



National Trust *for* Historic Preservation

## Preservation Leadership Forum

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# Preservation Basics

## Preservation Revolving Funds

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Cover photos courtesy of Palmetto Trust for Historic Preservation, Knox Heritage, Historic Boston, Inc.

# Preservation Revolving Funds

A preservation revolving fund is a pool of capital created and reserved for a specific activity with the restriction that the monies are returned to the fund to be reused for similar activities. An organization typically sells the property with a legal agreement that requires the character of the property be maintained. Revolving fund programs vary widely in administration, approach, and outcomes. In the years since the first programs were established in the late 1950s and early 1960s, revolving funds have evolved to address changing community needs and real estate markets.

Many of the first revolving funds got started by purchasing one building in response to a specific crisis. Today, revolving funds are most often used strategically to accomplish specific preservation objectives.

The acquisition and resale of historic properties is a significant responsibility for a preservation organization to take on. Fund managers must be knowledgeable about the challenges inherent in operating revolving funds in strong and weak markets. They must know how to work effectively in their particular community, whether it is urban, suburban, or rural. They must be willing to devote a significant amount of human and financial resources to make each individual project a success. In short, a desire to preserve noteworthy buildings is not enough in today's complex, ever changing world of real estate.

Another type of fund, a revolving loan fund, lends money to individuals or organizations to acquire and rehabilitate historic properties. Many state- and citywide revolving funds offer low-interest loans only to nonprofit organizations, businesses, or government entities. Other funds offer loans to individuals for residential projects. According to the guidelines under which the fund operates, the program can make dollars available for property acquisition, rehabilitation, and/or related professional services. For the purposes of this publication, the term revolving fund will only refer to acquisition revolving funds.

This publication explains how acquisition revolving funds operate and outlines considerations for preservation staff and board members contemplating the start or expansion of a revolving fund.



The Palmetto Trust for Historic Preservation (PTHP) entered into a long-term lease with the owner of the [Frances Jones House](#) on Daufuskie Island located off the coast of South Carolina. PTHP rehabilitated the property for use as a vacation rental. The rental income is then revolved back into the program for future projects. Photos courtesy PTHP.



## How Revolving Funds Work

Revolving funds are used to gain control of historic properties through purchase or donation. Once the property has been rescued, the fund protects the property with permanent covenants while seeking a sympathetic purchaser. When the property needs emergency stabilization, or when the magnitude of the rehabilitation job is a deterrent to buyers, some funds will do renovations prior to resale, acting as developer of last resort. Most well-established funds attempt to intervene on behalf of endangered properties earlier, avoiding last minute rescues in favor of thoughtful negotiations with interested parties.

Many revolving funds focus on the needs of a particular neighborhood as part of their stated mission. Some revolving funds stabilize or rehabilitate the properties they acquire. Others simply buy and then resell the properties. These programs exclude or reduce rehabilitation for a variety of reasons dictated by the local marketplace

At times, simply by having financing available for projects, a revolving fund can influence the future of a historic property or neighborhood. Often the existence of a successful fund with a strong track record in the community will be enough to get the preservation organization to the negotiating table where it can help develop a plan to save an important structure and perhaps buy the time needed to implement the strategy. Other times, by virtue of the cash or development expertise it can bring to a project, a revolving fund ensures that preservation is a part of a larger revitalization effort.

Revolving funds also vary on whether they purchase buildings outright or use options and other strategies to hold properties until buyers are found. Acquisition tools and techniques will be discussed later in this publication.

## ORGANIZATIONAL ISSUES

Before embarking on any real estate activity, an organization must ensure that the acquisition of property supports its overall mission and charitable purpose and that it has the capacity and expertise to take on a challenging and time-consuming program. Managing a revolving fund is a complex business that requires professional expertise. Without careful planning, it can draw staff, board, and volunteer time away from the other important activities of a preservation organization or revitalization group, and in the worst case, can drain an organization of its financial resources.

## LEADERSHIP AND STAFFING

The organization's board of directors is ultimately responsible for the revolving fund, establishing its goals, objectives, policies and procedures, and overseeing all financial transactions. Most organizations, however, establish a committee to oversee the revolving fund. The makeup of this committee is considered

critical to the strong operation—and flexibility—of the fund. Whatever the number of members, this is a relatively small group that includes professionals such as bankers, real estate agents, developers, architects, contractors, lawyers, accountants, planners, business leaders, social service providers, government officials, neighborhood leaders from target areas, and/or other well-connected individuals. Managers of established funds often note that the success of their program is directly related to the makeup of the committee.

The roles and responsibilities of the board, committee and staff must be defined clearly in the bylaws. The board and revolving fund committee should delegate certain decisions to the staff so that critical transactions will not be delayed unnecessarily. The staff must have the authority to negotiate the details of individual transactions.

The staff's level of knowledge and experience with real estate and financing also directly contributes to the success of a revolving fund program. Key staff working with a revolving fund, especially if they are spread across a region or state, must think as a team and receive regular training on real estate and related issues. A clear understanding of the administration of the fund results in better relationships, more productive staff, and more professional management.

