/04/community-developers-says-citys-housing-plan-leaves-them-behind.

developers have made affordable housing a substantial component of their overall real estate development strategy. These for-profit developers frequently bring broader scope, larger balance sheets, and more experience with large-scale projects. As a result of their proliferation into the affordable housing field, CDCs are struggling to stay competitive in the New York City affordable housing market.

With all of the countervailing forces, CDCs in New York City realized that they were at a crossroads. They could continue to try to compete one-on-one against the large, multi-borough, multi-state, for-profit real estate companies that have achieved the operational and economic scale to dominate. Or CDCs could change the paradigm.

III. CDC 4G—The Next Generation—JOE NYC

In a sense, the arrival of for-profit development in the affordable housing sector is born out of the success of the CDC movement. CDCs proved the concept that for-profit developers have perfected. The combination of seed investment, sophistication with funding options, and decades of sweat equity and community building by CDCs proved that investment in poorer neighborhoods can be profitable. In pursuit of this profit, for-profit developers have come to dominate the affordable housing market. Unfortunately, we are seeing the limits of for-profit dominance. When other options are more profitable than affordable housing, profit-maximizing firms will take those options. It now seems clear that CDCs are just as necessary in boom times as they are in bust times. With uncertain federal policies and market forces that favor abandoning affordability, CDCs must adapt to market demands. To compete in the affordable housing marketplace, and to serve their local communities, CDCs must collaborate.

In 2014, New York City's nonprofit community-based housing sector led an effort called "CDC 4G Initiative," in acknowledgment of their history and the need for a new generation of CDCs.[12] Comprised of Bedford Stuyvesant Restoration Corporation, Cypress Hills LDC, Fifth Avenue Committee, IMPACCT Brooklyn, Ridgewood Bushwick Senior Citizens Council (now Riseboro Community Partners), St. Nicks Alliance, Banana Kelly Community Improvement Association, MBD, Ecumenical Development Organization, Project FIND, West Harlem Group Assistance, Mutual Housing Association of New York, and Community-Assisted Tenant Controlled Housing, the Working Group retained a consultant team, which included Goldstein Hall, to assist in a two-year process to develop a mechanism to enhance the viability of CDCs, to help them preserve long-term affordability within existing projects, and to develop new projects.

Through the CDC 4G Initiative, the Working Group identified several challenges impacting their ability to compete in the affordable housing market place, specifically:

12. *See* JOE NYC, http://www.joenyc.org.

- **Geographic Limitations.** CDCs in New York City are often limited to community development activities within a certain neighborhood largely due to organizational history, reputation and roots in a neighborhood, and, more formally, purposes clauses. While a redrafting of the purposes clause is possible, the organizational pivot goes beyond the print. Major donors, foundations, and public grants or subsidies to the organization were, and are still, secured in many cases because of the organization's unique history and position in and among the community. To shift its purposes beyond the neighborhood that gave rise to the CDC is a major decision that involves an in-depth cost/benefit assessment, institutional will, and stakeholder support. Simply put, it is very difficult for a CDC that has had limited scope for decades to morph into a citywide institution. Furthermore, an expansion in mission from a neighborhood to a city may come at the cost of local expertise, attention, and support.
- **Underwriting Challenges and Diseconomies of Scale.** The new underwriting standards have made it almost a necessity for CDCs to joint venture. A mix of funding sources—philanthropic organizations, private banks, national intermediaries, and government agencies—have tightened underwriting standards and lowered tolerance for risk. The standards set have stacked against smaller developers like CDCs, requiring impossible, and to some arbitrary, levels of financial heft and experience to be considered for limited development funds. For example, in a bid opened for a project site in East New York, the City's housing agency, the New York City Department of Housing Preservation and Development (HPD), required the developer to have built a 150-unit building in the last seven years. Most members of the Working Group had never worked on a project with greater than 100 units, and, therefore, they were automatically excluded from the bidding process unless they joint-ventured with a larger developer.

  Furthermore, over time, geographic limitation and community preservation have undercut CDCs' competitiveness in the market. In pursuit of maintaining affordability in their communities, CDCs have saved portfolios of older, smaller buildings that no one else wanted. Non-CDC developers, without the burden of a community mission, typically own citywide portfolios consisting of larger, newer buildings. In general, larger buildings and larger portfolios bring economies of scale and are, on a per unit basis, cheaper to operate and more profitable to own. Most CDCs lack the scale necessary to achieve the economy of their non-CDC peers. The CDCs' smaller, more scattered, less profitable portfolios make for weaker balance sheets.
- **Scarcity.** Unlike decades past, and through sustained efforts, the stock of vacant city-owned land has all but evaporated. Development is no longer driven by free land, but by the ability to raise significant amounts of cash to acquire properties. What is still available by the City are smaller

scattered sites, resulting in more challenging and expensive projects. In addition, City policies distributing tax-exempt bonds and tax credits increasingly favor denser and bigger projects, narrowing the scope of funding sources available to developers with smaller-scale projects.

