



# Guide For Prospective Entrepreneurs



The City of New York  
DEPARTMENT OF  
HOUSING PRESERVATION  
AND DEVELOPMENT

# THE NEIGHBORHOOD ENTREPRENEURS PROGRAM



## SUMMARY

The Department of Housing Preservation and Development (“HPD”) currently owns and manages approximately 16,000 housing units in 1,700 occupied buildings in the five boroughs of New York City. These buildings average 10 units each, with 74% concentrated in 10 communities that have suffered disproportionately from abandonment by prior owners. The city owns an additional 633 vacant buildings with 4,979 units in the same neighborhoods. The Neighborhood Entrepreneurs Program (“NEP”) was created by HPD in conjunction with the not-for-profit New York City Housing Partnership (the “Housing Partnership”) as part of “Building Blocks!,” an initiative designed to accelerate the sale and redevelopment of clusters of City-owned properties in the context of upgrading entire blocks in target neighborhoods. As of July 1<sup>st</sup>, 2001, control of the Neighborhood Partnership Housing Development Fund Company, Inc. (NPHDFC)—the entity established by the Housing Partnership to assist HPD to conduct NEP—was transferred to The Enterprise Foundation.

Under the Neighborhood Entrepreneurs Program, HPD and NPHDFC arrange financing for the rehabilitation and permanent ownership of

clusters of buildings with approximately 100 vacant and occupied housing units and provide technical assistance to owner/managers. Properties are eligible for federal Low Income Housing Tax Credits and local real property tax abatements to reduce development and operating costs. Commercial banks underwrite and provide construction loans. The bulk of the permanent financing is provided by HPD at a nominal rate.

NEP has attracted experienced, for-profit property managers who are based in communities with high concentrations of City-owned property. After selection and designation pursuant to a Request for Qualifications (“RFQ”) process, the Neighborhood Entrepreneurs contract for the maintenance and rehabilitation of a cluster of buildings for a transitional period of up to four years, during which time title is held by NPHDFC. The Neighborhood Entrepreneurs then take title to the property if performance requirements are met.

The NPHDFC contracts with not-for-profit community organizations to provide tenant support and referral services during the transition period.

## ROLES OF PARTICIPATING PARTIES

### Neighborhood Entrepreneur:

- Improve rent collection;
- Contract for overall management and development of selected properties;
- Plan the rehabilitation and design of the buildings with the development team;
- Attend required building, tenant and planning meetings;
- Screen and recommend general contractors, subject to approval by HPD, NPHDFC and the private construction lender, who will bid on project plans and enter into a rehabilitation contract;
- Obtain, with the assistance of NPHDFC, a private construction loan for the rehabilitation work;
- Provide ongoing supervision of the general contractor and project.

**"I heard that this neighborhood was pretty wild back in the day. Now, it's pretty quiet. Everybody says, 'Hi,' especially the people in the building. They're very friendly. I'm comfortable here. I like it."**

**MARISOL BAYON** and her family, tenants, 557 Kosciusko Street, Brooklyn

**HPD:**

- Identify clusters of vacant and/or occupied buildings suitable for development and perform preliminary planning analysis;
- Chair Neighborhood Task Force, which provides community input;
- Designate Neighborhood Entrepreneurs;
- Coordinate the necessary public actions to make properties available for the Program;
- Provide a portion of the construction financing at a subsidized interest rate;
- Provide the required permanent financing at a subsidized interest rate;
- Allocate federal Low Income Housing Tax Credits;
- Obtain environmental clearances, if necessary;
- Restructure rents pursuant to Article 8 of the Private Housing Finance Law (PHFL);
- Oversee and assure compliance review of the entire Program.

**NPHDFC:**

- Evaluate RFQ applicants and recommend Neighborhood Entrepreneur designees to HPD;
- Act as a financial and technical assistance intermediary, packaging public and private resources for the housing sites;
- Help to structure and obtain the financing

required for each cluster, including helping the Entrepreneurs obtain financing for working capital and rehabilitation;

- Assess the needs of each Neighborhood Entrepreneur and organize teams of industry professionals to provide technical assistance with legal and accounting matters, property management, insurance, computer systems, tenant-in-place rehabilitation and general business advice;
- Hold title to the buildings during the transitional period;
- Contract with and monitor not-for-profit community organizations to provide tenant support and referral services during the transition period;
- Coordinate the oversight of the Entrepreneurs' technical assistance and training package.

