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Joint Venturing for Nonprofits: the Benefits, the Common Pitfalls and How to Navigate Them

by Susan Fitter Harris

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In Huntington, Indiana, developer Jon **Anderson** embarked on a mixed-use redevelopment of a large historic block on the downtown courthouse square in 2017. As Anderson tells it, he could have leased the completed ground-floor commercial space to a market-rate business enterprise and he would have been very successful, but he wanted something more. He wanted to create a place that had value for people in the community, a place they wanted to come and wanted to stay. So Anderson turned to a local nonprofit that was rooted in the community, **Pathfinder Services**, for a partnership. What transpired was a plan to restore the historic **Odd Fellows Block** into upper-level apartments with ground-floor space for Pathfinder's **Creative Abilities Arts Center**, serving artists with and without disabilities, and Huntington University's Center for Entrepreneurship, a small business incubator.

This outcome was the result of a joint venture between Anderson's company and Pathfinder Services. By working together, nonprofits and for-profit developers can make development projects into something more than they could be if either entity acted alone. But while joint venturing has benefits for both parties, it is often easier said than done. We spoke to both nonprofit and for-profit developers to explore some of the common advantages and risks of real estate joint ventures.

Why joint ventures?

Community development organizations are charged with orchestrating both people-centered and placed-based solutions to address complex forces at work in their neighborhoods. More often than not, nonprofit community development organizations must accomplish this mission with limited resources—lacking adequate paid staff and funding streams. Real estate joint ventures, both with other nonprofits and for-profit developers, can help community-based organizations maintain the resources necessary to advance difficult and highly sophisticated projects, and they can help for-profit developers find ways to bring new investment to towns and neighborhoods that badly need it.

Nonprofit developers and their stakeholders sometimes believe they cannot or should not team with for-profit entities because they are **“not allowed” to make a profit**, but this is not the case. In truth, such joint venturing is not only permissible, but can be highly effective in helping nonprofits advance their missions. It is important, however, to make sure that the joint venture agreement is advantageous for the nonprofit and the community it serves.

There are several reasons a nonprofit might want to engage in a joint venture with another entity. Another developer might lend capacity that the nonprofit does not have in-house, and allow them to do more than they could otherwise take on. This could mean working at greater scale or it could mean tackling different types of projects. For example, a joint venture with an experienced commercial developer could help a neighborhood-based housing developer accomplish a commercial project along a neighborhood corridor. This allows the nonprofit to bring that capacity to their neighborhood even if they have never undertaken a commercial project before. And partnering with a more experienced developer can help smaller or newer nonprofits accomplish projects at a greater scale and build their financial strength.

In addition to know-how, partners often bring access to capital. A developer with a big balance sheet may be better able to obtain capital from conventional sources than a nonprofit neighborhood organization. This can assist in filling the funding gaps in a project that are otherwise difficult to complete. Partnering with better-resourced and more experienced developers can help nonprofits bring benefits to their neighborhoods that they cannot bring alone. This helps community-based developers leverage capacity for the larger-scale, catalytic development their neighborhoods need. Joint venturing with another entity can also offer an opportunity for nonprofits to earn developer fees for the projects, although this piece of the agreement must be tightly negotiated to ensure that the nonprofits receive what they expect. This is discussed in more detail below.

Clearly, there are several advantages to nonprofits in partnering with for-profit developers, but what's in it for the for-profits? For-profits may pursue joint ventures with nonprofits for a few reasons. In some cases, the motive may be purely financial. Nonprofit developers have access to non-conventional financing sources, such as Low Income Housing Tax Credit (LIHTC) allocations or grants, that are either off-limits or much more competitive for for-profit entities. Local policies may award development subsidies to nonprofits or give them preference for certain kinds of property disposition, allowing them access to properties that are not available to the for-profit partners. Teaming up with a nonprofit enables a for-profit developer to access these resources for their projects. For example, Indianapolis developer **Monument Realty & Management** worked with nonprofit **Riley Area Development Corporation** to rehabilitate the historic **Davlan building** to create affordable apartments in 1999. At the time, the allocation process for 9% Low Income Housing Tax Credits included an explicit preference for community development corporations, making Riley more competitive for tax credits than Monument could be on its own.