Most active revolving funds have at least one professional staff person to manage the program. Many have additional staff to handle educational programs and marketing, accounting, design review, construction oversight, fundraising, and administrative functions. Key staff members must be entrepreneurial in spirit and able to get along well with potential sellers, donors, and buyers. The fund director or other designated person must be comfortable speaking to groups and providing information to the media, government officials and the public. Some revolving funds have staff solely dedicated to the fund; others use staff that has additional preservation responsibilities in the sponsoring organization.

Revolving funds that are not very active can in theory be managed without paid staff, but this will limit their effectiveness and credibility as well as the number and complexity of projects that can be undertaken.

Besides full-time staff, many organizations rely on the services of consultants and other professionals, either on an ongoing basis or as a one-time arrangement. A skilled real estate attorney is needed to ensure that the fund's transactions are well structured and implemented from a legal standpoint. Accountants or bankers are needed to maintain accurate records and develop accounting systems, or to hold and manage funds on behalf of the revolving fund.

Consultants can help evaluate potential projects by providing architectural, engineering, and financial feasibility reports and environmental assessments. An architectural historian can also provide important building information relevant to a potential project.

Although much useful advice can be gained on an informal basis from board members and interested colleagues, fund program managers should keep in

mind the difficulties of obtaining quick action or services involving substantial work in this manner. Many organizations have found that they must pay for professional services and therefore negotiate reduced-fee retainers in advance.

While sound real estate training and relevant experience are critical for staff, board members, and consultants, commitment to historic preservation is equally important. An organization that operates a preservation revolving fund, after all, undertakes projects with the goal of preserving historic resources. It takes action because of a particular building crisis or because it can address a need that the marketplace will not. All decisions recommended by the staff and approved by the board, therefore, must be made based upon the stated preservation mission and goals even as they take into account conflicting technical advice from various sources.

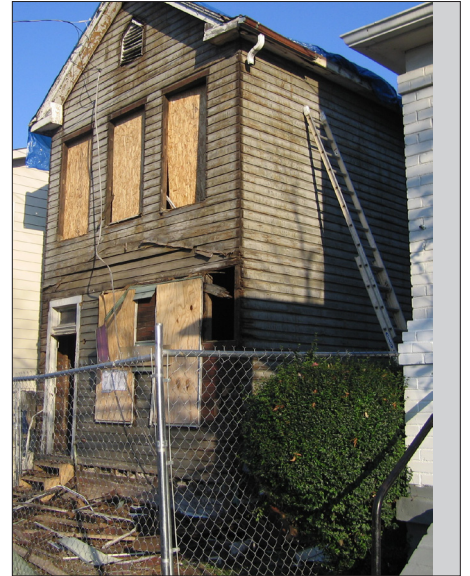
## DEFINING THE FUND'S MISSION

An organization that is thinking about establishing a revolving fund should start by assessing the community's pressing preservation requirements, its overall support for preservation, and the specific need for a revolving fund. An organization should consider the following questions:

- Are important buildings being demolished to make way for other development or to remove eyesores or social problems?
- Are other means available to protect endangered properties? Would improved zoning ordinances, historic district review processes, or a strong easement program be more effective than a revolving fund?
- Are areas being ignored by the private real estate industry, resulting in deterioration, disinvestment, or abandonment of significant structures?
- Should a revolving fund be part of a comprehensive preservation effort to address these problems or can other sources do the job?

The process of assessing the community's needs provides an excellent opportunity for preservationists to educate the community about historic preservation. It may be very difficult to establish a successful fund if the community does not understand that historic properties are assets and if local government and citizen support is lacking. Before embarking on a major new initiative such as a revolving fund, an organization may need to strengthen itself through a membership drive, public relations campaign, and other outreach and educational efforts.

Once an organization has decided to establish a revolving fund, it will need to develop a strong, yet flexible mission



The L'Enfant Trust recently launched its Historic Properties Redevelopment program, which targets the Anacostia District in Southeast Washington, D.C. Pictured here is its first project at 2010 14th Street, S.E. Photos courtesy L'Enfant Trust.



## Tax and Corporate Status

To attract needed capital from donors, a privately operated revolving fund is typically incorporated as a nonprofit, tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Corporate status is preferable to unincorporated associations, charitable trusts, or other legal status, because officers and board members can be protected from personal liability for corporate acts.

The requirements for establishing a nonprofit corporation vary by state and are governed by state corporation law.

Most revolving funds are organized to be, and have been determined by the Internal Revenue Service to be, exempt from federal income taxation under the provisions of Section 501(c)(3) of the Internal Revenue Code. Donations made to Section 501(c)(3) organizations are deductible as charitable donations for federal income, gift, and estate tax purposes and generally will qualify for state charitable deductions as well.

Certain restrictions must be included in the articles of incorporation of organizations seeking Section 501(c)(3) status. These are explained in IRS Publication 557. The purpose clause of the articles must be carefully drafted both to demonstrate the charitable/educational purposes of the organization and to assure that all present and contemplated activities will fall within the stated purposes.

The key factor is the need to distinguish the fund from a commercial real estate operation. The more development activity undertaken by the fund, the more complex the level of inquiry.

