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National Trust *for* Historic Preservation

**Preservation
Leadership Forum**

The Evolving Revolving Fund: Historic Charleston Foundation Revamps Its Pioneering Program

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At the height of the real estate boom in 2008, a large c. 1824 Charleston single house was rumored to be going on the market because the longtime owner had passed away. The property was located in a highly desirable neighborhood in the historic district, was architecturally significant, and featured a large double lot. The long-neglected house was considered to be at risk by [Historic Charleston Foundation \(HCF\)](#), and its purchase perfectly fit the mission of HCF's [Edmunds Revolving Fund](#) program. After all, this program, the first of its kind in the nation, had more than five decades of experience purchasing at-risk historic properties, stabilizing them, reselling them with protective covenants, then using the sale proceeds to purchase more such properties.

At the same time, this property came to the attention of ambitious developers who saw acquiring it as a potentially lucrative deal. Under the existing zoning, the main house could be subdivided into three condominium units, the rear dependency into two units, and an additional five or more new dwelling units could be constructed in the large garden to the side of the residence. Additionally, there was adequate space to provide for the extensive off-street parking that would be required by the City for that many residential units.

From the Foundation's perspective, the developer's plan would irreversibly destroy the historic character of the property and its open space, and it would diminish the quality of life for the neighborhood. HCF, in its determination to save this property and at the urging of the neighborhood, ultimately prevailed in an intense bidding war. After the main internal stair was restored, which had been removed in the 1930s to create rental units, the house was put on the market with restrictive covenants attached to the deed that prohibited subdivision and limited the number of rental units allowed on the property, among other conditions.

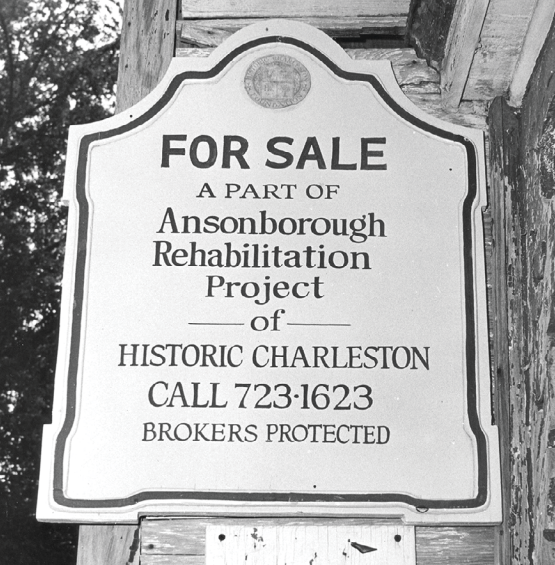
HCF optimistically expected that an equally excited buyer would step up and purchase the now-protected house. With heavy demand for downtown real estate, it would have been easy to find a buyer. However, not long after taking title to the property, the Great Recession hit. HCF was caught holding the property for more than a year before eventually finding an appropriate preservation-minded buyer and selling the property at a significant loss. Furthermore, because this buyer could not sell her own house, HCF was forced to finance the purchase for an additional three-and-a-half years until the buyer was able to obtain her own financing.

Through that deal, HCF's revolving fund took a financial hit that left the board of trustees and staff feeling frustrated and questioning the overall sustainability of the revolving fund program. Although purchasing this house fit within the mission of protecting a historically significant property, it was five years before the revolving fund committee approved acquiring another property, largely because of concerns over risk exposure and the fear of again losing money. It was obvious that HCF's traditional approach wasn't working as effectively as it once did because of Charleston's robust real estate market and the expanded reach of the local preservation ordinance. The fact was that the private marketplace was taking care of most historic building rehabilitations and there were simply fewer threats to Charleston's historic district—the preservation landscape had shifted. HCF knew it needed to develop a new direction for its revolving fund programs, so it sought the guidance of [The 1772 Foundation](#), the leading private foundation in the country supporting revolving fund programs.

HCF'S GROUNDBREAKING MODEL

HCF established the nation's first revolving fund in 1957, and it was hugely successful over its first couple of decades. The Foundation's Ansonborough Rehabilitation Project, which truly revitalized an entire neighborhood, set an example for preservation organizations across the country, which adopted their own revolving fund programs based on HCF's model.

With the Ansonborough Rehabilitation Project, HCF purchased properties threatened with demolition or neglect, did minimal rehab



Historic Charleston Foundation's Ansonborough Rehabilitation Project, which employed HCF's new revolving fund to acquire more than 60 buildings, is considered one of the first successful attempts in the country to preserve an entire neighborhood.