- **Silos.** While some projects are very profitable, others struggle to stay above water. Nevertheless, each project with public financing requires its own fixed level of reserves, which can only be used for that project. These siloed reserves eliminate any flexibility in the pooling or use of those funds to gain strength across a portfolio.
- **Reputational Damage.** Over the last decade, waste and abuse by a handful of organizations have smeared the reputation of all CDCs and eroded the scale of the sector. The reputational damage of a few actors has tarnished the sector despite evidence showing the value of nonprofit development to their communities.

As to the outcome by the working group, the working group examined the various alternatives from land trusts and revolving loan funds to mutual property management companies and real estate investment trusts (REITs) but found that no existing model could simultaneously address the challenges that they faced while maintaining mission, support, and subservience to the CDC4G members. Therefore, the Working Group decided to create its own model.

What resulted from these efforts in the spring of 2016 was JOE NYC, a new framework for CDCs to centralize and optimize the acquisition, management, financing, and refinancing of affordable housing projects citywide (and beyond) on behalf of CDCs, while CDCs themselves continue to focus on their own communities and stakeholders. In short, JOE NYC is a nonprofit membership organization that owns and manages the affordable multifamily properties that CDCs contribute to the JOE. In exchange for assigning ownership interests and properties to JOE NYC, CDCs receive a membership interest, a seat on JOE NYC's board, and a proportional share of net revenue. The umbrella ownership allows JOE NYC to drive efficiencies in asset and property management across the portfolio, while the shared scale and financial resources provides balance sheet strength to more favorably finance, refinance, and recapitalize contributed projects without having to joint venture with larger developers that they do not control. In addition, JOE NYC serves as a guarantor for CDC acquisitions.

IV. How JOE NYC Works

The framework proposed by the Working Group was new. The main innovations of JOE NYC that allow it to overcome the competitive challenges facing CDCs while meeting CDC members' organizational demands are the following:

- **No Geographic Limitations.** For JOE NYC to succeed and achieve the scale necessary to be a viable entity, JOE NYC does not have the geographical limitations or focus, unlike many of its CDC members. Instead, it is an entity that owns and controls property throughout New York City. By extension, the members that are not citywide organizations are now able to be citywide in scope without sacrificing their local expertise, mission, or support. Additionally, JOE NYC's expanded scope and culture of collaboration have produced ancillary benefits to its members. Because of their interactions in JOE NYC, member organizations working with JOE NYC that have overlapping jurisdictions are partnering to bid for projects together.

The danger of JOE NYC having citywide scope, however, is that it could become a competitor to each of its CDC members (much like the big developers that JOE NYC was created to combat). It was therefore extremely important to JOE NYC's members that, in addition to being organized as a membership and a supporting organization, JOE NYC explicitly has a non-compete provision in its corporate documents prohibiting JOE NYC from competing against its members. JOE NYC is therefore designed (and required) to support and enhance its members and their activities, not to replace them.

- **Consolidating to Achieve Economies of Scale, Underwriting Strength, and Cross-Subsidization.** By contributing properties to JOE NYC, the CDC members appoint JOE NYC as the owner of the property to the extent permitted by law, for a minimum of ten years.

  By consolidating asset management for a broad portfolio of projects, JOE NYC can achieve the economies of scale and efficiencies in, for example, the bulk purchase of energy, goods, and services that the individual members were not able to on their own. JOE NYC creates and implements asset-management standards that support best practices across the portfolio and limit regulatory and other compliance risks that organizations individually might find challenging to address.

  It is important to note that JOE NYC serves as an asset manager and not the property manager, which the CDC can continue to manage on the local level. However, in its oversight of property management as a component of its management of its portfolio assets, the board of directors can decide to replace a failing manager in consultation with JOE NYC's staff and the Asset Management Committee of the board. This level of oversight aims to correct reputational issues caused by bad actors in the management of affordable housing that has negatively affected the entire sector.

