Vive la difference!

At my local downtown 7-11, every morning the staff restocks the shelves with a customized delivery of products. In 7-11's, shelf space is at an extreme premium. To offer ultra-convenience, they need prime locations; hence their rent is expensive; hence they have to be small. Then, because every cubic foot is costly, inventory management becomes not a luxury but a survival imperative. The manager spends much of her time checking the shelves and tapping the inventory counts into a big handheld pad similar to that of a UPS driver. From there the figures are uploaded to a master computer somewhere in cyberspace.

That urban tidbit illustrates why 7-11's are busily wiping out independent corner bodegas. The franchise has found a way to combine the localized touch of high-convenience, high-specialization business, with the scalability and cost efficiency of national buying (the shelves are filled mainly with 7-11 generic-equivalents, not brand names) and a powerful IT backbone. Human interface, computerized optimization – both/and, not either/or.

All through the business world we see examples fusing little to big, complexity to scale, autonomy to franchise – and, in the process, using information technology and electronic systems to substitute for real estate. You can get wine and espresso at McDonald's Rome, halal from McDonald's Cairo, vegetarian non-beef burgers from McDonald's Delhi – and yet at each place you'll find the same decor, the same clean rest rooms, the same smoke-free environment.

Which brings us directly to a quiet crisis in affordable housing – and a way forward implied by an innovative transaction whose announcement crossed my desk last week.

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- **Development needs *touch*.** Not only are the zoning, impact reviews (Environmental? Traffic? Green Space?) and approval processes byzantine and time-consuming, they also place an enormous premium on local authenticity. Site design is worked and reworked; neighborhood focus groups and unbounded "community input" requirements vary at the whim of mayors and city councils. (Just last week Harvard finally broke ground on a new expansion/relocation of an existing property in Allston adjacent to the business school campus, a mere *eight years* after it first became a gleam in the university's eye.) Touch is painstakingly earned, enduring, and not portable. Touch means development capacities must remain localized, and small.

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- **Ownership needs *scale*.** Because programs continually evolve toward greater complication and particular detail, organizations need to become progressively larger so they can maintain in-house the detailed knowledge to compete and win. Keeping up with changing policy imperatives and requirements can be a full-time job for someone, whose value is shared across the entire organization, so it's more cost-effective in bigger firms. Likewise, competition and weaker rental markets have made mission-critical priorities out of cost containment and income optimization – activities that benefit from

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electronic systems with scale and speed economies. As a result, ownership has become regionalized if not nationalized.

In conventional real estate, this dynamic tension long ago resolved itself into two distinctive roles. The aggregated enterprise-financed owner (like a REIT or a pension fund), depends upon and consumes the output from a network of smaller merchant builders, and their point of connection is a forward contract to buy and sell a newly developed property upon its completion, lease up, and stabilization. This natural labor-divided symbiosis has not yet arrived in affordable housing, despite being long overdue. Smaller developers have been reluctant to "give up" (as they see it) control of their progeny – their successful properties – even when a larger organization is obviously more capable and efficient at owning and operating them.

Now the Great Recession is changing those dynamics. The small cannot sustain themselves independently because, even if they are property managers themselves, their small-scale profitability margins are too thin to feed the resource-heavy development department as it incubates the next property. Thus a July 12 press release from the NHP Foundation is striking, for like the first kernel that pops in the pan, it heralds many more such events to come.

The Falls Church Housing Corporation, a 30-year-old organization that operates 87 apartments, joined up with an entity nearly 50 times larger, the NHP Foundation, a 22-year-old national non-profit that owns 4,100 apartments in 10 states, in what the Foundation described as the launch of an NHPF Affiliates Program. The release cites marrying NHPF's "managerial strength in finance, asset management, resident services, and fundraising to local [properties] that cannot support the breadth or depth of staff to sustain their programs," which yield cost savings and expertise the smaller entities need. Higher quality service at lower cost is achievable only with scale.

The smaller entity's former board chair sounded complementary notes, saying his organization now could "continue to serve our region – centered in Falls Church, Virginia – while our staff and newly expanded Board of Directors benefit from the expertise and resources of NHPF." To be sure, FCHC came with a dowry: "we have pledged FCHC assets and expanded action plans to pursue our affordable housing mission."

Like many successful business marriages, this one appears to have been predicated on longstanding familiarity each with the other, compatible missions and corporate cultures, and a complementarity of needs and resources.

There is a nutshell is the duality our industry needs: localized authentic entities that find ways to marry themselves to larger, mission-compatible owners whose span is metropolitan, regional, or national. *Vive la difference*! TCA

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