

# Revolving One Revolves Many More

## [Preservation Leadership Forum](#)

For nearly two decades, Preservation North Carolina (PNC) has operated a statewide revolving fund, acquiring endangered historic properties, mainly in small towns and rural areas, and finding buyers to rehabilitate them under protective covenants. More than 300 properties, with a cumulative market value of more than \$70 million, are now subject to the organization's covenants or preservation easements. PNC's fund has mastered the practice of using options extensively to hold properties until purchasers can be found so that its limited resources can be stretched. An option requires only a nominal investment in a property until a buyer is found. The fund then purchases the property on the same day that it sells it. In actuality, the revolving fund's only outlay for the property is for the operating costs associated with marketing and selling it: staff time, telephone, travel, advertising, cleanup, liability insurance, closing costs, etc. No purchase occurs until a buyer is in place, and then the buyer's financing is used for the fund to acquire the property. Usually the fund has only \$3,500 to \$5,000 invested in a property by the time a sale takes place, and it is usually able to recoup its expenses by marketing the property for a little more than its option price.

The fund has also become adept at asking for donations of properties. Through the years, a number of vacant rural historic houses and downtown storefronts have been donated to the fund. Usually these properties are among those in the worst condition and the most difficult to market. Their owners give them to PNC to get rid of a headache, and PNC recoups as much as possible from the sales. Each year PNC makes tens of thousands of dollars from these properties, helping to offset the costs of operating the revolving fund.

Occasionally PNC is the beneficiary of the donation of a substantial gift of property, such as Sanford's city hall, which was sold to the revolving fund for \$1 by the City of Sanford. The city had been unsuccessful in finding a suitable use or purchaser for its long-vacant former city hall so it was relieving itself of an aggravation. When PNC sold the property for \$75,000 to a purchaser for restoration, its revolving fund was the beneficiary of an infusion of funds, and the city benefited from new private reinvestment and activity in its downtown. Everyone benefited, including the buyer who received tremendous local publicity and support. The revolving fund's biggest coup occurred in December 1995, when Unifi, Inc., of Greensboro, a large textile corporation, gave PNC the Edenton Cotton Mill and mill village, a 44-acre historic industrial property with 57 houses and a 114,000-square-foot mill.

The story of the gift is remarkably brief. In 1994 the board of directors of Preservation North Carolina revisited its long-range plans and adopted a goal of establishing three regional offices for its revolving fund. In survey after survey, PNC's membership had ranked the organization's revolving fund as its most important activity, far ahead of newsletters, conferences, and meetings. Since real estate is difficult to work with at a distance, the directors decided to take the organization to the state's historic properties by setting the goal of having an office within two hours of every county in the state. Edenton, a beautiful and historic town in northeastern North Carolina, was targeted as one of the three proposed sites for a satellite revolving fund office. In September 1995, when Unifi announced that it would be closing the Edenton Cotton Mill, a PNC director from Edenton had an idea: ask Unifi for the property. The executive director then sent a letter to Unifi asking for a gift or bargain sale of the property--or at least an option. Proceeds from any gift would be used to create the regional office for the revolving fund. Meanwhile, the Edenton board member quietly caucused with the county manager and the town manager, both of whom were quite familiar with PNC, largely because of its earlier work to successfully redevelop a vacated school for elderly housing. Unifi would no doubt consult them about the future of the property, the largest industry in the local tax base. Both were enthusiastically supportive. The Unifi officer assigned to close down the mill responded to PNC's letter by requesting details about what PNC would do with the property and how it would deal with existing tenants in the mill houses, many of whom were Unifi employees or retirees. PNC sent another letter, outlining how the property might be subdivided and sold under protective covenants and how PNC would work with existing tenants as well as with the town and county for public benefits. On the basis of two telephone calls and two letters (as well as several contacts with "references"), Unifi committed to making the gift. The transaction, however, had to be closed before the end of the year for tax purposes. On very short notice, PNC's board of directors met the weekend before Christmas and agreed to accept the property.

Was there any possible downside to accepting this gift? Absolutely. PNC's revolving fund would have to deal quickly with several potentially large and troublesome issues: determining the extent of environmental problems, becoming landlord for two dozen families, securing a vacant mill and more than 30 vacant houses, operating a private utility system in the mill village, developing a land use plan and getting subdivision approval and other permits for the property, and getting staff in place--long before revenue from property sales would be forthcoming. Missteps could be expensive and vexing. Despite the potential hazards, the board voted unanimously to accept the property with great gratitude. It also voted to authorize obtaining a line of credit for the property as soon as possible. The gift is the largest in PNC's history, and the property transaction has generated more publicity than any other.

The industrial nature of the property has brought new supporters, and the streets of the mill village have been filled with sightseers from North Carolina and beyond. Collaborations with other Edenton institutions have brought about some charmed

results. The local arts council held its anniversary gala in the mill in April, and nearly 600 people attended a seated dinner-dance and auction in the recently closed factory. An iron pour, turning radiators into sculpture, took place on the mill's grounds. The local historical commission held its antiques show in the mill. The town is exploring funding for new nature trails through the cypress grove along the property's edge. The county is looking at space in the mill for a conference center. With the help of students from the University of North Carolina's Department of City and Regional Planning, PNC developed a land use plan for the mill village. Elements of "new urbanism" were incorporated into the plan, which called for reserving open spaces and pedestrian easements throughout the mill village. Existing tenants were assured that they would be able to continue to rent or buy their homes. Most of the vacant houses were put on the market.