  Furthermore, by amassing a large citywide portfolio, JOE NYC and its contributing CDCs can achieve the strength and size now required by lending agencies and institutions to acquire and recapitalize existing projects, obviating the need to joint venture with a larger unrelated, likely for-profit, developer. JOE NYC can also use the portfolio assets to support guarantees for further acquisitions and recapitalizations, either for member CDCs or for JOE NYC itself, a requirement that most CDC members cannot meet on their own. JOE NYC also becomes responsible for the administration of the project's reserves and can elect to create a tier of portfolio-wide reserves, which allows for flexibility and deconstructs the silos of project financing to which affordable housing development often falls prey.

Finally, in acquiring CDC assets, JOE NYC is typically only acquiring the beneficial ownership of the projects and leaving fee title in the name of the titleholder, any entity solely controlled by the JOE NYC member. This option permits local control, recognition, and continued involvement of the local CDC to the project in addition to the local CDC's control over property management.

- **Mission-Based Membership.** Setting up JOE NYC as a not-for-profit corporation was an essential requirement of the Working Group as the members wanted to use a structure that reflected their own. Making JOE NYC a membership organization was also critical to ensure that the CDCs always had the reigns of this new giant and potentially competitive beast.

  Furthermore, the members insisted that JOE NYC be organized as a supporting organization for federal tax exemption purposes, requiring it to be organized and operated exclusively for the benefit of its members. As a Type I supporting organization, JOE NYC must be operated, supervised, or controlled by its supported organizations, in this case by providing each supporting organization with the ability to appoint a director to the board.

- **Balancing Democracy, Decision-Making Efficiency, and Equity.** As stated, JOE NYC is a membership corporation. It has four classes of members—Classes A through D. Class A members are nonprofit organizations who have contributed housing assets to JOE NYC in exchange for a seat on the board and full economic benefits of membership. Class A members are essentially CDCs. Class B members are nonprofit organizations that contribute projects to JOE NYC and do not desire to be active participants in governance, but that do desire the economic benefits of being a member. Class B members are houses-of-worship and nonprofits that are not typically engaged in housing work but that have acquired affordable housing over time, which has occurred frequently with HUD 202 projects. Class C members are nonprofit organizations that have signed a contribution agreement, pledging assets to JOE NYC, but have yet to transfer any of these assets to JOE NYC. Class C members will become either Class A or Class B members once any asset is transferred to JOE NYC. Class C members have the rights to appoint a non-voting member to the board, but, because they have not yet contributed any assets to JOE NYC, they receive no economic benefits. Class D members are mutual housing associations, community land trusts, or tenant association-controlled buildings organized or managed by a member of JOE NYC. Class D members only have advisory rights.

At the core of JOE NYC's structure is the requirement that each Class A member receives one vote on the board, regardless of the number of units or the value of the properties contributed. This arrangement ensures that no one group dominates the governance of JOE NYC and preserves the democratic nature that existed in the CDC 4G Working Group, which strove for consensus and, whenever possible, unanimity. The members realize, however, that unanimity is not always practical or even possible. In creating JOE NYC, the members recognized one of the complaints, and perhaps a competitive weakness, of nonprofit entities is the speed—or lack thereof—with which nonprofits make decisions. JOE NYC thus has created a decision-making process and uses committees to make major decisions in a timely fashion. The JOE NYC membership agreement spells out in detail which decisions require unanimous consent and which decisions do not.

While each member receives just one seat on the board regardless of how many properties they contribute, members receive a pro-rated share of the net cash flow of projects contributed to JOE NYC, which they can use to fund other community development projects or operational expenses. The formula for proration is not one-size-fits-all and is based on a matrix of factors including the contributed property's debt burden, operating income, reserves, and other liabilities. The tailored proration approach ensures that each contributor is remunerated according to the quality and value of the properties put in.

- **Flexible Legal Structure.** The Working Group was intrigued by the concept of a REIT because the central components of a REIT—pooled assets, diversified risk, distributed income, and strong corporate governance—provide a strong counterbalance to individual CDCs owning and operating their own units. However, as stated, the Working Group wanted an entity that emphasized the mission of long-term affordable housing preservation over profit. Additionally, from a practical viewpoint, the startup costs and the ongoing legal and accounting costs for maintaining a REIT, as well as the practicality of attracting outside investors, seemed daunting and not the best use of the Working Groups resources. Furthermore, because JOE NYC is a tax-exempt nonprofit AND because the CDC members are tax exempt, the tax benefits of a REIT, which make it most attractive to investors, were of no benefit to the CDCs. However, the CDC members wanted to leave the door open for private investment, as with a REIT, in the future. To accommodate a future private investment, or even integration of a REIT, JOE NYC is the sole member of a limited liability company, and it is that limited liability company that is the owner of the affordable housing projects.