**Various Not-for-Profit Community Organizations:**

- Provide tenant support and referral services during the transition period: orient tenants to the Program; complete tenant surveys and assess tenants for social service and other needs; link tenants to services; link tenants to employment and job training; help to resolve issues that arise during the transitional period; assist, as needed, with development of a temporary relocation plan.



The Neighborhood Entrepreneurs Program transforms dilapidated vacant and occupied city-owned buildings into beautiful residential

### Neighborhood Task Forces:

Comprised of local real estate and business professionals, Community Board representatives, community residents, building residents and locally-based not-for-profit organizations.

- Work with HPD and NPHDFC to help prioritize target blocks and buildings;
- Help with outreach of the NEP RFQ to the local community and advise on qualifications of respondents;
- Incorporate community concerns and resources in planning and implementing Building Blocks!

### Commercial and Community Development Banks:

- Underwrite construction loans and provide financing to the Entrepreneurs for the rehabilitation of the buildings;
- Inspect the rehabilitation work on a regular basis and approve requisitions;
- Establish a lender-developer relationship with Entrepreneurs.

### SELECTION CRITERIA AND PROCESS

Applicants designated to participate in the Neighborhood Entrepreneurs Program must meet the following threshold criteria:

1. Neighborhood-Based Private, For-Profit

**Business:** Primary business location is in a target neighborhood, principal has lived in a target neighborhood for at least three (3) years, or business generated at least 75% of its gross revenues from target neighborhoods during each of the last three (3) years.

**2. Residential Management Experience and Capacity:** Currently manages at least 50 residential units, or has managed an average of 50 units or more over the last three (3) years. Does not own or have a substantial ownership interest in more than 250 units of housing.

**3. In-Place Rehabilitation Experience or Capacity:** Experience with oversight or performance of rehabilitation or repair of occupied multi-family housing.

**4. Financing Resources:** Meet one of the following criteria in full and within 50% of the maximum limit for the other: (a) Gross annual business revenue (three-year average) cannot exceed \$1.5million; and (b) Personal and corporate net worth (exclusive of primary personal residence) cannot exceed \$1.5 million. Is able to commit \$50,000 in cash to the project or obtain a \$50,000 line of credit for pre-development work.

Those applicants who meet the threshold criteria are ranked on the basis of the following competitive selection criteria:

1. Management Experience and Capacity



properties that tenants are proud to call home. *Opposite:* 2046-50 Seventh Avenue, Harlem. *Above:* 262-264 W. 123rd Street, Harlem.

2. **Financial Ability and Capacity**
3. **Rehabilitation Experience**
4. **Ability to Work with Government and Community Organizations**
5. **Other Considerations** - long term residential or business ties to target neighborhoods; principals or workforce include residents of target neighborhoods; a demonstrated history of commitment to hiring local residents; prior history of working together (if applicant is a joint venture).

All Neighborhood Entrepreneur candidates are also subject to an extensive on-site review. NPHDFC and HPD staff visit the offices of each Entrepreneur recommended to the program and conduct at least two site inspections of building managed. Site visits include confidential interviews with tenants and superintendents as well as complete building walk-throughs. References are checked and telephone conversations are made to suppliers, lenders, contractors, not-for-profits, government agencies and other industry sources. Credit reports and building violation lists are also reviewed. Neighborhood Task Force members and Community Board representatives also review applicants. HPD performs a preliminary Inspector General's review.

### NEIGHBORHOOD ENTREPRENEUR FEE

Neighborhood Entrepreneurs will be permitted to earn a development fee not to exceed 10% of the project costs. A portion of this fee is received when the buildings are sold to the Entrepreneur. The remainder is deferred and received during the 15-year tax credit compliance period. The Entrepreneur is also entitled to receive an incentive management fee during the 15-year compliance period equal to 1/3 of the project cash flow, not to exceed \$55,000 per year. As managers during the transitional and compliance period, entrepreneurs are entitled to receive property management fees. Development costs, developer fees, management fees, general contractor fees and acquisition prices are negotiated as part of the project budget, based on the needs and conditions of a particular cluster.