PHOTO COURTESY OF HISTORIC CHARLESTON FOUNDATION

and stabilization work, and then sold them to preservation-minded buyers with restrictive covenants attached to the deed. Between 1959 and 1976, more than 60 buildings were acquired using the revolving fund. Improvements

were made on nearly 100 buildings in this neighborhood alone, either by the Foundation through a loan program, by purchasers complying with HCF's restrictive covenants, or by neighbors inspired by the revitalization that the program created. Ansonborough is now one of Charleston's most desirable historic neighborhoods.

The original mission statement guiding HCF's revolving fund, adopted in 1957, still reads as forward-thinking and visionary to this day. The mission anticipated that preservation issues were going to evolve over the years and that the plan must be flexible to accommodate this change. Some of the major premises of the mission included the concept that the revolving fund did not necessarily have to operate at a financial gain and that preference should be given to helping neighborhoods in need rather than individual houses. Additionally, the mission included provisions for dealing with both donated houses and purchased properties, and allowed for renting properties, the granting of loans, and life tenancy plans. In 1971, HCF's executive director and founder, Frances Edmunds, was recognized with the National Trust's highest honor, the Louise du Pont Crowninshield Award, for establishing HCF's successful revolving fund as well as other transformative initiatives.

ADJUSTING THE FOCUS: NEIGHBORHOOD IMPACT INITIATIVE

The Ansonborough Neighborhood Rehabilitation Project was successful in many ways, but residential displacement and neigh-

neighborhood gentrification were unintended consequences. In an effort to limit gentrification through preservation, the Foundation began to target low- to moderate-income neighborhoods in the 1990s by establishing its [Neighborhood Impact Initiative](#), an offshoot of the revolving fund. Its goal is to help long-term residents stay in their neighborhood, and to promote a commitment of continued occupancy in their historic residence. During this time the Foundation continued pursuing revolving fund acquisitions, but instead of targeting a specific neighborhood, focused on purchasing properties scattered around the historic district. Acquisition decisions were based on the architectural merit and the risk for redevelopment of the individual properties, rather than on their location in a defined neighborhood. HCF revolving fund properties have ranged from plantations, such as Mulberry Plantation (c. 1714) slated for redevelopment into a golf course, to vernacular Charleston single houses at risk for demolition or inappropriate redevelopment.

Charleston is certainly not the same city it was in the heyday of the Ansonborough Rehabilitation Project. Over the last 10 years the economy in Charleston has grown and housing prices have risen at unprecedented rates. For example, a house that HCF purchased with its revolving fund in 1966 for \$24,000, equivalent to \$173,000 in today's dollars, is currently on the market for \$2.6 million. Since 2003 the Foundation has only completed five revolving fund acquisition projects, primarily because high real estate prices have limited the Foundation's buying power and fewer funds have "revolved" at each sale. The property that was purchased before the recession in 2008 largely put our acquisition-based revolving fund efforts on hold. Also, finding affordable housing in downtown Charleston has become more of a challenge. Neighborhoods that at one time were both racially and economically diverse, particularly north of Calhoun Street, have become gentrified, and longstanding residents can no longer afford to maintain their properties. Obviously, this same scenario is playing out in vibrant cities around the country.

As the economy has strengthened, the Foundation has become more active with its Neighborhood Impact Initiative to address the conjoined issues of vernacular preservation and housing affordability.



Historic Charleston Foundation was able to stretch the reach of its Neighborhood Impact Initiative funds by working with partners with related goals—Charleston Habitat for Humanity and the City of Charleston—on two house rehab projects.

PHOTOS COURTESY HISTORIC CHARLESTON FOUNDATION

Since 2009 the Foundation has partnered with [Charleston Habitat for Humanity](#) and the City of Charleston to rehabilitate two historic houses for existing homeowners. This partnership has garnered attention from the National Trust for Historic Preservation, which published an [article about the project](#) on its website and invited Winslow Hastie, chief preservation officer at HCF, to lead a panel discussion at the 2010 National Preservation Conference in Austin, Texas. The Foundation is currently working on its third collaboration with the City of Charleston in the same geographic focus area. In addition, HCF is currently partnering with a neighborhood church to create a [community garden](#) on a vacant, blighted lot that is owned by the church and is adjacent to the rehabilitation projects. These successful partnership projects allow the Foundation to leverage its funds to have a greater impact in the community, but the funds are not “revolving” under this initiative. Because of this, the Neighborhood Impact Initiative, in its current form, is unsustainable.

