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Public Housing Revitalization

The Nation's Quiet Revolution PAGE 16

Engineering a Turnaround in Albany's South End

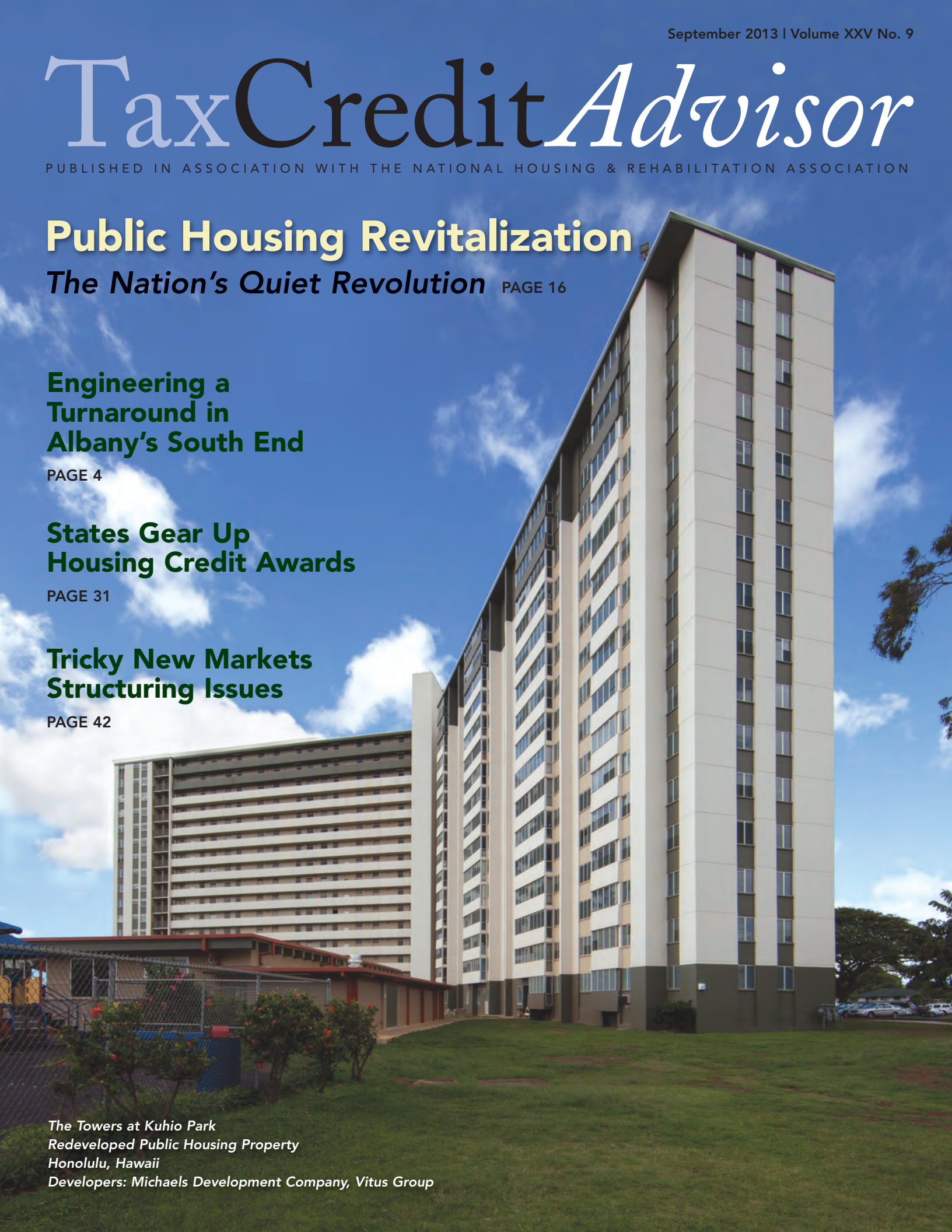
PAGE 4

States Gear Up Housing Credit Awards

PAGE 31

Tricky New Markets Structuring Issues

PAGE 42



The Towers at Kuhio Park
Redeveloped Public Housing Property
Honolulu, Hawaii
Developers: Michaels Development Company, Vitus Group

