As she oversees the final stage of redevelopment of Cochran Gardens, St. Louis' first major public housing complex, St. Louis Housing Authority Executive Director Cheryl Lovell is simultaneously supervising other development projects that will create new public housing and affordable rental units. She's also holding her breath, awaiting possible radical changes from Washington in how public housing authorities (PHAs) do business and revitalize their housing stock.

The looming dynamos are two new initiatives proposed by the Obama Administration for the U.S. Department of Housing and Urban Development (HUD): Choice Neighborhoods and Transforming Rental Assistance. Both require passage of legislation by Congress to become a reality.

### Cornerstones of Affordable Housing

PHAs, created in the 1930s and today numbering more than 3,100, own and operate public housing – low-rent apartments serving the poor and extremely low-income – and administer HUD's Section 8 voucher program locally. About 3,500 public housing developments serve 2.3 million residents.

In recent decades, PHAs have expanded beyond their core functions of public housing and Section 8. Many have redeveloped distressed existing public housing projects into mixed-income residential communities using federal HOPE VI grants and other resources, such as low-income housing tax credits. A number have also developed similar "mixed-finance" projects without HOPE VI grants, combining public housing dollars (e.g. capital grants) with other public and private funds including housing credit equity.

The new mixed-income developments have typically had a combination of public housing, LIHTC, and market-rate rental units; some have also had for-sale housing. In these ventures, some PHAs have acted as their own developer, while others have partnered with or retained private developers.

The St. Louis Housing Authority has generally hired private developers for its revitalization projects. For many of its HOPE VI and non-HOPE VI projects, that developer has been St. Louis-based McCormack Baron Salazar. The company has developed numerous mixed-finance residential communities in major cities nationwide, as well as some mixed-use projects using the new markets tax credit. In fact, it completed one NMTC project that provided new office quarters for SLHA.

McCormack Baron is currently constructing a senior rental housing building for SLHA, called Senior Living at Cambridge Heights, as the final stage of redevelopment of Cochran Gardens. Set for completion in November, it will contain 111 affordable apartments, including 80 public housing units. Cambridge Heights, the new HOPE VI community, already has two completed phases of 223 family rental housing units, including 90 public housing units. The original Cochran Gardens, built in 1953, once had 12 high-rise buildings – 11 family, 1 elderly – with 531 public housing units.

In the past 12 years, SLHA, using three HOPE VI grants and other resources, has revitalized all but three of its public housing properties, through demolition of obsolete and substandard buildings, rehabilitation, and new construction. During this period its public housing portfolio has decreased from about 5,800 units to 2,941 units, but it has expanded its stock of other affordable, non-public housing rental units.


*Cheryl Lovell*

With its public housing revitalization nearly complete, SLHA is now focusing on new development projects to expand its overall portfolio. One example is Arlington Grove, expected to start construction soon. Developed by McCormack Baron, the project will contain 112 new affordable rental apartments (including 70 public housing), created from the rehabilitation of an historic former school building plus new construction. Like many projects by PHAs these days, the project has multiple funding sources. Says Lovell, "It has low-income housing tax credits, public housing competitive stimulus money, regular public housing capital funds, historic tax credits, [federal] HOME money, solar tax credits, and [Section 1602] exchange funds."

### ARRA Jumpstarts Projects

The American Recovery and Reinvestment Act of 2009 (ARRA) blessed PHAs with massive additional dollars that have enabled them to accelerate and expand their public housing redevelopment efforts, and "green" existing properties through retrofits and energy efficiency improvements. The Act provided an extra $3 billion in public housing capital funds for all PHAs, plus another $1 billion for competitive grants. Some of the

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latter pot was earmarked for public housing energy retrofit projects.

ARRA also established the Tax Credit Assistance Program and Section 1602 exchange programs, from which a number of PHAs have received dollars to plug funding gaps in LIHTC projects caused by declining housing credit pricing.

Saul Ramirez, Jr., CEO of the National Association of Housing and Redevelopment Officials, says the LIHTC has been key in assisting housing authorities in revitalizing public housing developments. "Public housing has been a strong participant in the tax credit program for several years now, and has been quite successful throughout the country in repositioning public housing assets to better serve the communities," he says. "And, much like the private sector, they have suffered as a result of the shrinking price for tax credits."

PHAs have also been challenged in trying to revitalize public housing properties by the declining annual funding for HOPE VI grants; lower annual funding for public housing capital grants; and greater difficulty in securing allocations of 9% housing credits.

## Massive Remaining Backlog

While much progress has been made in revitalizing and modernizing public housing properties, much need remains. The current public housing capital needs backlog is between $20 billion and $30 billion, according to Ramirez, who describes public housing as a valuable public asset providing safe, decent, and affordable housing "for some of the most vulnerable populations in our country – the elderly, the low-income, and the disabled."

Sandra B. Henriquez, Assistant Secretary of Public and Indian Housing at HUD, says the biggest challenge PHAs face today in trying to revitalize their public housing stock is "money – financial resources," although she noted that "the tax credit markets are starting to loosen up." Notes Henriquez, "In any real estate development deal, whether it's public housing or not, [the challenge] is identification of resources and being able to leverage different pots of money to make the deal come together."

*Sandra Henriquez*

## Changes Occurring

Michaels Development Company, of Marlton, N.J., a major developer of HOPE VI, mixed-finance, and LIHTC projects, is seeing some changes in the funding sources and the profile of mixed-finance deals.

