



Community Development Corporation

June 11, 2007

Mr. Anders Gyllenhaal  
Executive Editor  
The Miami Herald  
1 Herald Plaza  
Miami, Florida 33132--1693

Re: House of Lies

Board of Directors

Dear Mr. Gyllenhaal:

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Vice Chair

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Francis V. Gudorf, Esq.  
President

Your article in the June 3<sup>rd</sup> edition of The Miami Herald entitled "Developer resells land, doesn't build" constitutes a disservice to your readers who are being misinformed about the nature of the transactions undertaken by Jubilee Community Development Corporation mentioned in the article. You state in your editorial of the same date that your staff spent five months "sorting through housing records" yet much of the information below is readily available in those records.

Facts which are integral to a fair understanding of the story are the following:

1. **Both parcels of land mentioned in your article (Pueblo del Sol and Rio del Sol) were acquired by Jubilee from private entities using non-public financing only.** Neither parcel was city-owned land; neither parcel was given to Jubilee; and no public funds (City, County, State or Federal) were used to acquire either property. Both the City loan (for Pueblo) and the State loan (for Rio) mentioned in your article were predevelopment loans obtained after the property was acquired with private financing.

2. You use the term "flipping" to describe Jubilee's sale of both parcels. **"Flipping" is a real estate term describing a situation in which an individual or company acquires a piece of real estate with the express intent of selling the real estate at a hefty profit as quickly as possible while making few if any additional improvements to the real estate. What we did was definitely not "flipping."** With respect to the Pueblo property, Jubilee purchased the property in February, 2000 (well before the real estate bubble of the ensuing years) and sold it in July, 2005 almost 5 ½ years later. With respect to the Rio property, Jubilee purchased the property in December, 2001 and sold the property in March, 2004, more than two years later. In the interim, Jubilee staff spent innumerable hours working on the Pueblo project in conjunction with (i) platting the property (which took almost two years), (ii) obtaining a parking variance, (iii) completing full architectural plans and specs; (iv) installing offsite infrastructure improvements, and (v) undertaking an extensive marketing campaign, all of which can be attested to by the more than six linear feet of files on this project. Similar time, effort and expense went into developing the Rio project. When both properties were acquired by Jubilee, it was with the good-faith intention of developing them to completion as condominium homeownership properties.

Unforeseen events—principally the historic rise in the cost of high-rise construction—rendered the projects economically unviable and compelled the sale of the real estate. This chain of events does not constitute "flipping."

3. The Pueblo property was sold as a result of the City of Miami declaring a default on its pre-development loan for Jubilee's inability to break ground on the project within the specified time-frame.

**Instead of seeking to have its City loan forgiven or to have it reduced or restructured--as appears to have happened with a whole host of politically connected developers, as reported by the Herald--Jubilee's Board of Directors decided to be good corporate citizens by immediately repaying the loan. As the City well knew, the only way in which Jubilee could repay the loan was to sell the property.** Jubilee obtained a pay-off letter from the City setting forth the amount due; Jubilee repaid the entire principal plus interest on the loan; subsequently, Jubilee received from the City a Release of the mortgage and restrictive covenants on the Pueblo property as well as an account statement showing that Jubilee owes nothing to the City.

**4. The Rio property was sold for similar reasons. A primary acquisition loan was coming due and our lender was unwilling to further extend the loan.** Furthermore, because of the continuing escalation in the cost of high-rise construction, Jubilee deemed the project to be economically unviable. **In this case also, Jubilee was without sufficient financial resources to repay the loan other than by selling the land.** Upon sale of the land, all lenders were repaid in full, with interest. This includes the Florida Housing Finance Corporation which was repaid in full all funds which were due to that agency, which in turn released all of its security interests in the land. **An important but overlooked detail regarding the \$500,000 State pre-development loan was that Jubilee actually drew down less than \$35,000 of that loan.**

5. The Herald article notes the substantial difference between the purchase prices and sales prices for the two parcels. While sales prices were substantially greater in 2004 and 2005 than our purchase prices in 2000 and 2001--reflecting the explosion in the cost of land in Miami-Dade County during those years--readers should have been reminded that **sales price does not necessarily equate net profit**, which is a much more relevant measure of the financial benefit to Jubilee from the sale of these properties.

a. While the purchase price of the **Rio** property was indeed \$607,500 and the sales price was indeed \$2.1 million, after repaying all debt on the property and the interests of a private investor, less predevelopment expenses incurred directly by Jubilee and closing costs, **Jubilee's net profit was less than \$200,000**, hardly a windfall for more than two year's staff work on the project.

b. While the purchase price of the Pueblo property was indeed \$270,000 and the sales price was indeed \$1.8 million, **Jubilee's net profit was approximately \$880,000.** Out of those remaining funds, Jubilee has (i) invested a substantial portion in the Carrie P. Meek Manor Project, a 70 unit affordable rental property currently under construction in Overtown for very-low income senior citizens; (ii) invested additional net proceeds as leverage for loans to acquire and substantially rehab a 30 unit property in Liberty City which will be converted to condominium homeownership for low and moderate income families; (iii) invested additional net proceeds as leverage to acquire a 276 unit rental property in which 80% of the units are set aside for very low-income and low-income families. **While the loss of the 11 affordable units at Pueblo which Jubilee was contractually obligated to deliver to the City is regrettable (not the entire 44 unit project as the Herald mentions), Jubilee has reinvested those proceeds to provide 100 units of affordable housing in Miami-Dade County plus several hundred other affordable units in Florida.**

While much of the Herald's series on the affordable housing crisis is commendable, the Herald also missed an opportunity to educate readers about the intricacies surrounding the development of affordable housing by nonprofit developers. Development financing for a single affordable housing project may require funding from multiple sources (including Federal, State, County, City, foundations and banks) because no single source will provide all of the development financing necessary to complete the project, and indeed a normal requirement of each of these sources is to use their funds to "leverage" funding from other sources. This development financing process can take years to complete during which costs invariably increase (during the past several years at double digit annual levels) so that when a nonprofit developer thinks it has commitments for all its financing and can break ground, it discovers a substantial gap between its original projected costs and its actual costs, which compels it to go back to its funders, request an extension of time to break ground and beg for additional financing, which again can take several years. In addition, while a nonprofit developer is chasing the next dollar to break ground on its project, and while its costs continue to rise, it may very well be locked into a government mandated maximum sales price or maximum rental rate on the units which it proposes to develop which makes the project nonviable in the context of rising development costs, that is, we cannot sell the units or rent the units for an amount sufficient to cover our costs. By spreading public funds for affordable housing among a great number of development projects instead of annually concentrating funds only on a very limited number of proposed projects and getting them done quickly, the government (whether Federal, State, County or City) simply guarantees failure for many of the projects funded. If

the Herald and its readers can urge structural reform of the funding system, perhaps something can be done to assure that sufficient funding is available so that nonprofit developers can complete affordable housing projects in a business like fashion, and some of the failures mentioned in your series of articles can be avoided in the future.

While the Board of Directors of Jubilee laments the loss of the 11 Pueblo affordable housing units contracted with the City, the Board is proud that Jubilee was able to leverage the \$880,000 of net profit from the sale of that property into more than 300 affordable housing units and thereby continue to fulfill its mission.

Very truly yours,

Elizabeth VonWerne  
Chairperson, for the  
Board of Directors

Miami.herald.letter