SEEKING NEW DIRECTIONS

In 2013 the HCF Board of Trustees and staff participated in a strategic planning process for the organization. Despite the challenges with HCF’s revolving fund, the new strategic plan emphasizes the Edmunds Revolving Fund as a primary initiative of the Foundation. Internally, the Foundation’s leadership strongly believes that a successful revolving fund program is one of the organization’s most powerful preservation and revitalization tools, and so it must continue.

To help meet the goals of the strategic plan, HCF was awarded a grant from The 1772 Foundation to host a team of expert consultants from across the country to assess the program and make recommendations for a “Revolving Fund 3.0.” Because Charleston represents a more “mature” preservation community, HCF expected that the issues confronted will likely be similar to those faced by other communities in the future. Like the groundbreaking revolving fund, the plan created as a result of this consultancy will, hopefully, serve as a model for other preservation organizations as they seek to diversify their programs to address evolving preservation challenges in their communities.

The Revolving Fund Workshop was held in Charleston in May 2014. This grant funding allowed HCF to: 1) engage as consultants revolving fund experts, Clark Schoettle from the [Providence Revolving Fund](#) and Kathy Kottaridis from [Historic Boston Incorporated](#), to visit Charleston to evaluate HCF’s revolving fund programs and make recommendations for a new revolving fund strategy; 2) hire Charleston-based consultants, [Cityvolve](#), to facilitate the meetings and follow up with a report summarizing the recommendations and implementation plan; and 3) engage with our leadership, both at the board and committee levels, to ensure their commitment to the implementation of a new revolving fund strategy.

The two-day workshop included a tour of HCF’s past projects and potential target areas on the Charleston peninsula. The Foundation brought in key community stakeholders including the Foundation’s revolving fund committee (composed of trustees and individuals with a variety of expertise in real estate, law, banking, and construction), board members, funders, neighborhood leaders, and city government officials.

On day two, the consultants presented highlights of their own successful programs and made recommendations for HCF’s revolving fund based on their observations of potential opportunities in Charleston. Each member of the consultant team brought different expertise to the project.

Schoettle of the Providence Revolving Fund (PRF) described his experience with a variety of revolving fund tools. Established in 1980, Providence Revolving Fund is similar to HCF’s revolving fund

in that it began as an acquisition fund in target neighborhoods. Unlike HCF, PRF has successfully evolved to include a robust loan program with rehabilitation loans, bridge loans, and predevelopment loans for projects combined with tax credits. It has also successfully acted as a developer and partnered with developers to accomplish its preservation mission.

Kottaridis of Historic Boston Incorporated (HBI) brought its experience with organizational policy shifts to accommodate evolving revolving fund programs. HBI's revolving fund was started in 1960 to save one building and has adapted multiple times over the years. HBI's organizational policy experience was particularly relevant since HCF will need to undertake its own changes when it implements the recommendations of the consultant team.

Both PRF and HBI operate like small, entrepreneurial community development organizations with a nonprofit mission of protecting historic properties, providing diverse and affordable housing, and enhancing the communities in which they work. Their operating budgets are relatively small, but they have been able to make a huge impact. For example, PRF has a staff of five people, and its \$2.8 million Neighborhood Fund has aided 475 projects since 1982. Over the years \$9.5 million has been invested by the fund, which has leveraged \$35 million in neighborhood reinvestment. HBI has a staff of four but has a \$28 million development portfolio.

Recurring themes in Schoettle's and Kottaridis' comments included the importance of leveraging resources and relationships, adopting a patient approach to projects, developing sustained community engagement in target areas, and creating clearly stated missions for each program to ensure a deliberate project selection process.

Cityvolve, a local development consulting firm with a focus on adaptive building reuse and urban infill projects, also participated in the workshop, providing local knowledge and a perspective distinct from that of HCF. Cityvolve assisted the visiting consultants with the analysis, and produced a final report which included a summary of the work sessions, recommendations, and suggested next steps.

This intense two-day workshop was exciting, inspirational and reassuring. The unique combination of input from both revolving fund



In 2012 Historic Charleston Foundation used its revolving fund to restore the facade and piazza of this small “Freedman’s Cottage,” located in the Charleston’s North Central neighborhood.

PHOTOS COURTESY OF HISTORIC CHARLESTON FOUNDATION



experts and local development consultants helped all parties think in innovative ways to develop a multipronged revolving fund strategy tailored to meet the needs of 21st-century Charleston. Additionally, HCF hopes that the findings from the workshop will serve as a resource for other revolving funds around the nation, especially for communities with similar economic challenges.

