The Role of Predevelopment Financing

Embarking on the development of supportive housing takes a lot of planning and a lot of resources – both in staff time and in funding. To be effective in housing development activities, and to be able to move a project forward in a timely manner, an organization needs access to resources to pay for predevelopment activities – the earliest activities in the development process necessary to establish initial plans for the project and to assess the feasibility of the project's successful completion and operation.

While some of these activities may only require staff time and not incur costs, others, such as engaging the services of consultants, performing a market analysis, initial architectural drawings, evaluating potential sites, and obtaining site control, will require financial resources to pay for the associated costs. There is risk involved in paying for such costs, as there is no guarantee at the time of outlay that the project will be completed or that funding accessed later in the development process will pay for all of these costs.

The money to pay for such predevelopment activities may come from an organization's existing resources, perhaps from a pre-approved line of credit, or from unrestricted cash assets. An organization may also seek to raise additional funds through foundation grants, corporate donations, a special fundraising event, an appeal for donations, or other resource development activities.

Regardless of where the resources come from, it is important to keep track of each dollar spent on the project from the very beginning – while not all financing sources will go back in time and fund items already paid for, many construction and permanent funding sources will cover predevelopment expenses if the project is being completed.   (Note: For descriptions of the different types of financing involved in supportive housing development, see the tools under *Assembling the Financing* in the *Development and Finance* section of CSH's *Toolkit for Developing and Operating Supportive Housing*, available at www.csh.org/toolkit2/development.)

Applying for Predevelopment Financing:

Many organizations will not have access to existing cash resources to pay for such costs, and will need to seek predevelopment funding from a variety of sources, including government entities, banks, and intermediaries (including CSH). In considering these requests for funding, these sources will require detailed information regarding the proposed project and the organization before agreeing to lend or grant funds. Most of these sources have written application materials that clearly define their process and the information required.

Note: This document is included within the *Development and Finance* section of CSH's *Toolkit for Developing and Operating Supportive Housing*, which is available at www.csh.org/toolkit2.

The requested information is designed to help the funder develop confidence that the project is feasible, that their investment is secure, and that the completed project will meet the goals of the original source of the money. The review process for lenders is called "underwriting," and involves: assessing the risks associated with lending a project funding; and evaluating the likelihood that the loan will be repaid in accordance with their terms and conditions.

At the earliest stages of a development process, it may be impossible to provide all of the information requested by predevelopment funders - but such funders typically understand that not everything can be known about a project at this early stage in its development. In most cases, funders will look for an explanation of the plan to get or develop the unavailable information in the future. This plan may include utilizing the requested funding to pay for costs associated with producing the necessary information.

As difficult as it may seem to compile all this information about a project at the very earliest stages of development planning, all such information will also be critical for applications for construction and for permanent project financing later in the development process.

Required Information:

The *Predevelopment Financing Application Requirements* table on the following pages is based upon CSH's Application for Funding and identifies the kinds of information that funders will require for requests for predevelopment financing. Not all funders will require the exact same information that CSH requests, and others may require additional items. This table also identifies the types of documents that will be required to fulfill the information request, as well as who might need to be involved in preparing the information, including development consultants, architects, appraisers, environmental consultants, and others who prepare technical reports related to the development of such projects.

SECTION I: SPONSOR AND DEVELOPMENT TEAM INFORMATION		
INFORMATION REQUESTED	**DOCUMENTS / REPORTS NEEDED**	**WHO PROVIDES INFORMATION**
Organizational Background and Purpose • Information regarding organizational mission and history, including date established.	• Narrative descriptions.	• These descriptions can likely be prepared by an in-house staff person, a grant writer, or development consultant.
• Description of organizational structure, including any subsidiaries and affiliates.	• Narrative description and or organizational chart showing parent company, subsidiary and/or affiliates, if applicable.	• These descriptions can likely be prepared by an in-house staff person or a grant writer.
• 501(c)(3) IRS Determination Letter, Articles of Incorporation and Bylaws.	• 501(c)(3) IRS Determination Letter, Articles of Incorporation and Bylaws.	• The documents should already be in the organization's records.
Relevant Organizational Experience: • Housing development experience, including a brief description of projects completed and/or underway, including location, tenancy, date of construction completion, and primary sources of capital, operating and service financing.	• Narrative descriptions.	• These descriptions can likely be prepared by an in-house staff person, a grant writer, or a development consultant.
• Social service program experience, including any vocational service experience and activities, and identifying the target populations, number of people served and sources of funding.	• Narrative descriptions.	• These descriptions may be prepared by an in-house staff person or grant writer, but if partnering with another agency for supportive services, that organization's staff may be better equipped to prepare these narratives.
• Property management experience (if self managed) or description of property management firms utilized. Describe type of housing and size of portfolio.	• Narrative descriptions.	• If property to be self-managed, these descriptions can likely be prepared by an in-house staff person or grant writer. Otherwise, the organization providing property management services should provide information.