The Apartments at Park Douglas, Chicago, Illinois. Developed by a partnership of Michaels Development Company and Brinshore, LLC

Backs Against the Wall

Local Authorities Turn to RAD, Private Resources to Revitalize Public Housing

Like many of his colleagues at local housing authorities across the country, Steven Benham is attempting to make lemonade from lemons, trying to maintain and revitalize his public housing properties despite less federal funding and a growing need in his small community for additional affordable apartments.

To do so, the executive director of the Hopewell (Va.) Redevelopment & Housing Authority (HRHA) is turning to non-traditional approaches and funding sources, including bringing in a private developer, using federal low-income housing tax credits for the first time, and participating in the new Rental Assistance Demonstration (RAD) program administered by the U.S. Department of Housing and Urban Development (HUD).

HRHA, located in the city of Hopewell (pop. 22,500), near Richmond, owns and operates seven public housing properties containing 490 units and administers 373 federal housing vouchers.

Established in the 1930s, the nation's 3,100 public housing authorities (PHAs) are local agencies which own, operate, and manage some 1.1 million public housing units generally occupied by very low-income renter households, and administer federal vouchers that subsidize low-income renters in privately owned apartments.

The PHAs' main sources of funding, besides voucher program administrative fees, are annual federal public housing capital funds and operating subsidies received from HUD. The former can be used to repair, renovate, or construct public housing; the latter to defray their operating and maintenance costs.

Multiple Challenges

PHAs face daunting challenges as they try to revitalize their existing public housing.

One is enormous physical needs. A 2011 study estimated the backlog of needed repairs to the nation's public housing properties at $26 billion. Sandra Henriquez, HUD Assistant Secretary for Public and

Public Housing, continued on page 17

Public Housing, continued from page 16

Indian Housing, believes the actual figure today is larger, and adds that more and more public housing units are lost each year, many because they are no longer habitable. We lose ten to fifteen thousand units annually potentially that ways, she says.

PHAs face a huge and growing demand in their communities for affordable rental housing. In Texas, the Houston Housing Authority has more than 10,000 names on its general waiting list for vacant public housing apartments, but has just over 3,000 units. Demand for vouchers is even greater. Last summer we opened up our Section 8 waiting list and had 80,000 applications in one week, says authority President & CEO Tory Gunsolley. We did a lottery and put 20,000 of them the waiting list...There's no question there's a demand.

The picture is similar at other PHAs. We have about 500 active people on our [public housing] waiting list, says Carl DeChellis, Executive Director of the Housing Authority of the County of Beaver (Pa.), near Pittsburgh, which has 1,875 public housing units. At the Hopewell authority, the average wait for public housing is 18 months.

PHA face an uphill struggle as they try to fix up and preserve their public housing. The biggest challenge, says Henriquez, is a lack of sufficient capital resources to revitalize their properties. This is also the reason, she explains, why HUD established the RAD program, the Choice Neighborhoods program, and other placed-based strategies...So you can get the capital infusions needed to preserve the housing stock.

PHAs have seen their yearly allocations of capital funds fall sharply. Annual appropriations for public housing capital funds have dropped from $2.5 billion in FY 2010 to $1.875 billion (before sequestration) in FY 2013. Many PHAs use all or most of their annual capital funds just to make repairs to their existing public housing properties – a Band Aid approach – and have little or nothing for modernization or new development. Some PHAs have borrowed against their future capital funds and must use new allocations to pay down their debt. Finally, there are no longer big chunks of other

Public Housing, continued on page 18

Public Housing, continued from page 17

types of federal cash for public housing redevelopment, such as new HOPE VI grants.