President Robert Greer says the primary dollars that PHAs are bringing to the table now for new mixed-finance projects, instead of the big HOPE VI grants of the past, are federal Replacement Housing Factor funds. These public housing dollars are typically used to help cover construction costs or to pay debt service on a loan taken out by the housing authority.

"The days of doing these deals with two or three levels of financing are gone," he says. "We have to go to multi-layering."

As the PHA's partner, Michaels Development on new mixed-finance projects supplements the dollars brought by the housing authority, by seeking other sources of funding needed to make the deal work. These usually include LIHTC equity, supplemented by other soft funding sources such as federal Community Development Block Grants, HOME funds, state trust fund dollars, or Federal Home Loan Bank monies.

One encouraging sign, Greer noted, is that unlike a year ago, tax credit syndicators – bolstered by new capital from insurance company investors – are again approaching his company about these projects.

As for the profile of projects, that is changing a bit, too. The standard composition of HOPE VI projects used to be one-third public housing units, one-third tax credit units, and one-third market-rate rental and/or homeownership units. "Now we see less homeownership and a little more public housing," Greer says.

Michaels Development, for example, has incorporated a variety of housing units and architectural styles in four separate developments it has completed as part of the massive Lafayette Gardens HOPE VI revitalization project in Jersey City, N.J.: Pacific Court Townhouses, comprised of "city townhouses" containing 72 mixed-income one- to three-bedroom apartments for families, including 41 public housing units; Lafayette Senior Living Center, a four-story, 83-apartment development for elderly and frail elderly residents; Ocean Pointe, a 58-unit mixed-income seniors property; and Barbara Place Terrace, a low-rise 67-unit mixed-income development for families.

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## Miami Development

In Florida, developer McCormack Baron Salazar is beginning a new phase in the redevelopment of the former Scott Homes/Carver Homes public housing complex in a Miami neighborhood, as part of a HOPE VI revitalization project by the county housing authority.

"We're developing a 354-unit mixed-income, mixed-finance development," said McCormack Baron Vice President Michael Duffy. The development, expected to start construction in September, will include 177 public housing units, 107 tax credit units restricted to households at or below 60% of area median income, and 70 market-rate apartments. Funding sources include nearly $17 million in HOPE VI funds, equity from the sale of 4% housing credits, proceeds from two separate tax-exempt bond issues, Replacement Housing Factor funds, public housing stimulus dollars, federal Neighborhood Stabilization Program monies, a small bank loan, and funds from the county. LIHTC equity of about $15 million will cover less than 25% of the total development cost.

"We got substantial support from the county," said McCormack Baron Salazar President Kevin McCormack. The county, providing nearly $14 million in soft debt, will receive a 60% participation in excess cash flows from the project.

The development, to be built to the Enterprise Green Communities criteria, will have

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many green and sustainable features.

McCormack Baron is still finding substantial interest from equity providers in its new mixed-finance deals, although the level of interest and tax credit pricing varies by market.

"Today, the amount of the subsidy you need as a result of the drop in the equity pricing has increased substantially," McCormack said. "Fortunately, the various stimulus actions of Congress have supplied a lot of that gap…What happens in 2011, that's a different story."

### The Big Unknown

The future course of public housing revitalization could be radically changed if Congress passes legislation to authorize the Choice Neighborhoods and Transforming Rental Assistance (TRA) programs.

Choice Neighborhoods, intended to build on HOPE VI, would offer competitive grants for development of affordable housing projects in conjunction with other efforts to improve the lives of the residents and the neighborhood, such as to upgrade local schools. As the program is currently designed, PHAs would be just one of the eligible applicants for Choice Neighborhood grants, unlike HOPE VI.

Congress appropriated $60 million in FY 2010 for a Choice Neighborhoods demonstration program. The Obama Administration has requested another $250 million for FY 2011. HUD recently HUD issued a "pre-notice" with details and a vision for the program to prepare potential applicants for a funding round.

TRA, in HUD's FY 2011 budget request, is a proposed initiative that would offer PHAs the option to convert individual public housing projects to project-based rental assistance, and consolidate HUD's 13 separate existing rental assistance programs. Owners of certain HUD-assisted housing properties would also have the conversion option. The Administration requests $350 million for FY 2011 to preserve about 300,000 units.

Brookline, Mass. consultant Thomas Nutt-Powell, president of Capital Needs Unlimited, a Housing-Solutions member firm, anticipates that implementation of TRA would make public housing properties that can convert to project-based rent subsidies more valuable in the eyes of private capital sources, and thereby increase access by PHAs to private funding sources – particularly debt – to help redevelop these projects.

Henriquez also felt that TRA, by providing a steady assured funding stream, would make public housing projects more attractive to private-sector capital sources. "We think that the equity markets understand that financing [for projects with project-based rental assistance], have written product and deals according to that funding stream, and would do likewise on the public housing side if converted to that," she noted.

Henriquez indicated that PHAs must ultimately shift to a property-based model, under which each public housing development must be self-sustaining financially – by restructuring if necessary – as well as provide a good place for people to live and raise families.

"We want the public housing portfolio to be preserved and to expand," she says, "because the need is there for people who need deep affordability. We want the best public housing possible. And it may take a long time for us to get there. But by good business practices and planning and resource identification and leveraging, or whatever tools we need to introduce to the public housing authorities, that's what we see our goal and our mission to be." TCA