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HUD Looks to Private Sector For Funds for Rehabilitations

Housing Authorities Hope Bond Deals Fill Gap Left If HOPE VI Program Ends

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When Leslie Steen scrambled to cobble together millions of dollars so her nonprofit agency could afford to rehabilitate Edgewood Terrace, a crime-ridden housing project in Washington, D.C., she wasn't trying to transform the way the government improves housing conditions for the nation's poor.

But she may have ended up doing just that.

Faced with a \$7 million gap for one of the project's 12 buildings five years ago and after exhausting possibilities for local and federal low-income housing funds, Ms. Steen's nonprofit, Community Preservation and Development Corporation, and the local housing authority tried something new: They borrowed the money from Fannie Mae, the Washington-based government-chartered mortgage-market concern, and Bank of America Corp., of Charlotte, N.C. As collateral for the loan, they used anticipated annual grants from the Department of Housing and Urban Development that were earmarked for building improvements like roof repairs.



Before and after photographs of Edgewood Terrace, a housing project in Washington, D.C., that was rehabilitated through the use of private funding.

The novel financing scheme worked. And now, with its rehabilitation complete, Edgewood Terrace has been hailed by HUD and others as a successful public-housing turnaround story.

Ms. Steen, 55 years old, saw the financing gambit as nothing more than a last-ditch effort to get Edgewood Terrace completed. "It was the only way we could get all the money we needed," she says. But HUD sees it as something more. The agency, smarting from the unrealized potential of an ambitious, but flawed, \$5 billion housing-revitalization program called HOPE VI, is now touting Edgewood Terrace as proof that housing authorities across the nation can find other ways to fund the rehabilitation of the oldest, most distressed public housing -- instead of relying on additional HUD funding like HOPE VI.

HUD's goal is to eliminate the HOPE VI program and get housing authorities to look to the private sector for any money they require in addition to the agency's annual building-improvement grants. The agency hopes that Edgewood's pioneering so-called mixed-financing method will become standard for many housing authorities across the country and benefit the estimated 1.2 million families who live in public housing.

"There are a lot of other financing tools [besides programs like HOPE VI] that can be used to revitalize public housing," says Michael Liu, assistant secretary of HUD's Office of Public and Indian Housing, which oversees HOPE VI. "HUD and housing authorities must continually look for creative ways to supplement the federal government's assistance."

Following Edgewood's Lead

HUD officials concede the failure of HOPE VI, which was supposed to produce 95,100 units of new or rehabilitated housing by 2002. As of last September, it had only produced 29,600. The agency is seeking to eliminate the program. (HUD will grant about \$450 million in HOPE VI money for 2003. Congress put funds in the program for 2004 of \$149 million -- significantly less than years past.)

To help redevelopers and housing authorities find additional money that would otherwise come from HOPE VI, HUD has in recent months authorized housing authorities in Maryland, Alabama, New Orleans and Puerto Rico to issue a total of \$1.46 billion in bonds backed by annual building-improvement grants so those authorities can modernize distressed public housing and construct new public-housing units. The bonds would be sold on Wall Street to big institutions as well as individuals, just like municipal bonds or any other kinds of bonds. (HUD first tried this in Chicago in 2001, where it combined bond financing with other funding sources including HOPE VI grants and housing vouchers. But these more recent announcements are pure bond deals.)

The deals represent the government's biggest effort to overhaul the nation's 67-year-old public-housing system since the HOPE VI program started in 1992.

Proponents say the newer method makes public-housing redevelopment happen faster because housing authorities get a large sum of money upfront from the private sector to do a lot of rehabilitation work on numerous buildings, as opposed to having to wait for annual grants for one specific housing complex. Another plus: Private-sector involvement potentially instills greater management discipline among public-housing authorities.

But critics say the newer method leaves housing authorities begging for money from Wall Street instead of HUD. And they warn it might actually be tougher than expected for the housing authorities to raise private money. It's also risky because if Congress decides to reduce or eliminate funding for building-improvement grants, bond repayments could be in jeopardy, leading housing authorities to default. What's more, some critics argue that this newer method ultimately takes money for future improvements away since much of it is tied up in the bond repayments.

Being able to do a lot of rehab work on numerous buildings at the same time also can cause complications. "On the one hand, this kind of innovative funding allows you to increase scale, but that in itself increases the challenge of [tenant] relocation and replacement housing," says Michael

A. Stegman, a professor of public policy and business at the University of North Carolina, Chapel Hill.

Lessons Learned

Edgewood Terrace does show the possibility of what can be accomplished using mixed financing. Before Edgewood Terrace was rehabilitated, conditions had gotten so bad at the crime and drug-ridden project that locals called it Little Beirut.

Now Edgewood Terrace is welcoming, with brightly colored, well-lighted and architecturally striking entrances. The community boasts job training, youth, career and skill enhancement and training programs, including computer-training programs. And apartments are wired with high-speed Internet access.

But Edgewood Terrace also shows how difficult mixing financing can be. It took six years for Ms. Steen to come up with money for that one building on which the historic loan was obtained. Housing authorities may find themselves similarly scrambling for additional funding if money from the bond deals isn't enough to handle their redevelopment needs.

"Having a straight-out grant program is so much more efficient than going around getting a little money here and little money there," says Ms. Steen. "Sure, redevelopment can be done [with mixed financing], but it's not quick and easy."

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