New Directions

Driven by financial necessity, and encouraged by HUD, PHAs are turning increasingly to non-traditional approaches and funding sources to revitalize their public housing properties.

The first foray was projects funded in part with HOPE VI grants. Here PHAs – often in partnership with private developers – revitalized distressed public housing properties into mixed-income communities containing public housing, tax credit, and sometimes also market-rate apartments, using public housing funds to leverage private debt, equity, and gap dollars to finance the transactions.

The next and larger wave was mixed-finance transactions, which continue today. In these, PHAs in public-private partnerships combine their own non-HOPE VI resources with private and other public dollars to revitalize public housing properties to create mixed-income developments.

Boston-based consultant Tom Nutt-Powell, President of Capital Needs Unlimited, anticipates a shift in how public housing properties are revitalized going forward, at least in the near term. He expects fewer traditional mixed-finance transactions because few PHAs have lots of cash available to commit to redevelopment transactions.

Tom Nutt-Powell

A major driver for the shift is HUD's new RAD program. The next biggest wave for portfolio transformation for public housing is RAD, says Nutt-Powell.

HUD has done everything humanly

Public Housing, continued on page 20

Public Housing RAD Volume Is Robust, Say Officials

Sandra Henriquez

The U.S. Department of Housing and Urban Development (HUD) has seen a pickup in the pace and volume of applications from local housing authorities to convert public housing properties under the Rental Assistance Demonstration (RAD), says Sandra Henriquez, Assistant Secretary for Public and Indian Housing.

The program continues to build in momentum, said Henriquez, who expects HUD in the near future to reach the current statutory cap of 60,000 public housing and Section 8 Moderate Rehabilitation units, based on applications already approved, under review, or expected to be submitted.

Under one component of RAD, public housing authorities can apply to HUD to convert the current federal funding received for public housing properties – capital funds and operating subsidies – to project-based vouchers or rental assistance under contracts of up to 20 years.

We're a third of the way [through the 60,000-unit cap] when you consider what's been approved and what's officially in, Patrick Costigan, Senior Advisor in the Office of the Secretary, said August 13. We're fairly optimistic that we'll be going through the cap this fall.

As of August 9, HUD had given initial approvals under RAD for the conversion of 136 public housing projects containing 16,568 units, and was reviewing applications for another 23 projects with 3,493 units.

Costigan said HUD has in its pipeline or expects applications from PHAs for another 70,000 or so units. HUD has requested a legislative increase in the cap. A pending Senate appropriations bill (S. 1243) would boost it to 120,000, extend the sunset date for the RAD program, and provide $10 million in FY 2014 to facilitate the conversion of public housing units in high poverty neighborhoods that couldn't convert without an extra capital boost.

As of August 13, no public housing conversion projects had yet been given final approval by HUD to proceed to closing. After getting RAD initial commitments from HUD, PHAs must finalize the funding sources for their transactions and complete certain other steps to receive final approval.

I think we'll begin to see a trickle of closings by the end of August and they'll pick up in September and throughout the fall, said Costigan.

He noted HUD had seen a big pickup in activity since the Department released revisions and clarifications to the RAD program on July 2. These revisions include offering FY 2012 contract rents for public housing conversion applications received by the end of calendar 2013; permitting applications for multi-phase projects or the conversion of multiple public housing properties; allowing subsidies to be shifted among projects; and permitting applications for financially distressed HOPE VI projects of any age.

Henriquez says RAD gives housing authorities an opportunity to carve out new territory, to be full-fledged real estate developers, owners, and landlords and treat their properties not just as public housing but as real estate that happens to be public housing.

(For details on RAD including recent changes, go to http://tinyurl.com/738vry7) TCA

Public Housing, continued from page 18

possible to make the [RAD] program as flexible as possible, including the approvals, says Macy Kisilinsky of National Equity Fund, a LIHTC syndicator.