"I live in the community so it [Neighborhood Entrepreneurs Program] benefits me directly in that I don't see abandonment in my community. The program brings stabilization to families. I also have a family, so it stabilizes families and it also tends to lead to other things—better schools, better businesses in the area. And when you have better buildings, you have better tenants."

### SHAUN COVINGTON

Neighborhood Entrepreneur,  
Central Harlem



### SOURCES OF PUBLIC SUBSIDY

#### Federal:

- HOME Funds
- Low Income Housing Tax Credit (HPD will be the allocating agency)

#### City:

- Low interest rate loans provided through City Capital Budget Funds
- Real Property tax exemption may be available under Section 11-243 (formerly Section J-51) of the NYC Administrative Code or under Article 16 of the New York State General Municipal Law.

### FINANCING

HPD and NPHDFC are working with area commercial and community development banks to provide construction loan financing for NEP to leverage HPD's limited resources and to help Entrepreneurs establish banking relationships.



**Above:** Entrepreneur Shaun Covington stands in the marble-appointed lobby at 2046-50 7th Avenue, which he rehabilitated through NEP. **Right:** Charles Pickard relaxes in his newly-renovated studio apartment in Harlem.

HPD will fund a portion of the construction loan at a nominal interest rate. Upon completion of rehabilitation, HPD will serve as the permanent lender using a combination of City Capital Budget Funds and federal HOME funds to repay all or a substantial portion of the construction loan. A private lender will provide gap financing if required. Proceeds from the sale of Low Income Housing Tax Credits will be used to: establish operating reserves necessary to keep apartments affordable to low-income tenants; maintain the needed level of social services; and repay a small portion of the HPD debt.

At construction loan closing, properties are transferred to NPHDFC, which holds title to buildings during the rehabilitation and transition period. The estimated completion time for the rehabilitation of buildings in NEP is 24-36 months from the start of

construction, depending on the amount of work required in specific buildings and the level of cooperation among the building manager, the contractor and tenants. During the rehabilitation period, the private lender is responsible for monitoring the progress of construction and issuing payments. An inspecting engineer selected by the private lender and HPD monitors construction progress and reviews and approves all requests for advances of construction loan funds. HPD and NPHDFC retain the right to visit the property and receive progress reports during construction.

### LEGAL STRUCTURE

A few months after Entrepreneurs are designated to the Program, they assume management responsibilities for their designated cluster buildings. At that time, the City (HPD) enters into a Net Lease with NPHDFC, a City-regulated, not-for-profit corporation formed pursuant to Article XI of the Private



Housing Finance Law. Concurrently, NPHDFC enters into a **Site Development and Management Agreement** with each Entrepreneur that specifies obligations during the transitional period and identifies performance standards until the conveyance of the properties to the Entrepreneur.

At the construction loan closing, HPD delivers a deed conveying title to the properties from the City to NPHDFC. This conveyance is subject to a **Regulatory Agreement** containing the “Regulatory Requirement” and **Land Disposition Agreement**. The cluster is sold to NPHDFC at the nominal price of \$1 per building. Also at a construction loan closing, the Entrepreneur and NPHDFC enter into a **Construction Contract** with a general contractor acceptable to HPD and the private lender for rehabilitation of the cluster in accordance with approved plans and specifications. The construction contract has a guaranteed maximum price and provides for payment on a stipulated sum basis.

In connection with the rehabilitation financing, (i) the Entrepreneur, as borrower, executes and delivers all necessary loan documents to private lender, including a personal guaranty of payment (ii) NPHDFC, as owner, delivers a non-recourse first mortgage on the cluster to the lender as security for the loan, and (iii) HPD delivers a **Subordination Agreement** which makes the Land Disposition Agreement and Regulatory Agreement subordinate to the mortgage. HPD and the private lender(s) execute a **Buy-Sell Agreement** and **Construction Loan Participation Agreement** which sets forth the terms and conditions under which HPD will fund the below market rate permanent loan that takes out the private lender’s construction loan.

NPHDFC holds title to the project sites during the construction and transition period of approximately four (4) years until the rehabilitation work is completed and the properties are ready to be conveyed to the Entrepreneurs as managing general partners of a tax credit limited partnership. HPD works with NPHDFC throughout the transition period to continuously monitor the program and advise the Entrepreneurs on program compliance

requirements. HPD and NPHDFC may jointly make a decision to replace a Neighborhood Entrepreneur for non-compliance.

