Community Preservation and Development Corporation
5513 Connecticut Avenue, N.W. • Suite 250 • Washington, D.C. 20015
www.cpdc.org • cpdc@cpdc.org
Main: 202.895.8900 • Fax: 202.895.8805

Making It Work

BY LES SHAVER

GOVERNMENT, DEVELOPERS, AND FINANCIERS TEAM UP TO MAKE WORKFORCE HOUSING A REALITY

It is a scenario that's not difficult to picture. A Washington police officer-a single mother who is responsible for keeping the nation's capital safe in this era of heightened security-cannot afford to live anywhere close to her precinct. Because many two-bedroom apartments in the close-in areas cost more than $2,000 per month, she has to take the train into the city from Fredericksburg, Va., almost 60 miles away, where a two-bedroom apartment rents for $700 per month. While these costs savings are essential, it does not make up for some things money can't buy-time with her children and those two hours per day she loses commuting on the train.

And unfortunately, she is not alone. As rents continue to escalate, more and more working Americans are finding it difficult to find affordable housing close to their workplaces.

In May, the National Housing Conference released "Paycheck to Paycheck: Wages and the Cost of Housing in America." This survey reports that despite having jobs, many Americans in major cities still cannot afford a place to live. Janitors and retail salespeople relying on the median income, as an example, pay more than 30 percent of their incomes on housing for two bedroom apartments in the top 60 American markets. Even, licensed practical nurses earning the median income are priced out of almost one-third of those markets.

Furthermore, police *officers* earning the median income can't afford a two-bedroom apartment in Boston, San Francisco, and San Jose, Calif., and elementary school teachers earning the median income can't find affordable housing in San Jose and San Francisco.

This is forcing many people, who make too much to qualify for traditional affordable housing, to move farther from their workplaces. However, a number of multifamily firms are finding solutions to this problem. While financing workforce housing and finding inexpensive land can be difficult, three projects-in Washington, Madison, Wis., and San Francisco-prove that it is possible to produce quality for-sale and for-rent multifamily housing at affordable prices.

Wardman Court, **Washington, D.C.**

From Despair to Hope in the Nation's Capitol

Community Development Preservation Corp. and Michaels Development Co spent $16 million to renovate the troubled Clifton Terrace complex in Washington. The three buildings, now known as Wardman Court, are expected to be completed by the end of 2003.

Top photo: Jennifer Johnston; Bottom photo: AC Photo

lifton Terrace was a notorious apartment complex in Washington. Originally built in 1918 as market-rate property, the property's three buildings suffered from years of decay and poor maintenance. With shootings in the laundry rooms, crack dealers in its hallways, and prostitutes in the stairwells, resident security and safety was nothing more than an afterthought. By 1996, when the U.S. Department of Housing and Urban Development (HUD) foreclosed on the property, it had more than 1,000 housing code violations and was plagued by clogged sewer pipes and flooded basements-damages that would cost at least $13.7 million to repair.

A New Beginning

Seven years later, about the only thing the development, now called Wardman Court, has in common with the old Clifton Terrace is that it still consists of three buildings. Two buildings have been renovated with one turned into apartments and the other condos. The third building, which will be rental, is expected to open by the end of this year.

As part of the renovation process, HUD required the developers to reduce the units in Wardman Court from 289 units to 232 units. The agency and developer hope the buildings become an entryway for workers to work and live in Washington.

WARDMAN COURT AT A GLANCE

Expected Completion Date: December 2003
Number of Units: 228 units
Product Mix: 76 condos, 152 apartments
AMI Ranges: 35 percent to 60 percent of AMI ($84,000, according to HUD median income limits)
Rent Range: 1 BR: $665; 2BR: $735-$995; 3BR: $1,150
Developers: Community Preservation and Development Corp., Washington, and Michaels Development Co., Marlton, N.J.

The story of how this project went from the poster child of the failure of Section 8 to a desirable development with a waiting list of more than 200 people involved a number of key players-HUD, Michaels Development Co., Community Preservation and Development Corp. (CPDC), and Bank of America. Their goal was to create a community geared to working residents, such as members of the military and government workers.

