HDR Current Developments

Tenants, Nonprofit Join to Preserve Housing by Combining Section 236 Decoupling, Section 8 Rent Markup

By Joe Poduska
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The residents of the 1330 Apartments in downtown Washington managed to preserve their housing by partnering with Community Preservation and Development Corporation (CPDC), a nonprofit developer which guided the project through a mark-up-to-market of Section 8 rents combined with a Section 236 interest reduction payment (IRP) decoupling.

The tenants were in danger of losing their home in 2002 when the owner put the former Immaculate Conception Apartments up for sale, making it likely that the 10-story building north of the Washington Convention Center would be converted to condominium ownership in the rapidly gentrifying Shaw neighborhood.

Originally built in 1972, the building has 136 units providing housing for families with an average income of $12,712. There are about 130 children under 16 living there along with many senior households.

The 1330 Tenant Association exercised its right of first refusal to buy the property, as provided under District of Columbia law. The tenants formed a limited liability corporation, with CPDC, which serves as the general partner for this project.

Funding Sources

The project had several important sources of financing, said Gerald H. Joseph, CPDC vice president of real estate development, but he said that the 236 decoupling and mark-to-market of Section 8 rents were "absolutely crucial."

The two Section 8 contracts for the building were set to expire in 2002. They were combined into one contract with assistance renewed for 20 years and adjusted to market rents in 2003 so the project could obtain bond financing.

When the project went to closing in January 2004, the principal balance on the Section 236 mortgage of $1,669,390 was paid.
The $21 million purchase and rehabilitation was financed partly through $13.240 million in 40-year tax-exempt bonds issued by the District of Columbia Housing Finance Agency at 5.47 percent interest. The bonds are secured by a first mortgage insured through the HUD risk-sharing program.

IRP Contract

The Section 236 IRP contract provides $130,000 annually which is used to help make the bond payments. It will be used to pay off about $1.15 million in debt, and the bonds are structured so that payments decrease after 2012, when the IRP expires.

The accompanying 4 percent low-income housing tax credits were purchased by MMA Financial LLC, raising equity of $6,001,442. The District of Columbia Department of Housing and Community Development also provided a subordinate loan of $2,187,557 at 3 percent interest from the city's affordable housing trust fund, to be paid out of cash flow with payments deferred for the first five years.

Occupancy for 130 of the units is restricted to families with incomes no higher than 60 percent of area median income (AMI), and 134 units have Section 8 assistance. The affordable housing trust fund requires 11 units to be set aside for families below 50 percent of AMI.

Rents are set at $1,010 for the building's 33 one-bedroom units, $1,240 for the 90 two-bedroom units, and $1,469 for the 13 three-bedroom units. The previous rents were $655, $745, and $855, respectively.

Rehabilitation Needed

The building, which failed HUD Real Estate Assessment Center inspections in 2002 and 2003, required considerable rehabilitation. About $66,000 per unit in rehabilitation was completed by the end of last year.

A structural problem was causing the brick façade to pull away from the front of the concrete face of the building, creating a safety hazard. When it took possession last year, CPDC had to rope off the front of the building and contract for $1 million in repairs. Colored brick was added to the design to make for a more interesting architectural pattern.

The construction period provided an opportunity to redesign and invest in community service space and tenant amenities, which include a new conference room for the tenant association board, a redesigned lobby, and a new management office. A total of 60 security cameras were installed due to the large volume of foot traffic.

Underutilized space in the basement was upgraded to add a computer lab with 17 computers, a seniors card room and lounge, and office space for a community program staff person.

The rental units were also wired for broadband Internet access and intranet services. Rental units also received upgrades that included a full kitchen and bathroom renovation. Major building systems, including the heating and cooling system, plumbing, wiring, and elevators, were replaced or upgraded.

Community Services

The development contracts with CPDC to provide a community services person who is part of the CPDC staff. Annual funding for the community services programs comes from project cash flow.

The 1330 Tenant Association has the option to purchase the property after 15 years, and the extensive rehabilitation will help minimize financing that the group would need to own the property, said Joseph.

Meanwhile, the current ownership structure helps meet the tenant's goals of "security, stability, no displacement of current tenants and the ability to have a say in management of the building," he said.