Entrepreneurs purchase clusters subject to permanent financing for a predetermined price. HPD retains the right to approve future sales of the project for a period of time after sale of the project to the Neighborhood Entrepreneur.

### **INCOME LIMITS/ RENTS/RELOCATION**

Existing legal tenants receive rental assistance to the extent that restructured rents, instituted for occupied apartments, exceed 30% of household income. Projects receive a portion of the rental income by renting vacant units at area market rates. Operating deficits are funded with operating reserves established through the sale of Low Income Housing Tax Credits. These supports prevent displacement of existing legal tenants. Except where federal subsidies require lower limits, vacant apartments may be rented to families earning no more than

**Buildings renovated through the Neighborhood Entrepreneurs Program may have commercial space on the ground floor that can be rented by local businesses. Franklyn Grenaway of the Harlem African-American Art Gallery and Art Cafe displays one of the pieces of artwork he sells at 2046-50 Seventh Avenue in Harlem.**





165% of the current U.S. Department of Housing and Urban Development (HUD) area median income standard adjusted for family size. To the extent that federal HOME funds and/or proceeds of Low Income Housing Tax Credits are used for rehabilitation or operating expenses, income limits and maximum rents are subject to federal requirements for at least 15 years.

During rehabilitation, some tenants will have to be temporarily relocated to accommodate construction. Tenants who are relocated will have the right to return to the building, confirmed by a written agreement executed prior to the temporary relocation, and will be reimbursed for moving and utility hook-up costs. Community-based not-for-profits work with selected Entrepreneurs to develop an appropriate relocation plan for each family.

The Entrepreneur is responsible for moving tenants as needed. Relocation costs are included in the development budget.

### REQUIRED GOVERNMENTAL PROCESSES AND APPROVALS

**Environmental Clearances** HPD obtains all necessary environmental clearances from the appropriate agencies. Lender may require the preparation of an environmental survey.

**Rent Stabilization** These projects will be subject to

the Rent Stabilization Code, assuring long-term affordability.

**Marketing Guidelines** Tenant selection must comply with federal fair housing marketing guidelines.

**Federal Relocation Guidelines** As administrator of federal HOME funds, HPD must ensure that federal relocation guidelines are met where tenants will require temporary relocation during the construction period. All tenants must be advised of the Federal Tenant Assistance Policy.

### REPORTING REQUIREMENTS

Financial and status reports regarding building management, rehabilitation, tenant relations, marketing and lease-up are required on a monthly basis. Required reports include, among other items:

- Monthly Management Reports listing:
  - (a) Rent billings, collection, legal actions, occupancy and total income for each building;
  - and (b) Expense and disbursements for each building, including bank statements and reconciliation reports;
- Reports required by federal funding sources;
- Reports required by tax credit investors.

All records and reports are subject to review and audit by HPD, HUD, Comptroller of the City of New York, and NPHDFC.

Apartments renovated through NEP feature modern kitchens and hardwood floors. The superintendent at 2001 University Avenue in the Bronx lives in the apartment pictured on the left, and a young couple shares the one-bedroom apartment pictured on the right, which has views of Marcus Garvey Park in Harlem.





"I've been involved with the program since it came into existence in 1994. I think it provides affordable housing for long-time tenants. The timetable is relatively short from the time that we [the Entrepreneurs] start managing the building until the time that the tenants are relocated, construction begins and the tenants move back into the building. When tenants come back to their apartments, I think there is a unanimous consensus that it's a lot better than how they were before. All of them are very happy."

**BILL GUERRERO**  
Neighborhood Entrepreneur,  
East Harlem

"Truly, the tenants benefit from the program. I don't have a catch-all term or anything like that, but everything we've gone through as managers, as developers and the whole process of the program, when it's all said and done, we are truly able to deliver affordable housing that makes a tremendous positive impact on the quality of life for the tenants. Without a doubt, the quality of life for those tenants improves 100 fold."

**ADELE SELBY**  
Neighborhood Entrepreneur,  
Bedford-Stuyvesant, Brooklyn  
Business partner: David Young





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**DEPARTMENT OF HOUSING PRESERVATION  
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For more information about the  
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