Under one component of RAD, PHAs can apply to HUD to convert their current funding for public housing properties (capital funds and operating subsidies) to Section 8 contracts of up to 20 years providing project-based vouchers or rental assistance for a specified number of units. Renovated or new units can but don't have to be on the same public housing site.

RAD, says Henriquez and others, opens up access by PHAs to 9% or 4% federal housing tax credits and to private capital (tax credit equity, debt) to enable them to redevelop properties to preserve or create public housing units and other affordable apartments (e.g., Section 8, tax credit). RAD properties are no longer vulnerable to future cuts in federal appropriations for public housing capital funds and operating subsidies. PHAs can also earn additional income from developer fees and property management fees while acquiring knowledge and experience in real estate development and private-sector financing techniques and funding sources. On the flip side, converted projects become prone to any future cuts in annual appropriations for vouchers and project-based rental assistance. But funding levels for these have held pretty steady in recent years.

RAD is transforming more than public housing properties. It's converting these housing authorities into real estate companies...where they provide an affordable product to the marketplace, says Kisilinsky. And if they do a good job, they'll be rewarded with cash flow as opposed to the administrative fee they basically get with the HUD subsidy.

Hopewell Approach

Benham views non-traditional methods, such as RAD, as the only way that the Hopewell (Va.) Redevelopment & Housing Authority (HRHA) can realistically hope to revitalize its seven public housing properties, which he describes as functionally obsolete. Physically they're in bad shape by today's standards, he says. It's old stuff,

Public Housing, continued on page 22

A Sampling of Revitalization Projects

Public housing authority executives and developers recently described a variety of recent or current housing revitalization projects. Below is a sampling:

- *In Georgia*, Tapestry Development Group (TDG), an Atlanta-based nonprofit, is helping two local housing authorities with RAD awards convert a pair of old public housing projects. TDG executive Shelly Patton described the efforts at a recent conference of the National Housing & Rehabilitation Association. In Macon, TDG, acting as developer, is assisting the Housing Authority of the City of Macon to make modest repairs and convert all of the apartments at Anthony Homes, a 46-year-old complex of 136 barracks-style buildings with 274 units that is well maintained and in good condition, said Patton. Planned funding sources for the $6.1 million transaction, expected to close before September, are $1.7 million in capital funds and operating reserves from the housing authority and a $4.4 million HUD Section 223(f) mortgage. Patton said the substantially greater projected net operating income (NOI) facilitated by RAD permitted leveraging a $4.4 million loan – much larger than a $273,000 loan possible just with the operating funds. That's the beauty of RAD, she said. Meanwhile, in the city of Griffin, TPG, acting as a consultant, is assisting the local housing authority in the first phase of redevelopment of Meriwether Homes, a 120-unit project built in 1952. The idea is that they're going to demolish the 120 units and build back or replace some of the housing in three phases, said Patton. The first phase will involve building 84 new low-income housing tax credit units, of which 42 will be public housing/RAD apartments. Funding sources for the $13.1 million transaction are $11.5 million in equity generated by 9% housing credits, a $1.8 million HOME loan from the state, $400,000 in capital funds from the authority, and a deferred developer fee of $241,000.

- *In Honolulu*, serving as co-developers, Michaels Development Company and Vitus Group recently completed the acquisition and rehabilitation of The Towers at Kuhio Park in partnership with the Hawaii Public Housing Authority. The $135 million mixed-finance transaction transformed the former public housing project (formerly called Kuhio Park Terrace) into 555 modern affordable apartments. All of the apartments are LIHTC units. However, 347 are public housing units eligible for public housing operating subsidies; 150 are Section 8 units; and 58 are tax credit units without other subsidies. The authority provided a ground lease; seller-financing for the acquisition of the two towers; and a $3.9 million subordinated loan capitalized by public housing capital funds. The major funding sources were tax-exempt financing and equity generated by 4% housing tax credits. Ava Goldman, President of Michaels Development Company, said the transaction was feasible because of: the conversion of some of the public housing units into Section 8 and tax credit-only units, because these could support debt; the note the authority took back for the bulk of the acquisition cost; and the lease of the land. Elsewhere, Marlton, N.J.-based Michaels Development is partnering with the local housing authority in Franklin, Tenn., which has received a RAD award, to help it redevelop its existing public housing properties.