Section 501(c)(3) organizations also are classified as either private foundations or publicly supported charities. For tax and programmatic reasons, it is important that a revolving fund be classified as a publicly supported charity. The determination of private foundation status is based on the organization's sources of financial support. Most properly structured revolving funds should be able to qualify as public charities. Section 509 of the Internal Revenue Code and accompanying regulations set forth the public support test.

Because of the complexity of the issues involved, the advice of an experienced corporate and tax attorney is essential in obtaining and maintaining tax-exempt status.

statement for the fund. Developing the statement can be an effective exercise for the board of directors; the fund may also benefit from seeking input from other interested individuals and organizations. The organization should publicize the completed mission statement widely to explain the fund's role in the community. It will be an essential component of fundraising requests and for staff evaluation of prospective projects.

Most funds maintain a corps of board members, affiliate organizations, and friends to seek out appropriate projects to undertake. If the fund's mission involves saving endangered properties, the organization should identify and track potentially threatened buildings to avoid last-minute emergencies. Most successful fund programs consider themselves to be in a state of constant evolution, monitoring changes to the types of properties being threatened, depending upon local market conditions.

The disposal of industrial buildings, for example, has become more relevant in some states in recent years as communities deal with corporate restructurings and job losses. Other communities suffer from a lack of affordable housing. Teardowns dominate preservation discussions in other regions as new homeowners seek to demolish small houses to build significantly larger homes. Issues relating to modernist and/or other buildings from the recent past have come into the forefront in some communities. Yet others must deal with disinvestment in particular neighborhoods and/or commercial areas. Still other cities face massive demolition campaigns that threaten entire neighborhoods already drained of people and resources. A revolving fund must have a flexible yet strong mission statement to deal with ever-changing preservation challenges.

## **DETERMINING RISK**

As the mission of the fund is being determined, it is important to consider how much risk the fund is willing to take. A fund that does not take risks will not be able to effectively fill the gap left by the private sector. Some funds expect to lose money on a few transactions, and their fundraising approach incorporates that expectation. Those funds usually assist properties that no one else will touch. Other funds purposely choose some projects that are expected to lose money and others that will return a profit, in hopes that overall the gains and losses will even out.

Although a clearly defined mission and level of risk are important for a successful fund, again it is essential to maintain enough flexibility to meet unforeseen needs that arise in the community.

All organizations need to periodically reevaluate their fund's mission, risk level, and operating procedures to ensure that the fund continues to meet the needs of the community and that it operates effectively. This is typically done as part of the organization's strategic planning initiative undertaken every few years. Planning and monitoring should include numerical targets plus other benchmarks to help evaluate the revolving fund's effectiveness in the community.

## TARGETING A REVOLVING FUND

Given limited resources and the need to have a significant impact in their communities, most organizations target their fund's activities. A fund might concentrate on a specific geographic area such as a single historic district, neighborhood, or downtown. This approach may focus the fund's work on either residential or commercial properties, and the fund can develop expertise in either area relative to evaluating properties, finding buyers or tenants, or marketing buildings. Concentrating on a specific geographic location increases the fund's visibility and reduces its risk, since, with a greater number of transactions in a single locale, the fund can help shape the future direction of the target area.

It is important for a fund director to work closely with existing neighborhood, merchants, and other community organizations active in a proposed target area before announcing the availability of a new fund. Residents and property owners must be included in the planning process in order to meet community needs, to build cooperative relationships, and to educate the public. It is equally important to keep these entities involved as the fund changes over the years.

A fund can affect a larger area by focusing on a particular type of property such as endangered buildings, religious structures, or institutional properties. A statewide organization, for example, might choose to target endangered rural properties, deciding that they are most in need of a strong preservation advocate. Some of the most effective funds provide a solution of last resort for buildings that otherwise would be lost through abandonment, disinvestment, or demolition. Targeting also is an effective way to accomplish a fund's social goals: to increase the supply of affordable housing, prevent displacement, and reverse disinvestment.

In order to be as aggressive as possible in the target area or with the targeted building type, most organizations today realize that is critical to have a complete historic building survey. If the area is a local, state, or National Register historic district, or if the building type has been included in a multiple resource listing of historic sites, a survey will already exist. Contact the state historic preservation office or local planning and zoning department to determine if a survey is available. The survey will identify the most significant properties in the area and may provide valuable information as to current ownership, uses, condition, and availability.

## PROJECT EVALUATION

As noted, an organization should develop clear guidelines for project eligibility based on the overall mission and objectives



In a partnership with the program Restore America: A Salute to Preservation, a collaboration between the National Trust for Historic Preservation and Home & Garden Television, Knox Heritage used its Endangered Properties Fund to restore 1618 Washington Avenue in 2007. Photos courtesy Knox Heritage.





of the fund. Fund managers must develop criteria to evaluate both the financial feasibility and preservation benefits of undertaking potential projects. Procedures, such as review by the full board of directors, should be in place to address situations not addressed in the program guidelines so that the fund can maintain flexibility. The following criteria can be used in developing guidelines and evaluating projects based upon those guidelines:

**Historic and Architectural Significance.** Eligible properties might include those listed in or eligible for listing in a local historic district, a state register, or in the National Register of Historic Places, or deemed significant—architecturally, historically or culturally—by some other objective measure. Some funds stipulate simply that properties must be more than 50 years old and retain their architectural character to be eligible for consideration.