V. JOE NYC's Successes to Date

Since JOE NYC's inception, JOE NYC has acquired over 1,000 units of housing. Some of these units have come from CDC members, and some units were units from private developers that were at risk of turning to market-rate. The goal by the end 2019 is to acquire another 2,000 units. Here is an example of how JOE NYC has been effective in preserving affordable housing to date.

- The Jefferson and Watkins Cluster—Preserving a LIHTC Partnership from Going Market Rate

JOE NYC closed its first deal in early 2017: the purchase of 43 buildings (248 apartments) in Central Brooklyn known as the Jefferson and Watkins Cluster. JOE NYC partnered with one of its members, St. Nick's Alliance (St. Nick's), which will continue managing the apartments that were previously owned by a for-profit developer as part of a tax-credit arrangement, the first-ever such deal in New York City.

When the owner of the project decided to retire, she wanted to make sure her housing assets wound up in good hands, but she also wanted top dollar. Normally, a nonprofit would not have been able to muscle the financial resources and agency support necessary to close on an acquisition of 248 units, particularly in an area of Brooklyn that is experiencing a substantial real estate boom, but, because of grant resources and support of JOE NYC, St. Nick's and JOE NYC were able to acquire the project in February 2017, ensuring the 248-unit portfolio will be maintained as affordable over the long term in a gentrifying area of Brooklyn.

In a hot real estate market, the Jefferson and Watkins Cluster was the first deal of its kind in New York City where a nonprofit purchased the general partner interest of a private developer's interest in an expiring LIHTC partnership. This development demonstrates how JOE NYC has become a game changer, allowing nonprofits to preserve expiring LIHTC units that for-profit owners may want to turn to market-rate projects. The Jefferson and Watkins Clusters became a model that JOE NYC used later to purchase the general partner interest in another for-profit developer's LIHTC deal, known as the Intervale Cluster. The private developer who controlled the general partner in the Intervale LIHTC partnership put the property on the market looking for the highest bidder. Here, JOE NYC with two of its members stepped in and put together a financial bid that bested any of the private bidders.

It is uncommon for nonprofits to consider purchasing a private developer's interest in a LIHTC partnership because it is often challenging for nonprofits to muster the necessary financial resources that it requires. However, JOE NYC has enabled its members to gather the necessary financial resources to be competitive and outbid for-profit developers for the Jefferson and Watkins and the Intervale Clusters. Additionally, JOE NYC was able to marshal the support of the City's housing regulatory agencies and tax-credit investors in those deals because of its commitment to extending affordability beyond the current regulatory periods. Lastly, JOE NYC is now using the Jefferson and Watkins Cluster and combining it with other JOE NYC members' portfolios in a major restructuring of LIHTC projects with expiring use requirements to preserve over 500 units of affordable long-term housing.

VI. Applicability to Other Jurisdictions

While JOE NYC is a model that was designed to address the competitive challenges that CDCs faced in an overheated big-city real estate market, the model of collaboration, resource pooling, risk-sharing, and scale is equally applicable to real estate markets with inadequate market activity. The applicability and replicability of the JOE NYC model in other large cities is obvious: scale creates financial strength necessary to compete. But in struggling financial markets, scale and collaboration can create the financial strength and risk diversification needed to keep individual projects afloat and individual CDCs solvent. CDCs, like many nonprofits, are increasingly competing against each other for limited dollars and are under constant pressure to merge or consolidate. A joint-ownership can satisfy funders and stakeholders' desire for collaboration and merger while maintaining the individual existence, history, and expertise of the individual CDCs.

Critical to JOE NYC's success has been support from foundations and other supporters. JOE NYC has at least three attributes that are attractive to donors: (1) JOE NYC is seen as an innovation and a new take on CDCs that impacts low-income people on a citywide scale, with donors willing to fund start-up costs during JOE NYC's infancy period until the entity acquires and controls a sufficient number of units for it to generate positive cash flow and support itself; (2) the funds invested by donors leverage other dollars, largely from public sources, to support JOE NYC and to create affordable housing; and (3) the team was impressive—the member CDCs, JOE NYC directors, and consultants to JOE NYC are a virtual who's who of affordable housing. Start-up capital/donations/grants are likely to be necessary for any joint-ownership model, and assuring these three attributes is likely to be essential.

