Will Others Jump on the Rouse Bandwagon This Time?

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This article focuses on the Enterprise Foundation, a unique organization dedicated to the expansion of the low-income housing supply in central cities. Its uniqueness lies primarily in its private sector "roots." The author examines the Foundation's goals, organizational structure, and methods of operations. Included in this discussion is also an inset explaining the interaction between the Enterprise Foundation (EF) and the Enterprise Development Corporation (EDC), a private development corporation. In addition, this section provides an analysis of the financial and legal structure of a successful EDC project in Norfolk, Virginia.

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The entry of private sector actors into the domain of urban revitalization is not a new phenomenon. For the past ten years, the public and private sectors have joined forces in redeveloping the central cities of many large metropolitan areas. Private sector participation, however, has been conditional. That is, it has been confined to profit making ventures, which tend to be large-scale commercial projects. Low-income housing efforts, on the other hand, have been initiated primarily from within the public sector arena.

One noticeable exception is the Enterprise Foundation, a non-profit foundation funded by its profit-making subsidiary, the Enterprise Development Corporation. These two organizations are the creation of James Rouse, innovative developer, trendsetter and founder of the Rouse Company. The Foundation's objective is to lend financial and construction assistance to urban neighborhood groups throughout the country.

more than just housing

The creation of the Enterprise Foundation is important for a number of reasons. First, it reflects a trend of private sector involvement in low-income housing and secondly, it uses innovative approaches to finance and organize neighborhood efforts. From both the perspective of planners and Enterprise staff members, the Foundation's most impressive feature is its creation of a successful model for improving and expanding the housing stock for the poor and providing essential human services and employment training in low-income urban neighborhoods.

Financing the Foundation

In 1982 the Enterprise Foundation was established with a million-dollar contribution from James Rouse and a million-dollar grant from the Atlantic Richfield Corporation. Although the starting budget was meager relative to the sizeable tasks on its agenda, the Foundation was formed with an extensive and creative financing scheme in mind.

At the same time that the Enterprise Foundation was created, Rouse established the Enterprise Development Corporation, a profit-making real estate development firm owned by the Foundation. This corporation was designed to eventually finance the Foundation and make the Enterprise Foundation a self-sufficient unit. Until the Development Corporation's profit margin was large enough to accommodate the financial needs of the Foundation, Rouse intended to solicit financial commitments from corporations and private individuals.

Thusfar, the Development Corporation has been unable to fully finance the Foundation, although it forecasts cash flows to the Foundation in excess of one million dollars annually by the late 1980s, with estimates of ten million dollars in the 1990s. The bulk of the Foundation's current source of funds is through grant money. Commitments supporting the Enterprise Foundation now total $17.4 million, toward a goal of $25 million.

Waterside

By developing smaller scale versions of the "Rousian" festival marketplaces, the Enterprise Development Company (EDC) hopes to accomplish the dual goal of providing an impetus for central city revitalization in medium sized cities while making money to support the Enterprise Foundation.

The biggest and most successful of EDC's projects to date is Waterside in Norfolk, Virginia. Waterside consists of 80,000 square feet of retail space which supports 115 specialty merchants and restauranteurs. It has a large open area next to the waterfront, a 6.5 acre city park, a marina, and a 625 space parking garage adjoining the marketplace. Food sales alone in June, 1983 were close to $2.3 million, and the project expects at least six million visitors a year, spending close to $25 million.

The legal and financial structure of the Waterside project is somewhat complex. At one level, the project is a "joint venture" between the City of Norfolk and Waterside Associates. Although this is a prime example of a "public-private partnership," the legal relationship is not a partnership at all. Rather, there are two independent parties bound together primarily by a lease, a loan contract and other miscellaneous agreements. The legal partnerships between Waterfront Enterprises (a subsidiary of Harvey Lindsay & Company) and Norfolk Marketplace, Inc. (a subsidiary of EDC). This partnership operates under the name of Waterside Association.

The City of Norfolk, through the Norfolk Redevelopment and Housing Authority and other agencies, provided a $9.8 million direct loan to Waterside Associates. Additionally, it arranged for a loan of up to $5.4 million from a consortium of banks to be channelled through the NRHA. The city also paid $2.34 million outright for site acquisition and demolition for the Waterside tract and the accompanying garage property, and $1.25 million to build the foundation for other related improvements to the area. All told, the city spent $33.23 million on all aspects of this project, $14 million of which was a loan at 12% interest.

Waterside Associates had no upfront investment except for time, expertise, overhead and other unaccounted development expenses. The partnership did have a contingent liability, however. If the project had cost more than $15.2 million to build, Waterside Associates would have had to "lend" the excess money to the project, and would only be paid back from project income after all operating expenses and debt service had been covered.