**Degree of Endangerment.** Rescuing an endangered property can be a highly visible and easily understood activity for a fund to undertake. A property may be deemed endangered if it could be demolished or irreversibly altered if the fund does not intervene. Although eleventh-hour intervention may be needed, it is also critical to attend planning and zoning board meetings on a regular basis and use other methods to learn about potential projects before a great deal of time and money has been invested by unsympathetic developers.

**Geographic Location.** If the fund has decided to work in a specific historic district, neighborhood, downtown, or other defined geographic area, it is important to define terms such as “urban,” “rural,” or “downtown” to avoid misunderstandings about what is eligible. The likely impact on the surrounding area must also be considered. Would the project spark other preservation activity nearby? Many well-established funds now focus on creating a “critical mass” of rehabilitated projects in a specific neighborhood. By saving a cluster of properties in a four-block area, for example, an organization can make a difference in the revitalization of the entire neighborhood.

**Building Type.** An organization can decide to limit the scope of a fund to broadly defined building types such as commercial or residential, or more specifically, to large homes that are endangered, apartment buildings that are being converted to high-priced condominiums, single-room-occupancy hotels that are being lost to development, churches that are being abandoned, or a wide variety of other building types. Specific targeting may help attract new donors to the organization and can help to focus energies and resources, but can be limiting over the long term if guidelines do not allow for flexibility.

**Local Support.** The support of neighbors, public officials, and existing organizations for the project should be considered as well as the property’s potential significance to a special constituency. Statewide programs should also take into account whether enough local volunteers are committed to helping with a project, including clean-up and/or showing a property offered for sale.

**Fund Participation.** The fund should consider if a property can be protected through methods other than direct financial involvement. Are there others that could undertake the project or is the fund’s involvement critical? What would the investment buy that might not happen otherwise?

**Capacity Building.** Will involvement in the project help increase the capacity of the fund's staff or board in some way? Such projects may be considered priorities, but care must be taken not to extend too far beyond the fund's level of expertise. It is also a good idea to think about whether participating in the project will increase the organization's standing with residents, local banks, municipal government, or other community players. Finally, it is wise to consider if the project will be a good model for others in the community.

**Maximum Investment Per Project.** Most organizations set limits on the amount of dollars that the fund can invest in a single project. Even if the fund decides to work on only one project at a time, it is wise not to invest all the capital in one project in case of a loss or if unexpected expenses arise. The organization may set limits based on a specific dollar amount or a percentage of the fund's assets. There may be provisions for increasing the amount in certain cases or with the approval of the executive committee of the board or other authority.

**Additional Considerations.** Other considerations include knowing whether the property is affected by mortgages, liens, or other title problems, whether the entire project can be completed in a specific amount of time, and whether the acquisition and/or rehabilitation costs are realistic. If the property is to be resold, staff must also determine if the property is marketable in a reasonable amount of time. Fund managers typically consider these and other financial issues before referring a project to the fund committee.

## ACQUISITION TOOLS AND TECHNIQUES

For acquisition revolving funds, part of the decision about whether to become involved in a project relates to the type of property right or ownership interest to be acquired and the tools and techniques that will be used to gain control of the property. Some properties are acquired outright in fee simple ownership; that is, the purchaser acquires all rights to the property, subject only to acceptable liens or other recorded encumbrances such as utility easements. Examples of less-than-fee ownership are remainder interests, options, and rights of first refusal.

Although fee simple ownership is the most straightforward approach to controlling property—and may be the only transaction a property owner is willing to consider—it also involves the most commitment, the greatest potential for risk, and the largest outlay of cash.



Galveston Historical Foundation (GHF) has used federal HOME Investment Partnerships Program funds to purchase and rehab three houses for low-income buyers or renters, including 3801 Winnie. Photos courtesy GHF.



If an owner is uncooperative, fund managers must consider if they can spare the time and energy it will take to negotiate the acquisition. Fortunately various acquisition tools and techniques are available. Some involve time and financial resources immediately. Others postpone financial expenditures for a period of time or indefinitely.

## **OPTION**

In this legally binding agreement an owner agrees to sell or lease a property at a fixed price (expressed in dollars or as a formula) to the holder of the option if the holder exercises his or her option within a specific period of time. There is no obligation by the holder to exercise the option. No other entity, however, can purchase the property during the option period or, if it does, it will acquire the property subject to the option, which is not extinguished by such a purchase. The agreement also may allow the holder to assign the option to another party as explained below. As “consideration” for the option, the owner generally is paid a percentage of the sales price which eventually is applied to the purchase price or forfeited, depending on the agreement. Options are a good way to gain control of properties with very little financial risk and to buy time to locate a buyer or raise funds to purchase the property. Properties in active real estate markets may require a significant financial investment to be optioned, but properties that have been difficult to sell, those located in less urban areas, or whose owners are cooperative may be optioned at little or no cost. This is particularly true if the fund has a good track record for marketing properties.

Normally an option holder is not responsible for insuring or maintaining a property during the term of an option. This is an important advantage of dealing with property under an option agreement.