Nonprofit developers also tend to be closely connected to their communities. For projects where community buy-in is necessary or helpful, it behooves a for-profit developer to team with a trusted community partner that can help bring neighbors and stakeholders to the table and win support for the deal. "Joint venturing with nonprofits can add an important community support element in a market where we are not well-known," explained Richard Sciortino, principal of **Brinshore Development** in Chicago.

Finally, there are plenty of socially minded developers that also happen to be for-profit entities. Working with nonprofit community partners helps them ensure that their projects benefit community residents, often by tying programs or services to the physical real estate, but also by demonstrating lasting investment in the neighborhood. Monument President Brian Murphy described the unique nature of the joint venture commitment: "You have to buy in to [the nonprofit's] mission and be comfortable and supportive and be willing to live with that for years," even if the market becomes more favorable to higher rents. The Davlan Apartments went into service in 2000 and the property has now passed the 15-year income restriction period, Murphy noted. "There would be an opportunity, as others have done, to take that out of affordable stock and make it market-rate, but Riley's mission is to preserve affordable housing in this market, so if you want to remain in a joint venture, you have to believe in that. You have to have a long-term support and vision of what their mission is." Ultimately, the developer (Monument) and Riley Area Development Corporation agreed to extend their agreement and maintain affordability in the project for an additional 15 years.

Nonprofit partnerships

Community development joint ventures typically take place between one or more nonprofit developers and one or more for-profit developers, but nonprofit-nonprofit joint ventures are also common. Two community organizations serving Indianapolis' Near East Side – **Englewood Community Development Corporation** and the **John Boner Neighborhood Centers** (JBNC) – have made an art of partnership. "We collaborate on so many things, it's hard to distinguish a list," said JBNC CEO James Taylor. "It's kind of a natural way that we do our work in partnership and sometimes that leads to formalized projects that require actual agreements."

Englewood CDC Director Joe Bowling noted that while both organizations have also partnered with for-profits, there is a level of trust innate in working with a fellow nonprofit: "When we partner with another community-based nonprofit, it is easier to keep the missions truly aligned and for community to be at the center." Taylor agreed, "When you are working with a for-profit doing a joint venture, it's probably 80 percent transactional and 20 percent relationship. Whereas when we are working with Englewood, it's 80 percent about relationship and 20 percent transaction."

The key, according to Taylor, “is when you put community interests first, the question of self-interest for each individual organization tends to work itself out over time. We and other groups within our community subscribe to that belief and we put forth our respective efforts based on that theory. Over time, there is not a scarcity of resources if we collaborate effectively.” He went on, “We have respective skill sets. Part of joint venturing is leaning into our respective talents and expertise. We have much greater capacity by working collectively on things than we do alone.”

This work requires honestly recognizing what the organizations’ skill sets and roles are and what they aren’t. “I think the more you truly are realistic about your organization and where you fit and where you maybe don’t fit in the ecosystem of community life, the better equipped you’ll be to joint venture successfully,” Bowling offered. And this practical approach can come with added benefits, he said. “So often, the ease of relationship between our organizations is really attractive to outside funders. They are attracted to and engaged in the Near East Side for various projects because they know they don’t have to tiptoe around whose territory is whose.”

Joint venturing, both formally and informally, helps community-based groups on the Near East Side fill gaps and better serve the neighborhood, said Taylor. “We have found that it amplifies the success of each organization achieving its own mission because you are leveraging each other’s talent and resources on behalf of the community. You’re creating bigger bandwidth and new tools because you are working with groups that have different skills. It’s like stocking the pantry with other ingredients for your work. Then from that pantry you can pull together the ingredients you need for your projects.”

Joint venture rules of the road

For any joint venture to be successful, there are a few simple requirements each partner must consider as they identify partners, document the partnership and manage the relationship.

Identifying Partners

Choose partners carefully

Partners can make or break a project and all potential partners should be carefully vetted. Nonprofits will want to ensure they are choosing a partner that brings the expertise they need and will deal with them fairly. To that end, LISC Indianapolis has developed some **guidelines for nonprofits** to use in the selection process.