Also critical to JOE NYC's success has been its scale. In New York City, a citywide scope made sense to the City's affordable housing regulatory agency. The market pressures in the City are largely the same, as well as the mission and vision of the CDC members. A citywide or metro-area scope, like that invoked for JOE NYC, may make sense for other metro areas such as Boston, Chicago, Austin, or Los Angeles. For less dense areas of the country, a joint-ownership entity's scope may need to include an entire region, state, or even multiple states. What matters in determining the scope of the joint-ownership entity is a commonality of challenges faced by the CDCs, a willingness and ability (frequently logistical) to work together and meet for the creation and operation of the joint-ownership entity, and the buy-in and support from stakeholders including affordable housing regulatory agencies, boards of directors of individual CDCs, and philanthropic supporters.

Support from the local regulatory authorities, lenders, and investors is also critical. The JOE NYC structure is complicated and unprecedented. Transferring assets to JOE NYC requires the approval of mortgagees on those assets, HPD, and frequently LIHTC investors. These stakeholders will not approve a transfer to an entity that they do not understand or for which they see no value. While we have been successful in gaining support from these parties, the mechanics of gaining approval has taken much longer than expected and has therefore affected the timeline to self-sufficiency. Any future joint-ownership endeavors should account for this "on-boarding" time for the assets and involve these stakeholders as early as possible.

Also, while JOE NYC is a nonprofit membership organization, which provided familiarity and comfort to its member CDCs and their boards, the commitment that JOE NYC requires from its members (and their boards) is substantial, maybe even unprecedented. JOE NYC requires that CDCs contribute assets that they currently own to JOE NYC for at least ten years. Even though many New York CDCs face an existential crisis (even if it is many years off), and many of their assets are troubled, convincing members to transfer their assets can be a herculean effort. While we addressed many of the members' fears by providing for local control over their projects, equal representation on the board and a non-compete clause, ceding ownership and asset management to an entity in which they are only one vote among many was a tough sell. Convincing CDC members and their boards required an appeal not only to their sense of survival, but also to their commitment to CDCs as a sector and their overall commitment to permanent affordable housing at deeper levels of affordability throughout the City. Ultimately, however, CDC members and their boards had to understand what was in it for them. They had to understand the business case and value proposition for the CDC itself. In short, we found that no matter how egalitarian a CDC and its board may be, they still have an obligation to *that* CDC and *that* community, and they will not join a joint-ownership entity or contribute their assets unless it is in the self-interest of *that* CDC.

Notwithstanding the trepidation of CDC members and their boards, JOE NYC is about as full of a collaborative commitment as they can make while preserving their individual existence and interest in affordable housing. We realize that this model may not be right for all CDCs. There are many models between no collaboration and joint-ownership that CDCs could employ to strengthen themselves, their sector, and affordable housing. For example, as discussed previously, the CDC 4G members considered a collaborative asset manager and bulk-purchasing cooperative.

While this solution was abandoned by the CDC 4G members because it ultimately did not create the balance-sheet strength needed to address the underwriting needs of the CDC members, a collaborative asset manager and bulk-purchaser could meet the needs of CDCs that do not have those constraints. For instance, in sunny, dry places in the country where solar power is prevalent like Arizona, a collaborative asset manager and bulk-purchaser would be able to negotiate solar installation and power purchaser agreements on a scale and terms that individual CDCs could not achieve.

VII. Conclusion

The challenges faced by CDCs in New York City today are not unique. But neither is the set of tools available to them through a collaborative asset-management model like a joint-ownership entity. Where scale and financial heft are increasingly becoming the deciding factors in how funding is distributed, community-based developers must unite assets and management to achieve the goal of sustained affordability in CDC target communities.

But the relevance of JOE NYC is not limited to major metropolitan areas. JOE NYC can be a model for any group of CDCs that are struggling to further their mission—whether it be the result of an economic boom or bust. While we think the applicability and replicability of JOE NYC to other major metropolitan areas is clear, we also believe that collaboration among CDCs in any region will strengthen CDC members and increase affordable housing. The coming together of community-based nonprofits, either in joint ownership or in other collaborations, can (1) foster collaboration between members that did not exist in the past; (2) create economies of scale that will allow CDCs to achieve better cash flow; (3) diversify risk and create more income; and (4) preserve and increase affordable housing units, particularly those with expiring rent restrictions. Where CDCs engage in joint ownership, as with JOE NYC, they can also create a stronger balance sheet that will allow members to compete more aggressively for limited affordable housing funds and projects. The success of these CDC collaborations, however, requires a clear understanding of the market challenges, an identification of the control needs of CDCs, a detailed explication of how control and money are to be allocated, and a simple explanation of the value proposition for local CDCs. It must also have early stakeholder—lender, investor, regulator, donor—support. In sum, JOE NYC and other forms of collaboration are the next evolution for CDCs, which are necessary to make CDCs more competitive, more profitable, and more able to meet the affordable housing needs of their communities and beyond.