



coping with **CRISIS**

Strategies for helping land trusts through the recession

**I**t's time to reassess. The financial crisis that hit full force in September is likely to affect conservation efforts deeply for many years. This is a critical time for land trusts to take stock of their financial positions, strategic plans and fresh opportunities.

The good news is that the fundamental conservation value of land is enduring. Whether the real estate price is high or low, the biological, scenic and recreational resources, and agricultural productivity of land have intrinsic value. Unlike other assets and investments, a drop in the real estate market does not bankrupt or even change conservation values. As a result, as land prices fall, the coming months and years may be the best time ever to invest in conservation.

Using experience from past (albeit not as severe) downturns, conversations with people knowledgeable in conservation and finance, and intelligent guesses about how such events play out, what follows is a discussion of recommended strategies for land trusts that are addressing the challenges of these times.

#### ORGANIZATIONAL STRATEGIES

**Stay Afloat** – Though this may be the toughest economic period in many years, conservation is not possible now or in the future if land trusts go out of business with the rest of the crowd. Donations will continue to drop because most, if not all, funders have lost money. Some are literally wiped out financially; others have much less, if any, disposable income; and others

simply don't know the extent of the damage to their net worth. Longer-term giving will be hurt too as the impact of the crisis ripples through the economy.

Land trusts must take immediate steps to address the loss of revenue through conservative management and creativity, utilizing the following strategies:

- **REDUCE SPENDING** – Cut all nonessential spending. Ask donors of restricted grants to allow a slowing in spending to extend grant periods.
- **REVIEW DEBT** – Evaluate and consider paying off or renegotiating debt with potentially burdensome terms. While carrying debt is a good way to maintain cash reserves, until future cash flow is understood, beware of the costs of debt service.

- **REDUCE TRANSACTIONAL RISKS** – Before making acquisition commitments, rigorously assess risk and try to book take-out funding upfront. If not possible, triple-check pledges and confirm in writing future payment commitments. Have an exit strategy.\*

- **RE-EVALUATE CURRENT NEGOTIATIONS** – Prices aren't what they used to be. Depending on the circumstances and legal commitment, don't let the momentum of deals force closings at unrealistically high prices. If you are planning on reselling a property to a government agency, be careful that your purchase price does not exceed the agency appraisal (which will probably reflect the decline in real estate values).

- **MAKE CONTINGENCY PLANS** – Be ready to further reduce spending. Consider emergency strategies for generating operating funding.

- **STRENGTHEN FUTURE REVENUE** – Ask major funders to continue their support and give them compelling reasons to do so. Step up cultivation of existing high-end donors in particular. Look for new sources of revenue such as voluntary surcharges or transfer fees on land. Be creative, not scared!

- **FREQUENTLY MONITOR INTERNAL FINANCES** – Review the financial condition of the organization

often. Immediately alert the board to any alarming trends.

- **DEMONSTRATE CONSERVATION OUTCOMES** – To the extent possible, undertake programmatic initiatives—modest as they may have to be—that highlight conservation benefits. Effectiveness, especially in this frozen market, will attract support.

- **MAKE SURE ORGANIZATIONAL RESPONSIBILITIES, INCLUDING STEWARDSHIP, CAN BE FULFILLED** – If core responsibilities cannot be met, consider strategic alignments and mergers that could result in cost savings and increased efficiencies.

#### POSITIONING FOR CONSERVATION OPPORTUNITIES

**The Credit Freeze Puts a Premium on Cash** – There is much less cash in the system because so much value has been lost in real estate, the stock market and just about everywhere else. Compounding this situation is the fact that banks are currently resistant to lending money on land because they are trying to unload bad debt, not take on more debt. Even when banks start lending again they will be legitimately nervous about the credit-worthiness of their customers. Because the real estate market was particularly hard hit, lenders will be even more reluctant to

make loans on land. Since most property is purchased with financing, there will be fewer buyers. As a result, anyone who is able to re-enter this market will have less competition. Whoever has cash will be king, with unprecedented opportunities to acquire land and conservation easements.

**Use All Networks to Secure Funding** – The challenge and unique conservation opportunity of this financial time is to find cash and use it to protect land and thus strengthen conservation’s overall position. Admittedly, finding money for land acquisition, not to mention for organizational operations, is going to be very difficult. See *“Fundraising Wisdom”* (pg. 32) for suggestions on how and where to find funding.

eners are some of the techniques that foundations have traditionally used to support community development projects, and to a much lesser extent, conservation. They should be encouraged to use these tools to support land trust transactions.