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Note: This document is included within the *Development and Finance* section of CSH's *Toolkit for Developing and Operating Supportive Housing*, which is available at www.csh.org/toolkit2. The requirements identified in this table are based upon the requirements for requests for financing through CSH, including project initiation loans, predevelopment loans, and acquisition loans.

INFORMATION REQUESTED	DOCUMENTS / REPORTS NEEDED	WHO PROVIDES INFORMATION
Key Staff and Board Information: • Description of staffing structure, including number of staff and organizational chart, if available. • Brief profiles or resumes of key staff positions assigned to this project. • Information regarding Board of Directors, including: name, affiliation, and profiles of key members; terms and average tenure; frequency of meetings; and any other relevant information.	• Narrative descriptions or organization chart showing management and staffing structure. • Biographical paragraphs and/or resumes. • Board of Directors roster, including names, affiliations, terms, and identifying all Board officers.	• If not already available, these descriptions can likely be prepared by an in-house staff person or a grant writer, or a development consultant.
Organizational Financial Information: • Audited financial statements for the last 2 fiscal years. • Current unaudited financial statements. • Government funder and/or bank references, as applicable.	• Last two financial audits. • Current unaudited financial statements. • List of references.	• Third party auditor. Small organizations that have not had financial audits performed may need to establish such audit procedures prior to initiating housing development activities, or partner with a larger, more financially-established organization. • In-house financial staff or agency's accountant. • In-house financial staff or agency's accountant.
Development Team: • Names and experience of the development team, including the developer, architect, general contractor, development consultant, and any other key team members already identified.	• Narrative description of composition of team and brief biographical paragraphs and/or resumes.	• These descriptions could be prepared by an in-house staff person with housing development experience or by a development consultant.

SECTION II. DESCRIPTION OF PLANNED PROJECT AND PROPOSED SITE

INFORMATION REQUESTED	DOCUMENTS / REPORTS NEEDED	WHO PROVIDES INFORMATION
Project Site / Building Information • Indicate whether project involves acquisition, new construction, moderate or gut rehabilitation. • Total number of units and number of supportive housing units (if different). • Drawings or specs of the site/building, if available. • Size of and amenities in apartment units, including kitchens and baths. • Physical description of the building(s), floor layout, and common and program space.	• Both narrative descriptions and drawing or specs of the site/building.	• An architect will need to prepare drawings for new construction projects, but such drawing may not be required at the time of applying for predevelopment funding.
• Information regarding zoning status.	• Copy of zoning analysis and/or verification of current zoning.	• An architect may need to prepare a zoning analysis for new construction on vacant land. For existing projects, zoning information may be included within the Appraisal (below), although additional verification may be requested.
• Information regarding environmental issues, including Phase I Audit, if available.	• Phase I Environmental Assessment	• An environmental consultant will be needed to prepare the Phase 1 report, and some funders may have lists of approved consultants whose reports they will accept.
• Copy of Appraisal, if available, or other documentation of value of site/building.	• Property Appraisal documenting the market value of the property to be purchased and/or developed.	• A professional appraiser will be needed to prepare the Appraisal, and some funders may have lists of approved appraisers whose reports they will accept.
• Preliminary title report, if available.	• Title report.	• A Title Company prepares the Title Report, identifying what mortgages or liens are currently held on the property.
• Information regarding current tenancy, relocation issues and plan, if applicable.	• Relocation plan, if applicable.	• Inexperienced agencies should strongly consider hiring a relocation consultant to prepare the Relocation Plan and manage the relocation process.