The turnaround began in 1996, when HUD gained control of the project from the previous owner. In 1999, the agency sold the property to CPDC, a nonprofit organization in Washington, and Michaels Development, a developer in Marlton, N.J., for $1. HUD also provided grants to fund renovations, redevelopment, and resident services with the requirement that CPDC and Michaels Development would make an estimated $16 million in repairs and renovations to the apartments, maintain them as housing for low- and moderate-income families for at least 20 years, reduce density from 289 units to 232 units, and provide resident services, like child care and job training. Both organizations had experience refurbishing troubled properties in the Mid-Atlantic region.

HUD's help was invaluable. "The project would not have been viable without HUD selling the land at a low cost and giving us the block grant," according to

Jim Miller, development officer for Michaels Development.

Wardman Court fits CPDC's mission of upgrading neighborhoods by establishing places for the working class to live. To fulfill HUD's affordability requirement, 152 of the rental units will be rented to people within 35 percent to 60 percent of Washington's area median income (AMI). The 76 condo units were sold to those earning up to 80 percent or 115 percent of the AMI. "I saw it as an opportunity to revitalize a troubled community," says Leslie Steen, president of CPDC. "To me workforce housing is about what the ordinary person says is affordable. It's really what someone working an ordinary job can afford to pay."

Key Financing

Bank of America played a key role in the development, as well. The apartments were financed with 4 percent tax credits that came with the tax-exempt bonds, historic tax credits, and an $11 million loan from the bank. It also provided an additional $9.6 million loan for the condos. "At that point, the Columbia Heights [section of Washington] market was starting to heat up, in terms of property values and the types of houses being built," says Alex Viorst, manager of the Washington office of Bank of America's community development lending group. "It was a great project in a great location that was hitting at the right time."

The bank's faith in the project was reaffirmed when it was time to rent the units. The first group of apartments opened in November 2002 and were rented up by the end of the year. All 76 of the condos were under contract by the time they opened at the end of June 2003. The developers of the project will begin leasing the apartments in the third building 90 days to 120 days before they open at the end of this year.

The joint efforts of HUD, CPDC, Michaels Development, and Bank of America is not lost on the residents. Norma Johnson, who had lived in the old Clifton Terrace for 19 years and is one of 26 former residents to return to the property, remembers the many years of neglect and is grateful for the renovations. "I am ecstatic," she says. "We have dishwashers, huge rooms, lovely lobbies, and a laundry room on each floor."

The Uplands, Sun Prairie, Wis.

Affordability in the Badger State

Workforce housing is not just an issue in huge cities. Smaller towns feel the affordability pinch, too. For example, Dane County, Wis., which includes Madison-the state capital and home to the University of Wisconsin-is a growing force in the technology and research areas. But with job growth comes population growth-and a demand for housing that sends prices skyrocketing.

The area's pro-business stance created jobs, but because of its reputation for having a high standard of living, people from the northern Chicago suburbs-about 120 miles away-have moved to the area and workers who commute to Milwaukee-about 65 miles away have been drawn in, as well, pushing lower-paid workers farther outside of Madison. "As a result of this population growth, housing prices were growing," says Bill Perkins, executive director of The Wisconsin Partnership for Housing Development (WPHD) in Madison. "This was creating challenges for people at the lower end of the income scale and adding challenges for local governments to undertake smart growth."

Both the state and city recognized these issues. Madison's mayor, Dave Cieslewicz, identified housing as his top priority when he took office in 2003, and the state has a mandate to localities to provide housing to serve special needs. Perkins' group is helping in providing more housing, as well. In the late 1990s, it began to expand into development and wanted to build housing for a wide variety of income levels.

A Group Effort

That is when the idea for The Uplands-a 40 acre development in Sun Prairie-came about. The developer and its nonprofit partners, Movin' Out Inc. and the Community Action Coalition for South Central Wisconsin Inc., liked Sun Prairie, which is the city's fastest growing suburb. They found a privately owned site that was 10 miles from downtown Madison and one-half mile from the Sun Prairie Business Park, which included 60 businesses employing approximately 1,800 people. "This part of Dane County would likely have gone to high-end luxury housing," says Cindy Holler, regional director for community development for the Housing and Development Division of Fannie Mae's Chicago office.