Some land trusts have access to cash from individual conservation lenders or from loan funds that specifically loan money to conservation organizations and were somewhat insulated from the crash in the secondary lending market. Some local banks were insulated as well. While great caution should be used in borrowing money at a time when cash flow is uncertain, debt is one way to preserve and leverage cash.

If a conservation program is planned around upcoming local and state public bond issues,

**CREATING PROGRAMMATIC OPPORTUNITIES**

**The Weak Economy Reduces Development Pressure, Creating Some Breathing Room** – Developers and homebuilders are the most highly leveraged players in the real estate market. With the housing market collapsed and financing frozen, developers have little staying power. Many will or have already abandoned recently acquired, partially developed or fully developed properties. A parcel once “lost” to conservation may be available again. Banks are holding mortgages in foreclosure or in danger of foreclosure as well as guarantees for construction bonds that, if called, will require huge cash outlays.<sup>1</sup> Developers, homebuilders and banks will welcome relief, which could translate into deeply discounted prices on land and debt. Land

ideally utilizing seller financing (which will now be attractive to motivated sellers)<sup>3</sup> secured with options,<sup>4</sup> land trusts can give landowners access to cash they need to refinance, pay down debt or meet other financial obligations.

Economic conditions have changed so drastically that land trusts in the position to make conservation purchases should be sure to communicate this opportunity to previously skeptical landowners.

• **WITH WEALTHY LANDOWNERS** – Since land is now less liquid, some landowners may be interested in donating it to get out from under maintenance costs and real estate taxes, and because charitable gifts free up cash for donors through income tax savings.

The good news is that the fundamental conservation value of land is enduring.

At some point the abundance of distressed properties on the market, the low real estate values, and the lack of buyers will create huge opportunities for land conservation. Conservation funders should be attracted to buying conservation land when the price gets low enough. Land trusts are their vehicles for doing so. These conservation “bargains” will be a compelling incentive to give, even in hard times.

Foundations, with the value of their portfolios down, will be looking for ways to further their mission while preserving capital. Program-related investments, linked deposits, guarantees, revenue loans and loan sweet-

review their status. The approval record of open space initiatives has a history of community support but the issuing authorities are going to be under pressure to cut back. In some places bond ratings are already declining and payout of conservation funding is slowing. Public funding conditions, particularly federal funding, will be discussed in future issues as the situation unfolds.

Recognizing that none of this will be easy, the conservation acquisition strategy should be to find the money, build and strengthen relationships with those who control it, wait for prices to drop more fully, then act.

trusts are attractive buyers because they don’t require further infrastructure investments.<sup>2</sup>

**Strengthening Relationships Creates Opportunities**

• **WITH WORKING LANDOWNERS** – Owners of key parcels of land, especially farmers and ranchers, face financial difficulties if they have borrowed against land appreciation or even formerly robust income streams—now all gone. Land trusts with available capital may be able to offer assistance, in exchange for conservation, even to those who were previously reluctant to protect their land. Through outright easement or fee purchase,

• **WITH DEVELOPERS AND HOMEBUILDERS** – Developers and homebuilders are selling off inventory to raise cash to fund operations and service debt. Since banks are tightening lending to this sector by limiting the availability of loans, severely restricting lines of credit and requiring collateral on previously unsecured loans, developers and homebuilders will be further squeezed. Some control property with high conservation value that land trusts could acquire at deeply discounted prices. Identifying these parcels and developing these relationships now will help in future negotiations.

## Quick Take

During hard times, land trusts should:

- Stay afloat
- Use networks to secure funding
- Strengthen relationships
- Tout the benefits of conservation

• **WITH BANKS** – Banks, particularly local banks, will be the first to know about property at risk. Once banks begin to recover (many have been acquired and have experienced major personnel and procedural/regulatory changes) they will be motivated to avoid foreclosure on the mortgages they hold. They may be willing to work with landowners and land trusts to sell debt at discounted prices that land trusts could exchange for conservation.

Local and regional banks that did not participate in the secondary markets are in stronger financial positions with more autonomy. Land trust board members or supporters with bank connections and staff should meet with bank presidents to strengthen these relationships, and suggest roles the land trust can play in assisting their land-owning customers.