## **ASSIGNABLE OPTION**

This arrangement allows the organization to retain the exclusive right to purchase the property while it seeks a suitable buyer. It then can assign the option to a preservation-minded buyer at closing and incorporate preservation restrictions into the sale. The fund can accomplish the same goals with an assignable option as it does with a fee simple purchase, but it avoids the costs and risks of real estate ownership. Alternatively, some of the risks of ownership can be avoided by arranging a simultaneous purchase and resale of an optioned property. This arrangement, however, places the revolving fund in the chain of title, which exposes it to possible environmental liability and other risks.

Fund managers may spend years negotiating with a property owner for an option to buy or a right of first refusal so the property is not lost when the owner dies or moves away. If the fund is attempting to purchase buildings in a neighborhood experiencing gentrification and displacement, it may purchase options quietly on a large number of properties to ensure their affordability, since prices may escalate if revitalization plans become widely known.

## **PURCHASE AGREEMENT**

If the owner is unwilling to negotiate an option and outright purchase is necessary, the standard property purchase agreement can include conditions

that provide time in which to complete structural assessments, cost estimates, and environmental audits or to gather other information necessary to determine the feasibility of undertaking the project. Purchase agreements can be made contingent on the buyer's ability to raise funds for the rehabilitation.

## RIGHT OF FIRST REFUSAL

This acquisition technique provides the right to match any legitimate purchase offer on a property within a certain period of time. A right of first refusal is appropriate when the organization is interested in a property that is not in any immediate danger of demolition, adverse development, or alteration, and not likely to be sold soon. This tool ensures that the fund managers will be notified before any sale takes place. It does not, however, obligate the fund to purchase the property. The major drawback is that the organization could be notified of a purchase offer at a time when it does not have the financial resources to buy the property. Therefore, it is prudent to negotiate ample time between notification and settlement to allow the organization time to raise acquisition funds. The organization also should retain a right of first refusal on each resold property to ensure that it is notified when the property is about to change hands.

## DONATIONS OF REAL ESTATE

Some revolving funds begin and continue building over the years by accepting donations of real estate, which are then sold and the proceeds used for future acquisitions. Properties may be donated outright by individuals who want to preserve their property, reduce estate and inheritance taxes, or obtain a charitable contribution deduction for the fair market value of the property. Properties also may be conveyed with conditions. The donor may want to retain a life estate, which allows the donor to remain in the property for the rest of his or her life. A retained life estate is a good tool to use when an organization knows that it wants to acquire a given property in the future, but it may be decades before the organization receives the property. The organization should periodically monitor the property to ensure that the owner continues to care for/maintain the property. Another method is a bargain sale arrangement, where the property is sold to a revolving fund at less than its fair market value and the seller benefits from a charitable contribution deduction for the difference between the bargain sale price and the



Historic Charleston Foundation (HCF) has operated a revolving fund since 1957. HCF used its fund to restore the facade and piazza of this small "Freedman's Cottage" in 2012. Photos courtesy HCF.



## **Environmental Liability Issues**

In deciding whether to take title to a historic property, an organization must assess whether ownership could subject it to potential liability for environmental problems connected with the property. Such liability could be imposed by the Comprehensive Environmental Response, Compensation, and Liability Act, known as “CERCLA” or the “Superfund” law, laws governing underground storage tanks (USTs), asbestos, PCBs (poly chlorinated biphenyl), or other federal or state laws. The reach of these laws can be broad, and liability can be assessed regardless of fault.

It is important to perform a “due diligence” assessment of the property before acquisition (by purchase or donation) through a site inspection and research into its prior uses and ownership. Sometimes this can take the form of a Phase 1 Environmental Site Assessment performed by an individual with expertise in environmental site assessment practices.

The purposes of the assessment are to determine the business risks of ownership, such as the cost of remediation, and, provided no environmental problems are discovered during the due diligence assessment, to position the organization to take advantage of the “innocent purchaser” defense to CERCLA or similar defenses to other laws should the need arise. What constitutes “due diligence,” which can be determined only under a “facts and circumstances” analysis by the courts, will vary with the nature of the property, its prior uses, the neighborhood, and other factors. Organizations may choose to perform limited remediation, if necessary, to increase the marketability of the property, such as, for instance, the removal of underground storage tanks according to applicable regulations.

fair market value of the property.

Because the properties are restricted by preservation covenants when they are resold, they may sell at a lower price than the amount paid by the revolving fund to acquire the property. Therefore donations of properties can help build up the fund. Other financial support, such as grant funding, may also be needed.

Certain states provide incentives to encourage corporations to donate properties to nonprofit organizations. Prospective donors may be found among those lenders that have taken properties through foreclosure but are unwilling to spend the time and holding costs necessary to sell them. These lenders may be particularly interested in donating properties if doing so enhances their Community Reinvestment Act (CRA) ratings. Other potential donors may include corporations or government agencies seeking to dispose of surplus property.