The Wisconsin Partnerships for Housing Development used 18 sources of funding to finance its workforce housing project, The Uplands, in Sun Prairie, Wis.

The 49 multifamily units at The Uplands in Sun Prairie, Wis., include a mix of 16 one-bedroom rental and 33 one- or two-bedroom, for-sale units. All of the rental units and one third of the for-sale housing are affordable.

As part of the planning, the WPHD surveyed business park employers about the difficulties their employees have when trying to find housing. The WPHD also consulted with its Realtor, First Weber in Madison, to determine the correct product mix for the Dane County market. The group eventually developed a plan that includes 94 single-family units (including duplexes) and 49 multifamily units. The goal was to include as many rental units as possible without effecting the property values of the for-sale housing.

THE UPLANDS AT A GLANCE

Expected Completion Date: December 2005
Number of Units: 143
Product Mix: 49 multifamily: 16 rental units and 33 condos; 94 single-family: 8 rental units and 86 for-sale units
AMI Ranges: 30 percent to 60 percent of AMI ($71,100, according to HUD median income limits)
Rent Range: 2BR apartment: $362; 4BR single-family home: $995
Developers: The Wisconsin Partnership for Housing Development, Madison, Wisc.; Movin' Out, Madison; and Community Action Coalition for South Central Wisconsin Inc., Madison

Sixteen of the multifamily units are two-bedroom rentals, while 33 are one- or two-bedroom condominiums. Eight of the single-family houses are also rental units. The rental housing is for people who earn between 30 percent and 60 percent of the AMI. And, 33 out of the 103 for-sale single-family and multifamily units are reserved for workers who earn below 80 percent of the AMI.

But finding the land and coming up with a site plan was only half of the battle. Perkins and his group had to tackle the most challenging part of building workforce housing-paying for it. The group relied on three major sources of money for the site acquisition and land development of the for-sale portion of the site. As the primary lender, First Business Bank of Madison provided more than 70 percent of the development and acquisition costs. Fannie Mae made a second mortgage loan for site development and acquisition.

On top of this, Dane County provided a $400,000 loan for site acquisition and guaranteed the Fannie Mae loan, which allowed the developers to tap into 6 percent interest rates.

To build the rental housing, The WPHD primarily relied on 9 percent tax credits sold by the Enterprise Foundation in Columbia, Md. The developers also received financing from Bank Mutual in Milwaukee and $656,000 in HOME funds from the state of Wisconsin for the rental units. Bank Mutual also provided a second mortgage loan of $1.6 million for the rentals.

Coggins Square Apartments, Walnut Creek, Calif.

Transit-Oriented Housing in the Bay Area

hough she had a full-time job as the assistant to a special education teacher in the Mount Diablo Unified School District in Concord, Calif., Victoria Gonzalez, could barley afford a place to live in the pricey San Francisco suburb. Her after-tax salary of about $1,100 per month forced Gonzalez and her two-year-old son into a one-bedroom apartment in a dangerous section of Concord, where, even there, she scraped by to make ends meet. "My car was broken into, and I did not feel safe going out at night," she says.

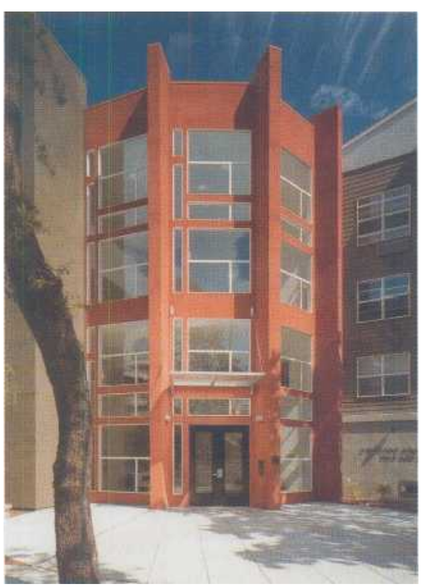
Luckily for Gonzalez, one of her friends was driving near the Pleasant Hill Bay Area Rapid Transit (BART) Station when she noticed a new apartment complex being built. Gonzalez went to the site to find out more details and discovered she qualified for a $675 per month two-bedroom apartment. This saved her about $300, plus it put her in a nicer neighborhood that is near BART and closer to her job.

