Knox Heritage’s Real Estate Program: From Modest Start to Powerful Preservation Tool

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Forum Journal, Volume 29, Number 1, Fall 2014, pp. 3-9 (Article)

Published by National Trust for Historic Preservation
DOI: 10.1353/fmj.2014.0028

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KIM TRENTO

In our profession, life frequently serves up lemons. Devastating losses of one-of-a-kind places after hard-fought battles or time-intensive negotiations. But at times like that, it’s empowering to remember an old cliché and find a way to mix up some lemonade. That is how Knox Heritage’s J. Allen Smith Endangered Properties Fund was created in 2004.

Knox Heritage’s initial foray into real estate began in 1999 with the help of the National Trust for Historic Preservation’s Inner City Ventures Program. We knew we wanted to make a difference in the historic low- to moderate-income neighborhoods surrounding downtown Knoxville and needed to put our money where our mouth was to have a meaningful impact. Even though we had no staff at the time, we gathered together a group of volunteers with the skills we needed—real estate agents, contractors, city community development staffers, architects and neighborhood residents—to craft a business plan and apply for funding. At the time, the National Trust required that we raise local dollars to match a portion of the line of credit it committed to provide. We had no track record in real estate and little credibility with most funders, so the Trust’s endorsement of our efforts enabled us to approach a local community foundation and obtain a $100,000 line of credit as well as a small grant to create our business plan. We launched our Vintage Properties program with $350,000 in lines of credit and $35,000 in reserves to absorb any losses.

But now what? Knox Heritage had never managed a construction project before and we had no staff to do it. Our solution was to contract with a local nonprofit affordable housing provider, Knox Housing Partnership, to manage the general contractor we hired for the job. That partnership worked well for both organizations. We learned the ropes of construction management and our partner organization earned a reasonable fee while learning how to do a
preservation-based rehabilitation project. Knox Heritage went on to manage its own construction projects and Knox Housing Partnership went on to do preservation rehabs in the historic neighborhoods where it works.

**FIRST FORAY**

The little house we started with was seen as a lost cause by many neighborhood residents after it was abandoned, suffered a fire, and became the site of criminal activity. Plus the economics made no sense for a private developer since there would be no margin in the budget for a profit, and there was more structural deterioration than the average homebuyer would want to tackle. That’s where our nonprofit organization came in—we only needed to break even and were able to purchase the house for $1 through the City of Knoxville’s blighted properties program. Our goals were to save an endangered historic structure, prime the pump of the real estate market in the neighborhood by eliminating a drag on redevelopment efforts, and help revitalize a historic neighborhood. At the end of the day, we achieved all three goals and walked away with a profit of $125 after the house sold almost immediately.
NOT FOR THE FAINT OF HEART

That initial win gave us the confidence to move forward, but then we began to realize that this type of work is not for the faint of heart or the impatient. We next bought two foreclosed houses in a neighborhood that was still in the beginning stages of being revitalized. That is where we learned the impact that carrying costs can have on any project. It took longer than expected to commence work and much longer than planned for the properties to sell in the neighborhood’s still emerging market. During those many months we were paying interest on our loans, property insurance, and property taxes, plus we had to keep the lawns mowed and the properties secured against the theft of building materials. In the end, we made a profit on one house that was gobbled up by the loss on the other. Still, we basically broke even and learned valuable lessons. So, onward!

Our next two projects were trials by fire—one, literally—as we suffered two freakishly rare incidents that we now have to laugh about whenever we tell the stories. We were not laughing at the time though. In the first incident, a contractor, who was hired by a homeowner down the street from a house we’d purchased, mistakenly removed all of the original wood siding from our property. His workers went to the wrong house—our house—with crowbars and made quick work of the 90-year-old poplar boards. Of course, he had no insurance and our insurer refused to cover the damage since it was unintentional vandalism. The contractor soon skipped
town, never to be seen again. We also owned another house nearby. Restoration work on it was nearing completion and we were scheduled to close on a sale in 30 days to a couple who had fallen in love with the house and were ready to move in. Then vandals on an arson spree set it on fire. Luckily, the insurer did cover that loss and the buyers decided to wait for us. They rented an apartment for six months while we restored the house for them again. We really couldn’t make this stuff up.

**LOSING THE BATTLE BUT WINNING THE WAR**

During all of these challenges we were also in the midst of a legal battle in partnership with the City of Knoxville and Mayor Victor Ashe. Cherokee Country Club had purchased a spectacular home across the street from its club house and stunned the community by announcing that the home would be demolished.