## **LONG-TERM LEASE**

A fund can accomplish its goals of protecting historic properties in a variety of other ways that do not include ownership. A long-term lease agreement between the landlord (property owner or lessor) and the tenant (lessee) spells

out the terms under which the tenant can use the property over a long period of time (generally at least 15 but not more than 99 years). Leases may be used when a property owner does not or cannot transfer full ownership, such as train companies, which do not always have the right to sell historic depots. By leasing an endangered property from the owner, the revolving fund protects the property and may even provide for the rehabilitation of the property. A lease with an option to buy provides even more protection since the option can be exercised if the lease arrangement is not protecting the property adequately. Alternatively, an organization can lease a property it has purchased if it cannot or should not be sold.

## **GRANTS OR DIRECT EXPENDITURES**

If a building is extremely significant and in danger of demolition or collapse, fund managers may want to pay for a feasibility study or engineering report, emergency stabilization work, security measures, or documentation of a resource that cannot be saved. Organizations may also choose to make rehabilitation or restoration grants. A grant may or may not be awarded on the condition that an easement be donated, with the result being that the fund in effect buys a preservation easement.

## **THE HOLDING PERIOD**

The holding period is the most risky and potentially most costly part of a real estate transaction for revolving funds that acquire property. Before the purchase, the fund managers should estimate costs expected during the period when the fund owns the site and before resale to a preservation-minded buyer.

## **INSURANCE**

These costs will vary dramatically depending on whether the property is vacant. Property/casualty insurance is difficult to obtain on vacant buildings. Often it is necessary to go to more expensive nontraditional markets for such coverage. In the past, some revolving funds have self insured these properties, relying on the value of the underlying land to recoup its investment in the case of a major fire or other damage. This is not typically the case today, particularly when money from multiple lenders is involved.

Where casualty insurance is purchased, note that coverage for vandalism and malicious mischief is desirable but may be expensive. Also any applicable co-insurance requirements must be met, e.g., that the property is insured for the policy's required minimum amount. Otherwise, in the event of a loss the amount recovered may be drastically diminished. Liability insurance, however, generally is available and affordable, and it is essential to protect the fund from major losses due to liability problems. The National Trust has a property insurance program available to nonprofit organizations, small businesses, and homeowners.

## **TAXES**

Nonprofit owners of real property are not automatically exempt from local property taxes. A knowledgeable tax attorney may be able to assist the fund's

efforts to obtain at least a partial exemption if taxes are owed. Some states have enacted legislation to assist in this regard. Some organizations do not choose to remove the properties from the tax rolls since their intention is to resell the property.

## UTILITIES

Depending on the climate and the length of time the property will be vacant, the fund may have to pay to maintain some temperature or humidity control in the building to prevent broken water pipes or deterioration of the building and its fixtures and furnishings. It also may be necessary for security reasons to light portions of the building or provide power for a security alarm or smoke detection equipment. In some cases, a working sprinkler system may be required to qualify for fire insurance.

## MAINTENANCE

As the property owner, the organization will be responsible for ensuring that lawns are mowed, leaves are raked, vegetation is trimmed, trash is disposed of, and that insects and rodents are controlled. Many revolving fund programs rely on volunteers for basic work.

## EMERGENCY REPAIRS

Fund managers must anticipate the need to undertake emergency repairs or stabilization work, including preventing water damage and entry by unwanted visitors. This might involve repairing or boarding up broken windows, repairing or replacing broken gutters and drain pipes, patching leaking roofs, fixing broken water pipes, or any other general repair work required of owners of older buildings. Fund managers also may need to secure properties to prevent damage from natural disasters such as hurricanes.

## SECURITY

Taking appropriate security measures to protect a vacant structure can be the most important cost savings and public relations tool available to a revolving fund. Vacant buildings are easy targets for arsonists and vagrants who seek shelter and accidentally (or intentionally) start fires. If not properly boarded or fenced, vacant buildings also pose hazards to neighborhood children and residents. The organization should adequately secure the site to prevent damage to people or property. Fund managers should arrange for periodic building inspections and notify the police department to



Historic Boston redeveloped the historic Alvah Kittredge House (1836) in Roxbury for market-rate and affordable housing. Photos courtesy Historic Boston, Inc.



prevent looting, dumping, squatters, and other problems. It may be necessary for a tenant to live on site or for the organization to hire a security service. Important interior architectural features or furnishings may have to be removed temporarily from the site for security reasons.

## **REHABILITATION OPTIONS**

Decisions on how much rehabilitation an acquisition revolving fund will undertake depend on the condition of the property, the real estate market, the type of property and its intended use, and the financial and technical capacity of the fund. If properties can be sold with little or no rehabilitation work, much less time and money will be tied up in each one. Fund managers must weigh the benefits of a quality preservation project and the resulting potential of a faster sale versus the costs and time involved in rehabilitation.

## **PREPARATION OF PLANS AND SPECIFICATIONS**

A property may be sold with the agreement that the new owner will complete rehabilitation work according to plans and specifications prepared by the fund. Often the plans and specifications are developed in cooperation with the buyer to meet both the buyer's needs and preservation standards. Plans and specifications aid the marketing process because they provide specific information as to the costs associated with full rehabilitation, which is useful both to potential buyers and lenders. This may be especially important where the project is particularly formidable.