Although the city invested a great deal of money in this project, its potential rewards are great as well. If the project is successful, the city will receive an extra $25 million in taxes over 30 years. This tax increase will come from an increase in sales, food and beverage and property taxes. Additionally, the city will be paid back its $9.8 million loan at 12% interest, or about $1.2 million per year, and another $0.5 million to pay back the loan from the consortium. When the project achieves a positive cash flow, the city will also obtain 50% of the net cash flow (estimated to be $48 million over 30 years). In addition to these financial renumerations, the city has already obtained national press coverage (increasing its attractiveness for conventions and tourism), amenities for its residents, and impetus for other revitalization efforts in downtown Norfolk.

Waterside Associates, if the project is successful, will receive management fees for managing the project and $225,000 a year as an "incentive fee" for taking the development risk. If it had paid any excess costs these would be returned to it, and it will also earn an estimated $48 million over 30 years in net cash flow.

By combining the corporate structure with the fact that it had little direct financial investment in the project, EDC was able to achieve very limited liability. Not only is the Enterprise Foundation not liable for any failures on the part of EDC, but EDC itself formed a subsidiary to handle the Waterside project so that its other projects in other cities would not be jeopardized if Waterside failed.

EDC took advantage of the tax code by avoiding double taxation of corporate earnings and by passing some of the tax benefits on to Harvey Lindsay and Company through the limited partnership. The first of these tax advantages came from the fact that although EDC is a taxable corporation, the dividends it pays to the Enterprise Foundation are not taxed, since the Foundation is a non-taxable entity. The second tax advantage comes from the fact that real estate development often has taxable losses associated with it in the initial years. These losses can be attractive tax shelters if one has other income which needs a shelter, which may be one reason EDC entered into a partnership with Harvey Lindsay and Company, in order to pass some of the tax advantages along to them in exchange for valuable consideration.

The Philosophy Behind the Enterprise Model of Revitalization

The primary goal of the Enterprise Foundation, as stated in its 1984 Annual Report, is "to help the very poor help themselves to decent, livable housing, and out of poverty and dependence into self-sufficiency". It plans to accomplish this goal by building a national network of non-profit neighborhood groups. The Enterprise Foundation is not interested in simply performing the paternalistic task of allocating funds to the neighborhood groups it deems worthy. Instead, it views its role as "partner" to these local groups.

localized approach

In 1985 the Foundation expanded the Enterprise Network to 27 groups in 15 cities. The Network now includes: Oakland, California; Denver, Colorado; Chicago, Illinois; Omaha, Nebraska; Detroit, Michigan; Cleveland, Ohio; Pittsburgh, Pennsylvania; Philadelphia, Pennsylvania; Baltimore, Maryland; Lynchburg, Virginia; Dallas, Texas; Nor-

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folk, Virginia; Wilmington, Delaware; Boston, Massachusetts; and Washington, D.C. The Enterprise Foundation employs a staff of field officers who are each assigned to four cities. This organizational policy allows each officer to develop a rapport with neighborhood group members and to procure an understanding of the special problems and constraints of a particular locality.

neighborhood group involvement

The partnership approach of the field officers toward the neighborhood groups is especially important in light of the Enterprise Foundation's strong belief in helping these groups help themselves. In an interview, Enterprise Foundation President, Ed Quinn, stated that he believed many public housing efforts had failed primarily because of a lack of community input. Without community involvement, there can be no sense of responsibility for, or commitment toward, maintaining the improvements made by a neighborhood group. This kind of detachment from housing projects inevitably leads to failure, regardless of who initiates the project.

The Enterprise Foundation's commitment to neighborhood involvement and its partnership-style relationship with neighborhood groups is reflected in one of the Enterprise's primary objectives: "to use the effective work of neighborhood groups in providing human services for the very poor." The importance of neighborhood involvement in the Enterprise revitalization process can be seen even more clearly in its criteria for neighborhood group selection into the Enterprise Network.

The neighborhood groups must meet the following requirements: maintain a strong neighborhood base; work with the very poor; involve residents in the housing development process; use volunteers; raise funds from their own commitments; assist residents in the management and maintenance of their properties; provide services such as job training and placement, health services, child care, early education, and recreation; receive institutional backing from a stable organization in the community; and seek to prevent displacement.

In addition to the criteria requiring organizations to demonstrate their level of community participation, the Enterprise Foundation believes that it is also important for these neighborhood groups to be involved in providing a variety of human services, in addition to housing. Although assistance from the Enterprise Foundation is mainly directed toward housing, Foundation officials believe that the absence of a comprehensive approach to urban revitalization decreases a housing project's chance for success. To this end, the Enterprise Foundation established job placement centers in four cities last year — Oakland, Chicago, Detroit and Philadelphia. The original placement center, which is located in Washington, D.C., Jubilee Jobs, placed 558 unemployed people last year.

The Enterprise Mission

The Enterprise Foundation perceives the two biggest road blocks to providing decent, affordable housing for low income households as (1) the cost of construction and (2) the cost of financing.