This is exactly what the Contra Costa County Redevelopment Agency had in mind when it assembled the site, about 30 minutes east of San Francisco, in the early 1990s. The agency wanted to find a developer who would build at least 140 units and set aside at least 15 percent of them for affordable housing. "Our board of supervisors had a strong policy commitment to provide housing for a wide range of income levels," says Jim Kennedy, deputy director of the agency.

Twelve local organizations came to the agency with bids to develop the site, but the agency and local groups eventually chose BRIDGE Housing Corp., a nonprofit housing developer based in San Francisco, because of its plan to incorporate for-sale housing with rental apartments. The BRIDGE plan came in

two parts. It would build 87 affordable housing apartments and Holliday Development, an Emeryville, Calif., developer, would build 54 market-rate condos. In addition, there would be a pool and courtyard in between the condo and apartment buildings. The apartments units would serve a variety of incomes with 17 units set aside for people making 30 percent of the area's median income, 38 units set aside for people making 50 percent of the area's median income, and 32 units set aside for people making 60 percent of the area's median income.

As BRIDGE would soon find out, however, getting the neighborhood's approval would be easier than getting financing. The market-rate lofts were the easy part, being entirely privately financed. They sold for about $410,000 each. To build the apartment units, the developers wanted to get the 9 percent Low-Income Housing Tax Credits with supplementary funding from the agency, Contra Costa's Community Development Block Grant (CDBG), and HOME funds. However, the competition for the 9 percent tax credit was intense in California. The project went through California's tax credit lottery system in 1996, 1997, and 1998-each year it lost.



To rent an apartment at Coggins Square in Walnut Creek in Contra Costa County, Calif., residents cannot make more than 60 percent of the median income in the county.

COGGINS SQUARE AT A GLANCE

Completion Date: August 2000
Number of Units: 141
Product Mix: 87 Apartments, 54 condos
AMI Ranges: 30 percent to 60 percent of AMI ($76,600, according to HUD median income limits)
Rent Range: 1BR: $330–$665; 2BR: $390–$775; 3BR: $449–$875
Developers: BRIDGE Housing Corp., San Francisco

Moving n

After the final failure, the group went to Contra Costa County to bridge the gap between the 9 percent and the 4 percent bonds. The county increased its CDBG and HOME contribution from $1 million to $2.5 million and committed $100,000 to the project for 28 years.

BRIDGE Housing of San Francisco got a big assist from the Contra Costa County Redevelopment Agency when it could not get the 9 percent tax credit for its Coggins Square apartments in Walnut Creek, Calif. The new complex is close to a Bay Area Rapid Transit (BART) Station.

BRIDGE used a private placement structure with Wells Fargo, getting a tax-exempt multifamily bond in 1998. "We needed layer-cake financing to justify the construction costs and low rent," says Carol Galante, president of BRIDGE. "We would not have been able to keep the rents low without this financing."

"BRIDGE is a long-standing customer," says Margaret Schrand, vice president/manager of the San Francisco community lending department of Wells Fargo Bank. "If I know a borrower and feel they have knowledge, experience, and integrity and then look at their credit and feel satisfied, we tend to want to do repeat business."

Though the problems with the 9 percent tax credit initially stalled the project, once the financing was put together through Wells Fargo and the city, things went as planned. The apartments opened in August 2000 after 18 months of construction.

It could not have happened any sooner for Gonzalez, who plans to stay in Coggins Square until she saves enough money to buy a home. "It was worth going through the application process to get in here," she says. "It was such a relief to move into a new place with a swimming pool, a playground, and washer and dryers on site."