## **REHABILITATION AGREEMENTS**

A property also can be sold subject to an agreement that requires rehabilitation work be undertaken within a specified period of time and according to certain standards. The standards can refer to local design guidelines or to the Secretary of the Interior's Standards for Rehabilitating Historic Buildings or they can note specific architectural features that must be retained and techniques that must be used to ensure appropriate preservation. Rehabilitation agreements may include the right of the revolving fund to repurchase the property if work is not completed on schedule or according to plan. Other remedies in the event of non-performance could include a provision for liquidated damages (a cash payment fixed in advance) or right to sue for specific performance (whereby a court order is obtained to force completion of the work) or the right of the fund to enter a property to complete repairs or rehabilitation and then place a lien on the property for the amount spent. Such remedies must be included in the agreement and must be allowable under state law. Most revolving funds, however, rarely need to exercise these legal options.

## **LAST RESORT PLANNING**

Rather than rehabilitating and/or selling a historic property in a short amount of time, a fund may plan to "mothball" (stabilize and board up) a building for future sale or move a building to a new site.



## MOTHBALLING A BUILDING

An acquisition fund may choose to simply secure a property if all attempts to sell the property fail or the market is so poor that the building is difficult to sell at a reasonable price. This approach also may be used if the fund lacks the resources to undertake a project but must purchase the property immediately, or if the real estate market is such that it makes sense to acquire a number of properties at a low price for later development. Mothballing can be costly because all the costs and potential liabilities of property ownership are incurred and no income is derived. It can, however, be a good way of protecting historic properties. The National Park Service publication, [Preservation Brief 31, Mothballing Historic Buildings](#), provides useful information about stabilizing historic structures.



## MOVING A BUILDING

Although moving historic structures from their original site is considered a last resort, there are times when a property's original site has completely lost its integrity or there is no alternative for the building but certain destruction. In deciding whether to move an endangered structure, fund managers must determine whether the building can survive the move and whether a suitable new location can be found. The new site must provide an appropriate setting for the property (compatible architecture, adequate land area, acceptable location, etc.) and neighboring sites must not be adversely affected. Whether the organization is moving a building itself or working with a new owner to move it, all parties should work closely with the state historic preservation office to ensure the possibility of continued listing in or eligibility for the National Register of Historic Places. The SHPO may be able to identify a company experienced with moving historic buildings. The organization must contact local government officials and utility companies well in advance and take into account liability and insurance issues. Although a last resort option, moving historic structures allows the fund to educate the community about historic preservation since most moves offer opportunities for media coverage.

By using its revolving fund to transform blighted buildings into livable homes, Knox Heritage has helped revitalize neighborhoods and stabilize property taxes. Photos courtesy Knox Heritage.



## DESIGN GUIDELINES AND PROTECTIVE MEASURES

The ability of a preservation revolving fund to provide long-term protection to the historic properties it purchases is one of the principal differences between

nonprofit organizations and for-profit real estate entities. A major goal of revolving funds is to ensure long-term protection in addition to restoration or rehabilitation of historic properties.

To provide guidance for its own work and for work required of buyers, a revolving fund should use a set of clear, straightforward preservation standards. In the past, revolving funds primarily used the Secretary of the Interior's Standards for Rehabilitation. Today, many local programs can also look to community-specific design guidelines for considering and reviewing projects.

Many revolving funds and other preservation organizations work continually to protect historic districts and properties through advocacy, identification of resources, and establishment of local historic districts. It is important to note, however, that protection through local designation is only as strong as the historic district commission and the regulations that monitor and govern it. Private methods may offer more permanent protection and can be tailored to the specific asset. Many of these methods are the same as those discussed in relating to acquisition and resale. These tools also can be used to guarantee the protection of properties once they are resold.

## **PRESERVATION EASEMENTS AND PROTECTIVE COVENANTS**

Revolving funds can use easements and protective covenants as a tool to protect the properties they resell. A preservation easement affords a qualified easement holder, which often is an incorporated, nonprofit preservation organization or a state historic preservation office, with certain rights with respect to real property that is owned by another entity or person. A preservation easement is created by a deed of easement that is recorded in the land records (just as a deed of ownership must be recorded each time real property changes hands) and “runs with the land.” That is, it applies to all current and future owners of the property being protected, either in perpetuity or, if the preservation easement is for a period of years, for its specified duration. A preservation easement generally protects all exterior architectural elements of a historic property. Significant interior features also can be protected, and in some cases a separate or associated conservation easement protecting the site is executed as well. The easement generally requires a reasonable level of maintenance by the owner.

A protective covenant places restrictions in the deed at the time a property is sold. An organization—generally the seller—is designated to enforce the covenants. Assuming the covenants are perpetual in duration, the legal effect is the same as that created by a deed of easement. If a buyer will not accept covenants, another buyer might need to be found.

Organizations that use preservation easements and protective covenants have an obligation to monitor and enforce these restrictions to ensure that property owners are complying with their obligations under the preservation easement or protective covenant. Preservation easements and protective covenants are governed by the state's easement enabling laws, and organizations and legal counsel should carefully review state requirements to ensure they put enforceable restrictions on the title.