Stephen Phillips Homes, Monaca, Pennsylvania

- *In Western Pennsylvania*, near Pittsburgh, the Housing Authority of the County of Beaver (HACB) has nearly finished the second of two recent redevelopment projects done without RAD, creating public housing and market-rate units where none existed before. The two developments were built by a federal agency in the 1940s, and owned and operated by HACB since the 1950s as affordable housing without any subsidies. We were able to convince HUD to let us acquire them, says HACB Executive Director Carl DeChellis. At the 100-unit Stephen Phillips Homes, HACB used a stimulus grant to acquire the property, demolish some of the 20 structures, and create – through rehab and new construction – 71 energy-efficient public housing units completed in 2012. Using the proceeds it paid itself for Stephen Phillips Homes, HACB acquired Pulaski Homes and in two phases – the second is nearly completed – is demolishing all 100 units and building 53 public housing and 20 market-rate apartments. In both projects, HACB acted as the developer and did the work with tenants in place, moving residents among buildings as construction proceeded. HACB hasn't used housing credits so far for any of its public housing redevelopment projects, although it manages 150 LIHTC units. But that's what we're looking to do under RAD, says DeChellis, who expects the authority to submit an application at some point. Before it can do so, though, HACB must figure out how to retire or refinance an outstanding capital fund bond and energy performance contract loan.

- *In Texas*, the Houston Housing Authority has applied to HUD for a Choice Neighborhood planning grant to start the process of talking about the revitalization of one of our oldest properties, Cuney Homes, says Tory Gunsolley, President & CEO of the Houston Housing Authority. He indicated that one possible approach

Sampling, continued on page 22

Public Housing, continued from page 20

built in the '40s. Our latest one, Piper Square, was built in the '70s.

HRHA uses all of its annual capital funds – down to about $580,000 at last count – just to repair properties and units so they meet HUD's basic housing quality standards. It's not for development at all, says Benham.

Steven Benham

The authority, through an RFP process, selected Community Housing Partners, a Richmond-based nonprofit, as master developer for the revitalization of HRHA's entire public housing portfolio. In January 2013, HRHA received initial RAD commitments from HUD for 30 units at Langston Park Apartments and 100 units at Kippax Place.

The transaction to redevelop the 50-year-old Langton Park property is furthest along. The plan is to demolish the remaining 30 housing units and replace them with 56 new LIHTC apartments. HRHA plans to use its RAD award to provide project-based vouchers under a 20-year contract for 30 of the units, which will be rented to public housing households. The remaining 26 apartments will be tax credit-only units.

Langston Park will be the authority's first use of federal housing tax credits. HRHA received a reservation of 9% housing credits for the project in June.

David Schultz, Vice President of Development at Community Housing Partners, anticipated final approval from HUD, a closing, and the start of construction before year-end. Multiple syndicators have submitted bids for the housing tax credits, he said, ranging from the high-80s to mid-90s in cents per credit dollar. Besides tax credit equity, other anticipated funding sources for the $9.1 million transaction are a permanent mortgage from Fannie Mae or HUD; a HOME loan; and a soft loan from the state housing trust fund.

Other PHAs authorities are taking different approaches to the preservation and redevelopment of public housing and the creation of new affordable apartments *(see sidebar on p. 21)*.

Candidates for RAD, Opportunities

Washington, D.C. attorney Sharon Wilson Géno, a partner at Ballard Spahr LLP, says that while RAD is not the fix for public housing in all cases, it can be helpful to some agencies, specifically with the modifications and additional flexibilities to the program announced by HUD on July 2.