Make sure each partner can deliver

The point of joint venturing is that each partner contributes something to the project that the other lacks. Whether that's development capacity or access to funding, the responsible partners must be able to bring their pieces to the table in order for the project to work. That may mean that a nonprofit needs to invest in additional grant writing capacity to bring in promised funding or a developer must increase its staffing to oversee the development. "It's important that they understand what they need to do and do it early, so that everything stays on track," advised Anderson.

Documenting the Partnership

Define expectations and roles

Each partner in a joint venture needs to be clear on what their obligations will be and what they want to get out of the project. If the agreement is not carefully negotiated, partners risk not getting what they want or need from working together. Murphy advises that potential partners "start out with the birds-eye view and then get as specific as possible," defining each partner's overall goals for the project, then their individual roles, and what financial resources each party is responsible for bringing what to the table. These expectations should be highly specific and leave nothing to chance: Who will be responsible for executing different action items? How will decisions be made? What is the timeframe for each step of the process? How will the parties exit when the deal is done?

Sciortino also offered concrete advice for nonprofits considering real estate joint ventures. “I think they clearly need to make sure that their downside is protected, that they are not taking any real estate risk,” he said. “That’s not their role. They have to make sure they make an arrangement with the developer so they are not taking that risk. Second, they have to really help the developer understand exactly what they hope to get out of this, at a minimum and at best. That way, the developer has a good understanding of how to fashion the transaction in such a way as to help address those goals.”

Consider legal representation

Both parties should strongly consider hiring competent legal counsel to help them negotiate the intricacies of partnership. Having a knowledgeable attorney guide the process can help ensure that each party clearly understands their roles and responsibilities, as well as their risks and benefits. At a minimum, the lawyer should help each partner clearly articulate the allocation of responsibilities between the two partners, the goals of the project, how expenses will be paid, what type of reporting will be required over time, and what both parties should expect to get out of the agreement. This can be particularly important for nonprofits expecting to earn a developer fee, so there are no surprises about how much they can expect to earn.

Put it all on paper

A memorandum of understanding (MOU) can be a good starting point for recording roles, responsibilities and expectations. As the project moves forward to more formal roles and finalized financing, partners will need to create the appropriate legally binding documents, which can take a number of forms depending on the project and the parties’ needs. For a real estate project, this can include some combination of operation agreements for a new limited partnership or limited liability corporation, lease agreements and management agreements. Legal representation is vitally important in completing these agreements, so all parties can ensure they have the right documents and the right structure to protect their interests.

Particularly in the case of LIHTC projects, which carry a minimum 15-year ownership commitment, it is important to consider the joint venture as a long-term relationship that can cost all parties resources if it is not documented properly. Thoroughly recording how the partnership works is essential because the same people who entered into the agreement may not be in place at the end of the relationship, which could be decades away. The partners need to create a clear written record so that future staff can manage affairs appropriately.

Managing the Relationship

Meet and/or communicate regularly
Frequent and clear communication is critical to the success of a joint project. Defining expectations at the outset will require back-and-forth, but the work does not end there. Partners should closely monitor project status and communicate about updates, challenges and questions. Anderson believes regular meetings are important to maintain good working relationships among the partners.

For their part, JBNC's Taylor and Englewood's Bowling are in constant communication about their many joint projects as well as news and events in their neighborhood. As Taylor explained, their organizations "share the place where we do our work … so it's a long-term relationship or marriage that we're in."

LISC has more advice on how to joint venture successfully in **this guide**.

Joint venturing pays off

Murphy sees benefits in joint venturing, both to his company and to the nonprofits he partners with. “People might think that just because of the name [nonprofit], there’s really no profit potential in partnering with them, but that’s not the case. There’s plenty of opportunity for both partners to benefit. A lot of business people think if you’re getting into partnership with a nonprofit, it’s basically a philanthropic venture and you’re going to be donating your time and resources, but it can be rewarding for everybody involved if you set it up right.”

In Huntington’s Odd Fellows Block, according to Anderson, Pathfinder’s participation will make the new building a closer part of the community than it would have been otherwise, a win for everyone involved. “We had a building where we could easily just build apartments, but we wanted to do something bigger than that,” he said. “The nonprofit brings arts components and the university component that we didn’t have ready access to. We could have put a [chain coffee shop] in, but the nonprofits have a connection to the community and are invested in it. That makes my project more successful.”