Several methods of reducing the cost of financing have been developed during the past two years. All of them involve the Enterprise Social Investment Corporation (ESIC), a for-profit subsidiary of the

Enterprise Foundation. ESIC's main function is to raise funds for the Foundation. Some of its fund-raising activities include the following:

(1) the equity syndications of properties owned by non-profit neighborhood groups. The equity interests of these non-income-producing properties are sold to individuals interested in tax shelters. Under this syndicated form of ownership, ESIC often acts as co-general partner in conjunction with the neighborhood group, and equity investors maintain a limited partner status. The general partners retain full control of the properties and bear full liability for the project. The limited partners receive any of the tax savings generated by these properties.

(2) the development of financial packages which maximize the use of available public and private funds. Most finished packages include Enterprise grants, Housing and Urban Development (HUD) grants, syndications, corporate donations, and commercial bank loans.

(3) the recent initiation of a campaign encouraging investors to lend loans at low interest rates. This effort helps ESIC establish a reliable, predictable source of very low-interest loans for neighborhood groups, enabling them to acquire and rehabilitate property. These groups often acquire tax delinquent or abandoned housing as well as housing held by the city for sale at a public auction.

Obtaining commercial bank loans usually requires some negotiation on the part of Enterprise officials, but Enterprise Foundation field officers are often successful in eliciting creative financing suggestions from bank officials. For example, in Lynchburg, Virginia, the Enterprise Foundation deposited $180,000 in the United Virginia Bank at 6% interest as collateral for a loan to be issued to a neighborhood group. With this type of credit enhancement, the bank granted 100% financing for 20 new homes.

To address the problem of high construction fees faced by many neighborhood groups, the Enterprise Foundation organized the Rehabilitation Work Group (RWG) charged with finding ways of reducing the construction costs of rehabilitation. The RWG consists of ten members who have substantial experience in housing construction. In 1983, the RWG staff studied the cost-saving construction techniques of a group in New York City. This group organized tenants to restore badly deteriorated buildings that the City had seized for tax delinquency. With sweat equity and small grants from the city, this New York group made units fit and liveable at costs as low as $2500 per unit.

Other RWG activites include: (1) preparing guidelines for acceptable livability standards that avoid costly structural changes, inappropriate for low-cost rehabilitation; (2) assisting neighborhood groups through cost evaluations prior to purchase; (3) negotiating bids with small contractors that permit the use of volunteer laborers and neighborhood construction crews when possible; and (4) helping neighborhood groups draft rehabilitation plans and specifications which allow these groups to act as their own general contractors.

innovative construction approaches

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After - - - Jubilee Housing in Oakland, CA

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The Foundation's Role as Model

"How many more U.S. cities and neighborhood groups is the Enterprise Foundation capable of assisting?" was a question posed to Ed Quinn during an interview conducted for this article. He explained that the Foundation would continue to expand, but that, of course, the scope of the problem is too large for any single organization or foundation to handle. The Enterprise Foundation is striving to produce a successful revitalization model for others to follow as well.

is there a limit?

The Enterprise Foundation model offers methods for financing and implementing low-income housing revitalization projects. With a successful model available, it is more likely that benefactors from both the private and public sectors will become involved in the revitalization procress.

It would be naive to think that all private sector benefactors would choose to undertake "Rousian-scaled" human services projects since most entrepreneurs, by definition, are self-motivated individuals interested in maximizing profit. Rouse's motivation for working with the poor stems primarily from his religious convictions and therefore might be unique. On a more optimistic note, it is conceivable that the existence of this model might encourage some large-scale developers to dedicate staff time to local non-profit groups for such business-related reasons as public and community relations. It may still induce some other technically-oriented professionals, with an interest in social issues, to provide pro bono assistance. Finally, having completed many projects, neighborhood groups are able to approach benefactors with specific requests that include a time frame. Professionals are more apt to respond to such time-specific requests.

the model's purpose

In sum, the Enterprise Foundation should be credited for its creation of a model to guide the efforts of private individuals, local firms, corporations, and government agencies interested in participating in the urban housing revitalization process. It must also be acknowledged as a unique and very worthwhile social institution by itself. By virtue of its name and association with James Rouse, the Foundation has already aided and legitimized many hard-working neighborhood groups, and its continued prosperity will help secure these tenuous, but much-needed human service organizations in the future. ☐

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older areas a sense of opportunity that is best expressed by the idea of a "service rich neighborhood."

The resources, the women and men and their homes are there. The viability of home-based services has been proven by children's day care and their potential for growth suggested by the bed and breakfast movement. The growth of "systems" is showing the way to overcome many of the problems of home-based services, including quality control. The variety of home-based services has already been indicated by individual examples in many parts of the country. The challenge is whether or not land use planners and others can broker the release of people and housing as service providers, and on what scale, for what variety of services. At this point, it appears that a large part of that brokering will focus initially on the growth of systems of home-based providers. Those systems will offer many older women the opportunity for career growth building on their existing base of caregiver skills. The use of systems for satelliting will also offer social service providers an opportunity for expansion during a time of cutbacks. ☐

NOTES

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