INFORMATION REQUESTED	DOCUMENTS / REPORTS NEEDED	WHO PROVIDES INFORMATION
• Current ownership of the building(s) and status, form and length of site control; copy of option agreement, purchase contract, and information on terms regarding deposits and contingencies	• Evidence of site control, such as copy of option agreement, purchase contract, or other related documents.	• Experienced real estate professionals will be needed to negotiate agreements. Obtaining site control typically involves putting money down to hold the property (deposit, earnest money) or buying the property outright. This is especially true in competitive real estate markets where options to buy with longer time frames are not easily obtained
Neighborhood Characteristics • General description of neighborhood including demographic information, such as income levels and racial composition. • Description of amenities in neighborhood and near block where project is sited (e.g. shopping, public transit, employment opportunities, healthcare, etc.). List any current supportive or affordable housing projects that are close to the site. • Community support and/or resistance to project, including information regarding all public approval processes and strategies to gain community support.	• Narrative descriptions. If any community approvals have already been received, that information should be included.	• These descriptions can likely be prepared by an in-house staff person or development consultant, and information regarding the neighborhood will also be included in the Appraisal and Phase 1 reports.
Targeted Tenancy and Conditions of Occupancy • Targeted tenant population and referral sources. • Tenant eligibility requirements and selection process.	• Narrative descriptions.	• These descriptions can likely be prepared by an in-house staff person or development consultant, although it may be useful to include a property manager partner in preparing the information regarding tenant eligibility and selection process.

INFORMATION REQUESTED	DOCUMENTS / REPORTS NEEDED	WHO PROVIDES INFORMATION
Supportive Services Program Planning • Description of service program plan (includes service partnerships, types of social, employment, medical and/or other services to be provided, number and type of staffing and how services address the needs of the target population). Address if services will be voluntary. • Service program provider(s) and experience. • Plan for connecting tenants with essential complementary services in the community. • Strategy for working with tenants with substance use issues.	• Narrative descriptions and Memorandums of Understanding with any service partners.	• These descriptions may be prepared by an in-house staff person or development consultant, but if partnering with another agency for supportive services, that organization's staff may be better equipped to prepare these narratives.
Property Management Plans • Name and prior experience of property manager. • Property management plan (including staffing patterns, types of services, security, etc.)	• Narrative description and preliminary property management plan, including staffing pattern, security services, policies and procedures.	• The organization providing property management services should prepare the property management plan. If the plan is not yet prepared, a letter of intent from the expected property management provider could be submitted.
Tenant Involvement Plans • Address how the project partners will involve tenants in decision-making for the project, such as tenant councils, employment of tenants in construction and/or operations, focus groups, etc.	• Narrative descriptions.	• These descriptions can likely be prepared by an in-house staff person or development consultant.

SECTION III: PROJECT FINANCING INFORMATION

INFORMATION REQUESTED	DOCUMENTS / REPORTS NEEDED	WHO PROVIDES INFORMATION
Development Budgets and Financing • Predevelopment budget and proposed use of requested funds. • Development budget, including sources (indicate amount, terms, status, if loan or grant, interest rate, etc.) and identifying uses for each source. • Proposed source and timing of take-out source of requested funds.	• Predevelopment budget including all costs anticipated prior to construction/rehabilitation start, and clearly identifying planned use of requested funds. • Development budget including all costs associated with development of project, and planned sources of funds. Should include information regarding the timing and status of all funding applications, planned or completed. • If requesting a predevelopment loan, development budget should identify what source of development funding will be used to repay the loan.	• These budgets could be prepared by an in-house staff person with housing finance and development experience or by a development consultant.
Operating Budget, Rents and Subsidies • Maintenance and operating budget. • Sources of rental subsidies and status of applications. • Description of tenant rent levels and rent roll, including how many units by size (bedroom count), rent as % of Area Median Income and/or as % of average monthly income, utility allowance, etc. • Market study, if available.	• 15 Year Operating Proforma documenting projected revenue, expenses and case flows for first 15 years of operation of the housing. Operating proforma should include any revenue to be provided by rental/operating subsidies and narrative description of status of commitment of such subsidies. • Rent roll documenting rent levels to be charged and affordability levels. • A market study demonstrating adequate demand for the units in your project may be required by some funders.	• The Proforma could be prepared by an in-house staff person with housing finance and development experience or by a development consultant. • The rent roll could be prepared by an in-house staff person with housing finance and development experience or by a development consultant. • Some funders may require that a market study be prepared by an external consultant.

INFORMATION REQUESTED	DOCUMENTS / REPORTS NEEDED	WHO PROVIDES INFORMATION
Supportive Services Program Budget and Funding • Service program budget, including employment services (if applicable). • Sources of service funding and status of applications.	• Preliminary supportive services budget and description of planned sources and status of funding commitments.	• The rent roll could be prepared by an in-house staff person or consultant with services budgeting experience or by social services partner(s).
Development and Planning Schedules • Projected dates for: completion, approval and closing of funding applications; construction loan closing; construction start and completion; lease-up start; and project fully occupied and services operational.	• Projected development timeline for completion of project.	• This timeline could be prepared by an in-house staff person with housing finance and development experience, or by a development consultant.