**Conservation Investors Can Bring Cash to Conservation** – Some investors converted assets to cash before the crash or have other uninvested funds. They want safe places to park their money. Land, when the prices get low enough and with reliable take-outs, will be good for that. Through land trust networks and given the right investment

opportunity, land trusts should identify conservation-minded investors to supplement traditional funding sources.

Conservation investors' return requirements run the gamut from those primarily interested in supporting the cause and preserving capital to more traditional investors with higher return requirements (though not demanding as high or as short-term returns as before the crash). Land trusts must structure these projects with a conservation play for the land trust and a play for the investor. Whenever it is possible to layer in other funding sources to supplement charitable dollars, such as public funding, conservation investment capital, and increasingly monetizeable conservation benefits such as ecosystem service payments, carbon credits and recreation, projects will be more doable. Because investor repayment usually requires property resale, and the timing on resale is less certain now, these projects require very careful assessment of risk.

**Creating New, Beneficial Partnerships** – In this capital-constrained environment, even with limited cash, business opportunities with banks, developers, farmers and others burdened with debt are emerging and could shuffle the deck in favor of land conservation. A bank partnership on a distressed property, for example, could meaningfully change the relationship with that bank

and its broad network, as well as conserve important land. If land trusts can find even limited transactional capital, their actions will catch the attention of new constituencies and earn new respect.

### DEMONSTRATE WHAT CONSERVATION CAN DO Choose Projects Strategically

– With limited funds, demonstrating a disciplined, strategic approach to programmatic choices is essential. In this buyer's market, the choices will be overwhelming and more in the public eye. Use these opportunities to demonstrate the breadth of conservation's benefits. Make inroads into new sectors (e.g., financial, agricultural, community development) that may have been less accessible in the past. Consider how the organization wants to be positioned when the economy regains strength. Focus programmatic initiatives with this goal in mind.

### Highlight and Demonstrate the Multiple Public Benefits of Conservation

– Trust at all levels in the financial world is at an all-time low. Investors trusted that their investments would be safe; depositors trusted that their banks were conservatively investing their savings; the public trusted that the system they supported was solid. All that is gone now.

In a world where trust has been lost, land trusts can differentiate themselves as credible institutions offering increasingly valued and durable services. Unlike the speculative transactions of the land investment bubble, land conservation is the simple, transparent

activity of buying land of high conservation and community value and conserving it forever. Its multiple benefits delivered at relatively low prices increasingly matter to people whether the economy is weak or strong. Land trusts' transparency, local focus, respected community boards and track record make them attractive institutions to partner with and support.

The more land trusts demonstrate the range of community needs met by conservation, the more conservation can use the opportunity of these times to prove that it can be a trusted investment worth making. 🍂

WITH DEEP APPRECIATION TO THE CONSERVATION LEADERS WHO REVIEWED AND COMMENTED ON THIS ARTICLE.

\*MORE INFORMATION ON THE TECHNIQUES AND TERMS USED IN THIS ARTICLE CAN BE FOUND IN STORY CLARK'S *A FIELD GUIDE TO CONSERVATION FINANCE* (ISLAND PRESS, 2007), AND THROUGH LINKS AT WWW.STORYCLARK.NET. MORE IN-DEPTH DISCUSSION OF THE ECONOMIC CRISIS, RECOMMENDATIONS FOR LAND TRUSTS, AND NEW FUNDRAISING AND FINANCING TECHNIQUES FOR LAND TRUSTS WILL BE AVAILABLE IN HER UPCOMING SECOND VOLUME.

<sup>1</sup> County and municipal governments require construction bonds from developers to cover infrastructure costs in the event that they are unable to pay for those improvements. Banks guarantee these bonds and thus are on the hook if the developer can't pay for the improvements.

<sup>2</sup> For example, assume a critical conservation property has been approved for a 10-lot subdivision. Before it is fully developed, the developer goes out of business and sells it to a land trust. When the land trust voids the plat, the county or municipality releases the bond, which saves the guaranteeing bank tens of thousands of dollars in infrastructure costs.

<sup>3</sup> With seller financing the seller takes back the debt to finance the sale. Though sellers may prefer cash, payments over time have benefits to many sellers and preserve a land trust's cash.

<sup>4</sup> Since in most cases option payments are not taxable until exercised, a land trust can offer an attractive initial payment to a landowner, and defer acquisition until better positioned to purchase.