She felt the best candidates for RAD public housing conversions are properties that need less than $30,000 or $40,000 worth of rehab per unit.

I'm seeing a lot more takers among smaller- to mid-size agencies, says Géno, particularly where they have some properties that are in pretty good shape but have a handful that could use that extra capital boost, and taking one or a couple of those into RAD makes a lot of sense for them.

Sources expect virtually all RAD public housing conversion transactions to utilize federal housing tax credits – either 9% or 4%. Nutt-Powell, though, thinks more will be done with 4% credits and tax-exempt bond financing. There is no competition for 4% credits as there is for 9% credits, and tax-exempt bond authority is generally plentiful today in states. Nutt-Powell said bond proceeds can be used to fund a short-term bridge loan, with the bonds paid off when tax credit equity proceeds come in, to eliminate any hard debt on the property.

RAD creates ample business opportunities for private developers, syndicators, lenders, practitioners, and others. A Google search on *Rental Assistance Demonstration* and *RFP* generated numerous housing authorities seeking consultants to help them prepare a RAD application, development consultants, and devel-

Public Housing, continued on page 23

Sampling, continued from page 21

might be to demolish the 75-year-old, 553-unit structure and build a new mixed-income housing development with perhaps an elderly component.

- *In New York*, the New York City Housing Authority planned in late August to issue an RFP to lease 14 sites at eight of its public housing developments in Manhattan to private developers for the construction of mixed-income rental housing projects containing 20% affordable and 80% market-rate apartments. The sites would include land and parking lots at the existing developments. The aim of the Land Lease Initiative is to generate extra revenues that the authority can use to maintain, upgrade, and preserve public housing properties throughout the city. TCA

Public Housing, continued from page 22

opers for projects with RAD awards.

Many PHAs are apt to recruit private nonprofits or profit firms as co-developers of RAD projects or, as in the case of the Hopewell authority, as the sole developer.

Benham says HRHA decided to seek a developer partner because it lacks development capacity and has no redevelopment staff. Community Housing Partners, he noted, has experience both in development and seeking tax credits and other funding sources.

Besides RAD, Benham is exploring other out of the box approaches to revitalizing the authority's public housing properties. HRHA has applied twice, unsuccessfully, for a Choice Neighborhood grant. If it had received one, Benham says, he would have focused it on Thomas Rolfe Court, a property in the center of town, with the thought of redeveloping into a mix of affordable and market-rate apartments, which HRHA hasn't done before. That would have been the model, says Benham. So as we move down the road and get to Thomas Rolfe Court it will be redeveloped with that kind of model in mind. TCA

People in the News

Ben Metcalf was recently promoted to Deputy Assistant Secretary for Multifamily Housing at the U.S. Department of Housing and Urban Development. He succeeds Marie Head.

Tammye Treviño has joined HUD to as Region VI Director, based in Texas. She was previously Administrator of the Rural Housing Service at the U.S. Department of Agriculture.

Elizabeth C. Ronayne has joined Stratford Capital Group, a low-income housing tax credit syndicator, as Senior Vice President. She is responsible for investor service and marketing activities associated with the Stratford Capital's investments in its LIHTC funds.

RubinBrown has promoted **Maureen Pardo**, **CPA**, and **Tracy Senf**, **CPA**, to partner in the firm's Real Estate Services Group. In addition, **Brad Scheiter, CPA**, has joined the firm and will serve in the Real Estate Services Group as a financial consulting manager.

Gregory Doran is the new leader of Nixon Peabody's Tax Credit Finance & Syndication practice. A partner in the law firm's Washington, D.C. office, he succeeds Jeffrey Lesk. Lesk, Managing Partner of the firm's Washington, D.C. office, will continue to serve clients as a partner in the firm's Tax Credit Finance & Syndication practice and as a U.S. Green Building Council LEED Accredited Professional. TCA