## REHABILITATION AGREEMENTS

Revolving funds that do not rehabilitate properties prior to their resale often require execution of a rehabilitation agreement in addition to an easement as a condition of sale. Rehabilitation agreements define what the owner must accomplish within a specified time period, usually with plans and specifications approved by the fund. Easements or covenants ensure that the completed work will be maintained and protected in the future. Rehabilitation agreements were described earlier as a rehabilitation option.

## LAND TRUSTS

Revolving funds may work collaboratively with local land trusts to protect property through the use of preservation and conservation easements. Land trusts may retain long-term ownership of land in order to limit the uses of the land and protect the affordability of housing. In addition to protecting property by ownership and through conservation easements, some land trusts lease land they have acquired but sell the “improvements” (the structures, roads, utility systems, and other amenities) constructed on the land. The property is protected through restrictions included in the land lease at the time the improvements are sold. The lease may restrict the uses of the land, protect the historic buildings on the site, or limit the profit that can be made by homeowners upon resale of their houses.

The Land Trust Alliance has developed a [set of standards and practices](#) that, although written for land trusts, provide important guidance for any organization or government agency that holds land or easements for the benefit of the public. The Land Trust Standards and Practices is organized into 12 standards and supporting practices, which include mission, staffing, conflict of interest, fundraising, real estate transactions and much more. The National Trust has developed standards to complement the Land Trust standards and practices and to fit the standards to historic preservation organizations.

## CAPITALIZING YOUR REVOLVING FUND

A revolving fund requires funding which must be raised or earned on an ongoing basis to support the fund’s operation. The amount needed will depend on the number of staff members hired, the office space available, the equipment needed, the size of the area to be served (a statewide fund will require a larger travel budget, for example, than a neighborhood fund), and the number of projects to be



Historic Charleston Foundation was able to stretch the reach of its revolving fund 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.



undertaken. Other costs may include loan repayments, bank service charges, public relations and educational programs, membership fees, reference materials, conferences and other staff development expenses, as well as the cost of an annual audit or financial statement. A long-term view of how the organization will be sustained is essential if it is to carry out the responsibilities it has undertaken as easement holder, tenant, or property owner.

The program budget will identify dollars available to be invested in properties as well as funds needed to cover closing costs, feasibility studies, architectural fees, construction management, legal and accounting costs, holding and marketing costs, insurance, and other project-related expenses. To the extent that the fund's corpus is depleted by project losses it will have to be replenished periodically.

Seed money can help to get a new revolving fund off the ground. Those funds can be used for community education and outreach to promote historic preservation and the need for a revolving fund and to begin identifying potential projects. Seed money also may be used to acquire options on endangered properties before knowledge of the fund becomes public and prices rise. It can be used to hire a director or consultant to coordinate the fund's start-up activities, fundraising, and early project development.

Some funds have a secure source of income to cover operating costs, such as long-term leases and other real estate income. An ongoing source helps a fund avoid depleting the corpus. It also permits a revolving fund board to take more risks with the fund's corpus, so the inevitable losses associated with even the best revolving funds will not threaten the organization's existence. Because donors like to know that the majority of their funds will be used for programmatic purposes, a stable source of operating income will help greatly with fundraising.

Board members should be called upon to donate funds, help raise money on an ongoing basis, or even guarantee loans to the fund. The board should also help put in place a fundraising plan and reevaluate it periodically. The plan should be based on the fund's mission, and should include a concise statement about the need for the fund and its goals and objectives as well as a realistic budget. It should outline the steps to be taken to raise funds, the responsibilities of the various participants, potential sources, and a schedule for implementation. Ongoing fund raising, perhaps with periodic major capital campaigns, can be used to build the corpus and cover any losses.

Fundraising consultants can be very useful in developing the initial fundraising plan. The consultant selected should be someone well connected in the community who can help develop the plan and a list of potential donors, and who then can test the waters quietly. Once a few key donors have made commitments, the revolving fund can go public with its fundraising campaign. The fundraising goal should be high but not unattainable.

If possible, the fund should hire a staff person with fundraising skills and experience, preferably in the field of historic preservation. It is critical to have

someone in place to maintain campaign records, acknowledge donations, and keep donors informed. A committed volunteer may be able to undertake those responsibilities, but a staff person generally is needed.

## A POWERFUL FORCE FOR PRESERVATION

Preservation revolving funds typically have limited resources and cannot save every building. Yet strong funds not only buy and sell properties, they also work to make preservation dollars more available through other sources. By demonstrating the success of their own projects and involving bankers, real estate lawyers, and other experts on their boards, revolving funds can help ensure that additional money is available for future projects. Preservation revolving funds are powerful preservation tools.

## RESOURCES:

Myrick Howard, *Buying Time for Historic Properties*.

The Land Trust Alliance, *The Conservation Easement Handbook*.

The Land Trust Alliance, *The Land Trust Standards and Practices*.

## ACKNOWLEDGEMENTS

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National Trust for Historic Preservation

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The National Trust for Historic Preservation works to save America's historic places for the next generation. We take direct, on-the-ground action when historic buildings and sites are threatened. Our work helps build vibrant, sustainable communities. We advocate with governments to save America's heritage. We strive to create a cultural legacy that is as diverse as the nation itself so that all of us can take pride in our part of the American story.