PREPARING TO LAUNCH “REVOLVING FUND 3.0”

The primary take-away message gained from the revolving fund workshop is that HCF needs to diversify its revolving fund programs so that it no longer simply acts as an acquisition fund or grant-giver. The consultant team provided many suggestions on how this could be accomplished, which are summarized as follows:

Expand the scope of services offered by the revolving fund.

HCF could act as an entrepreneurial development company with a nonprofit mission of protecting historic properties, increasing affordability, and having a neighborhood or district-level impact. Development fees, consulting fees, and loan interest fees could be collected. HCF could be the lead developer on projects, rather than just partnering on and funding projects.

Stabilize neighborhoods through market cycles. HCF could expand the scope of services provided by the revolving fund to become a stabilizing force in targeted neighborhoods. In market upswings, the revolving fund could make loans to property owners for maintenance. During market downturns, as prices decline, the fund could focus on acquisition and development.

Invest instead of subsidize. HCF should move away from giving money in the form of grants and forgivable loans. The revolving

fund should, whenever possible, make loans for rehabilitations instead of acquiring properties. Loans should be deployed with the expectation that they will be fully repaid, with interest, and then fully reinvested. The default rates for revolving loan programs are surprisingly low, which was a key point for HCF's revolving fund committee to understand.

Change the name of the revolving fund. It was noted that the term "revolving fund" is somewhat misleading and limiting for many organizations. A new, more descriptive name for each program should consider the broader goals of the initiative. The names should emphasize what the program seeks to achieve versus how.

Develop deeper relationships within the target neighborhoods. Suggestions for accomplishing this included embedding HCF staff in a target neighborhood with a satellite office, creating economic opportunities for neighborhood residents by working with general contractors who live in the target neighborhood, and setting up neighborhood advisory groups to actively participate in the project selection and revitalization process.

Break down stereotypes and appeal to changing demographics. A potential stereotype of HCF is that it emphasizes preservation in the wealthier neighborhoods of the city. With the demographic shift towards Generation X and Millennials, nonprofits need to be aware of and embrace shifts in fundraising tactics and programming. HCF should couple its historic preservation mission with other issues attractive to the younger generation, including promoting affordable housing, livable cities, environmental sustainability, job training for underserved youth, and creation of economic opportunities for lower-income neighborhoods.

Better utilize partner organizations. The most successful revolving loan funds around the country have collaborated with strategic partners to pursue their goals and ensure financial sustainability. HCF should focus on developing relationships with a broader array of partners and take the lead on projects.

Continue pursuing community-based efforts. It was pointed out during the workshop that preservation can sometimes focus too heavily on buildings and architecture. Preservation is really all about community. There is an opportunity to revitalize historic

neighborhoods by partnering with diverse groups focusing on issues such as alternative transportation, open space, community gardens, and the environment.

DEFINING THE NEXT STEPS

Significant emphasis was placed on clearly defining the next steps to help HCF articulate its revolving fund mission before moving forward with implementation of any recommendations. The consultant team suggested that several key questions need to be answered before the launch of new programs. What role can HCF's revolving fund program play in the evolving landscape of Charleston? Clearly, housing affordability is a huge issue, and HCF has the ability to work with existing homeowners to help them rehabilitate their properties sensitively, through loans and technical assistance. Is HCF prepared to take on the risk of developing new programs that focus on underserved neighborhoods? Its leadership is committed to engaging the broader Charleston community through the promotion of neighborhood stabilization and preservation. What does success look like? A successful result would be the revitalization of historic neighborhoods through a variety of projects that incorporate civic engagement, the rehabilitation of historic housing stock, and the retention of a socioeconomically diverse residential profile.

Once the mission is set, the consultants recommended that HCF create project selection criteria to determine which prospective projects help to best achieve its mission. They also recommended that a pilot program be established to allow for the staff and committee to work through the new process while limiting risk—whenever new programs are being launched, capacity-building is always an issue. While HCF should not shy away from bold initiatives, it is wise to move in an incremental, yet deliberate, fashion.

Over the next several months, HCF's staff and revolving fund committee and board have many critical decisions to make. This workshop experience was invaluable to all involved, and it was helpful to have an outside perspective on the status of the program, its strengths and its weaknesses. It was also helpful to have outside

consultants share the innovative methods they have developed and what they have learned “in the trenches” over the years. The Foundation is very confident that it can develop its own “Revolving Fund 3.0,” and looks forward to sharing its direction and successes in the coming years. **FJ**

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