Built for the founder of White Lily Flour Co., J. Allen Smith, the 8,000-square-foot Italian Renaissance Revival house (c. 1915) was purchased in 1999 by neighboring Cherokee Country Club for the sole purpose of acquiring the land to build a parking lot and practice facility for its members. In January 2002 then-Mayor Victor Ashe filed for historic overlay zoning to protect the house. The club’s application for a demolition permit was denied because of the pending historic overlay. In March 2002 the club filed suit against the City, mayor and city council to force issuance of the demolition permit. The suit made it all the way to the Tennessee Supreme Court, and in November 2004 the court unanimously ordered the City to grant the demolition permit, citing the “de facto historic district” was invalid due to the fact that the enabling ordinance was a part of the City’s building code rather than its zoning code—a situation that was quickly remedied by the City, but not in time to save the Smith House. Just two weeks after the ruling, the board of the club initiated the destruction of this once grand estate built by the founder of one of the South’s most famous brands. In less than two hours, more than 80 years of history were destroyed for a parking lot. To make matters worse, nothing from the house was allowed to be salvaged.
During the five years that we fought to save the J. Allen Smith House, we gained many new allies, including members of the club and influential members of the neighborhood where the house was located. Also, the issue of preservation was making headlines in a way it had not in decades and people across the community were discussing the situation. One local PR maven quipped, “Who doesn’t love reading about a fight between the haves and the have mores?” But it was more than that. It was a watershed moment for our community as more and more people began deciding where they stood on the issue of preservation. The media coverage was intense and reached its peak on the day the club destroyed the house. Members of the local media showed up to film the demolition and hundreds of cars streamed past the site to witness it, with many drivers expressing their disgust about the loss as they passed the scene.

We could have chosen to bitterly condemn those involved, but we chose a different tactic. We publicly bore witness to the loss and actually held a wake to mark the loss of the house after years of effort to save it. It was at that wake that the J. Allen Smith House Endangered Properties Fund was born.

One of the neighbors, who had been a crucial ally in the struggle, toasted those assembled at the wake for their efforts and declared that this was a time when we should reject bitterness and defeat in
favor of “making some lemonade.” He had personally garnered financial commitments from several individuals that were originally intended to preserve the J. Allen Smith House. Now that it was gone, he went back to those donors and many of them redirected their gifts to Knox Heritage. A week after the demolition, we launched the J. Allen Smith Endangered Properties Fund at a press conference which generated widespread media coverage. Soon after we received a gift of a property that we sold with preservation covenants and then added those dollars to the fund.

The fund was modeled after Historic Savannah’s program and we were mentored by Mark McDonald of Savannah and J. Myrick Howard of Preservation North Carolina. Their mentoring was critical to our success, as we went from having funding only through loans to also having $250,000 in cash for our projects.

The new source of funding allowed us to have an even greater impact in the community as our real estate program was maturing. We were no longer restricted to working in certain neighborhoods due to funders’ guidelines and could employ the funds more quickly to save endangered places.

A POWERFUL NEW TOOL

Our Endangered Properties Fund was critical to the success of the two projects we undertook in partnership with the program Restore America: A Salute to Preservation, a collaboration between the National Trust and Home & Garden Television. Restore America projects received both grant funding and coverage on the HGTV network. We purchased two severely deteriorated houses designed by Knoxville architect George Barber, known nationally for his mail order house plan books that spread his designs across the country. The combined cost of restoring the two houses that stood side by side in the historic Parkridge neighborhood reached almost $500,000, and we were able to complete the work on both simultaneously thanks to our combined sources of funds.

The challenge was that the cost of restoring the houses far exceeded the prices for which they could be sold. That’s when we discovered another powerful source of funding to fill the gap: corporate sponsorships. By the time the project was complete,
we’d raised almost $175,000 in donated materials, cash and advertising. Suppliers and service providers wanted to be a part of a project that was featured in a series of articles in the Knoxville News Sentinel chronicling the transformation and in the full-page ads the paper dedicated to the project’s sponsors. They wanted their products and services highlighted in the series of segments the local NBC affiliate WBIR ran, culminating in a one-hour live broadcast at the houses that shared the entire story. We have used this model ever since, and our recently restored new headquarters benefitted from almost $250,000 in corporate sponsorship support.

TRANSFORMATIONAL WORK
The Vintage Properties real estate program, which includes the J. Allen Smith Endangered Properties Fund, has been the most powerful tool our organization has ever used. While much of our work is still centered on advocacy and education, our property work has allowed us to put our money where our mouth is and actually show people how to do preservation. We’ve helped revitalize neighborhoods that had suffered 30 years of neglect by transforming blighted buildings into homes that meet modern requirements while retaining the character that is so appealing to so many. At the same time, we stabilize property taxes in neighborhoods, and local governments want that. We create jobs through our construction projects, and the Chamber of Commerce wants that. We’ve learned how to be developers of historic properties who understand the challenges private developers face, and the business community wants that. We’ve transformed from an organization that was perceived as being against progress into an organization seen as spearheading a new type of progress—one that incorporates historic buildings as the foundation for a vibrant future. And our real estate program has made all the difference. FJ

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