Critics predicted that the proposed covenants were too strict and the prices too high. The press hovered expectantly as the first four bids were opened for houses in the mill village, six months after the gift was consummated. Was it going to be a success or a failure? Was the cup half full or half empty? The local coffee klatch debated the situation daily over breakfast. Three-to-five years was the optimistic projection for selling the vacant mill houses. Four months later (ten months after the gift), every available house (twenty-six) was under contract, and a waiting list was lengthening daily. The line of credit was repaid. Critics now opined that the offering prices were too low. In reflecting on the success of the venture, the then-manager of PNC's new Edenton office, Kirk Carrison, outlined reasons for the project's immediate success:

1. Value. Good houses for a reasonable price.
2. Location. A charming historic town sited on the Albemarle Sound.
3. Strict protective covenants, providing assurances that houses will be properly renovated and owner-occupied.
4. The land plan, based on the latest "neo-traditional" planning ideas, which retained substantial areas for conservation purposes.
5. PNC's reputation. Unlike buying from a traditional developer, purchasers knew that Preservation North Carolina was making a long-term commitment to make the project work.

The Edenton project is not complete, but its success is already undeniable. Other towns and other states are calling to learn more about how the Edenton mill village has been revived through private investment. Even the *Wall Street Journal* featured the project in an article: "New Breed of Residents Revive Old Mill Villages." Plans are now progressing for a new nonprofit to develop the cotton mill building itself into an arts and education center, wellness center, meeting facility, inn and restaurant. Proceeds from the sales of houses are being used to pay current operating and capital expenses for the new satellite revolving fund office, and "excess funds" are being placed in endowments at two community foundations for future funding for the regional office.

Little more than a year ago PNC's revolving fund satellite office for northeastern North Carolina was a mere dream. Now it is in place, fully staffed and with the beginnings of a significant endowment, thanks to Unifi's gift. Appropriately, Unifi is a recipient of a 1997 Governor's Business Award for the Arts and Humanities. To the casual observer, this gift, which will generate over \$2 million, may seem like an unprecedented and lucky windfall. It happened remarkably quickly and smoothly. And yet, it was the by-product of 20 years of revolving fund work. One has to look at issues that the donor surely addressed. Liquidating a large piece of real estate would be within the organization's range of expertise. PNC had 20 years of real estate work under its belt. Giving the property to any nonprofit organization, preservation or otherwise, without real estate knowledge would have been a recipe for disaster for a big vacant property.

The last thing the donor would want would be for the project to fail, creating disappointment and controversy and possibly having the property revert to the donor for disposition. PNC's board had taken risks before, and this gift required a great leap of faith on its part. Not only did the decision to accept the gift have to be made quickly, but it was also clear that at least \$100,000 would have to be spent before any substantial revenue would be derived. Getting a line of credit using the property as collateral turned out to be easy; the banks competed to provide the best terms, knowing that more lending would follow if the project succeeded. Nevertheless, many nonprofit boards are averse to taking on that kind of debt. Staff would be needed immediately to manage the real estate. Additional borrowing and quick personnel decisions would be required.

Without staff on site, the property would spiral downward. PNC employed the former mill manager to be its representative for the first few months after the gift, ensuring familiarity and continuity. He later accepted a job elsewhere managing another textile mill, and PNC hired a revolving fund manager with commercial real estate experience. The office assistant is a former bookkeeper for the mill.

Throughout the process Preservation North Carolina has made every effort to reflect well on its donor, Unifi. Through articles and publicity, public hearings and Rotary Club talks, the donor has received credit for this innovative piece of philanthropy. Through one gift, Unifi has helped preserve an important piece of industrial heritage, planted the seeds for preserving many more properties in the northeastern region of North Carolina (through the endowment for the regional office), provided public benefits for Edenton residents (such as the open space and trails), protected the homes of its former employees, and enhanced economic development and heritage tourism efforts for the town and county. In the process, Unifi also rid itself of a colossal headache. The gift from Unifi has placed PNC in a position to proceed with the opening of a second office for its revolving fund, this one in Winston-Salem. With the Edenton office in place and operating, the organization could focus its attention westward. Furthermore, when the possibility arose of taking on a second mill and mill village through a generous bargain sale, PNC was in a position, financially and organizationally, to say yes. PNC hopes that Glencoe, a mill village near Burlington and Graham in the center of the state, can help generate the same kind of support for its new Winston-Salem office that the

Edenton property provided for its northeastern office. Preservation is ultimately about real estate. Through its revolving fund work, Preservation North Carolina has achieved a level of competence and a reputation that will encourage future gifts of real estate. In fact, its plans for raising future endowment funds have evolved through the years: gifts of real estate are more likely to fund its future than are more traditional sources of funding. And for a preservation group, what could be more appropriate?

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