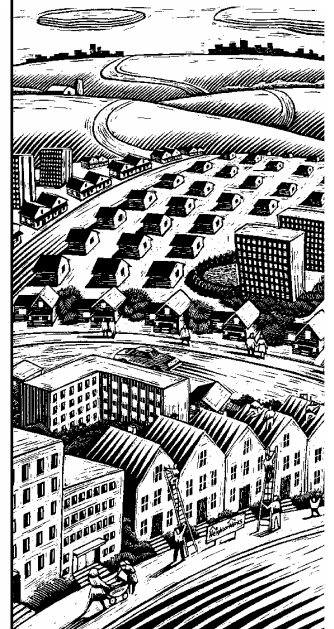


# **Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties**

**A Case Study of Peters Colony in  
Carrollton, Texas**

**November 2005**



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## **Case Study of Peters Colony in Carrollton TX**

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**Produced by  
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# Site at a Glance: Peters Colony In Carrollton, Texas



Property	Residents	Neighborhood (Census Tract)
<p>160 one and two-bedroom units.</p> <p>24 units up to 30% AMI 80 units up to 50% AMI 53 unrestricted units (owner voluntarily limits to below 80% AMI)</p> <p>Built in 1982 as market rate rental; acquired in 1995 under RTC 's Affordable Housing Disposition Program</p> <p>Owner: Foundation Communities</p> <p>Manager: Alpha-Barnes</p> <p>Vacancy Rate: 5.7%</p>	<p>394 residents</p> <p>2004 median income: \$20,500</p> <p>0-30% AMI: 38% 31-50% AMI: 31% 51-80% AMI: 26% &gt;80% AMI: 5%</p> <p>34% White (21% are Middle Eastern) 31% Black 26% Hispanic 3% Asian 6% Other</p> <ul style="list-style-type: none"> <li>A married couple heads 40% of households.</li> <li>63% of adults are employed</li> <li>15% of adults are unemployed</li> </ul>	<p>5,503 residents</p> <p>2004 tract median family income \$61,295 (94% of AMI)</p> <p>13.5 percent poverty rate</p> <p>48% White 14% Black 18% Hispanic 17% Asian 3% Other</p> <ul style="list-style-type: none"> <li>Located in growing and prospering suburb of Dallas</li> <li>Across the street from elementary school and playground and walking distance to other schools and shopping.</li> <li>In residential neighborhood with rental developments and single families homes; property borders large greenbelt area.</li> </ul>

## Keys to Success

- Good financing and affordable housing property-tax relief allow below market rents.
- Proactive on security and safety issues even though low crime area.
- Desirable location in low-crime, employment-rich suburban community.
- Walking distance to schools and shopping.
- Net revenue reinvested in property and replacement reserves.
- Learning center focused on education and run by social worker.

## **Section 1: What Type of Mixed-Income Property is this and Why does it Work?**

Peters Colony is a 160-unit mixed-income, mixed-race development located in Carrollton, Texas, a relatively prosperous suburb north of Dallas. The property is nearly evenly split between households with income (1) less than 30 percent of the family-sized adjusted area median income (AMI), (2) households between 30 and 50 percent of AMI, and (3) households between 50 and 80 percent of AMI. One-third of the units have no income limits, but the owner voluntarily limits occupancy to households with income below 80 percent of the median at initial occupancy. The property was purchased and modestly rehabbed by Foundation Communities in 1995.

### **A. What Mixed Income/Mixed Race Model(s) Does This Property Typify?**

1. *Peters Colony typifies a mixed-income development that was created through moderate public intervention/funding efforts.* It was purchased from the Resolution Trust Corporation as part of their Affordable Housing Disposition Program. The property was in substantial disrepair and poorly managed before Foundation Communities purchased it. It is now a well-maintained and well-managed development in a desirable location within walking distance of schools and close to shopping and jobs in a low-crime suburb. Given the age of the development, it would naturally attract low- and moderate-income renters. However, 15 percent of the units were reserved for referrals from the Dallas Housing Authority's (DHA) Section 8 waiting list as part of a settlement to a suit against the city and Housing Authority of Dallas (the Walker case). All of these renters have incomes below 30 percent of the median and have their rent subsidized by the owner in return for a zero interest loan to purchase the property. These extremely low-income renters ensure that the development will have a broad range of incomes.

2. *Peters Colony also typifies a Free Standing MI/MR development whose primary goal is to provide affordable housing.* The owner of Peters Colony sought to develop affordable housing in a desirable location. It was not developed as part of a larger revitalization effort. The neighborhood was not in need of revitalization. The surrounding neighborhood has a mix of low, moderate, and middle-income renters and homeowners, but on average the surrounding community has much higher incomes than the Peters Colony residents and the rest of the city has even higher income. Peters Colony has more extremely and very low-income renters than the surrounding neighborhood and the city because of the efforts of the owner to provide affordable housing to these groups and their ability to obtain the funding subsidies necessary to make that feasible.

### **B. Why is Peters Colony a Successful Mixed-Income/Mixed-Race Property?**

Peters Colony is successful because it is a well-maintained development in a desirable location and funding and operating subsidies make it financially feasible to charge affordable rents.

*1. Favorable Financing and Modest Rehabilitation Allow Below Market Rents.* Foundation Communities purchased Peters Colony at a discounted price from RTC and received a zero interest loan for the purchase and development costs in return for reserving 24 units for the extremely low income renters (the Walker units) and subsidizing their rent so that these renters pay no more than 30 percent of their adjusted income in rent. In 1997, they also obtained property tax relief as part of a Texas affordable housing program. For this program, they reserve 80 units for households with income below 50 percent of the median and agreed to spend the annual tax savings on property improvements or resident services. Development costs were also kept down by addressing the major maintenance issues and aesthetics during rehab, but not trying to convert the development from a Class B property in disrepair to a Class A property. Instead, the rehab was intended to make it a more desirable Class B property.

*2. It is located in a desirable neighborhood for affordable housing.* The city of Carrollton is a growing and prospering suburb of Dallas and the neighborhood is near many amenities. Peters Colony is located across the street from an elementary school and playground and both the middle and high school are within walking distance. A large grocery store, a drug store, banks and other retail stores are all within a mile or two of the development. The neighborhood is a low crime area and is located in a low crime city. Peters Colony is not near any distressed neighborhoods.

*3. The owner (asset manager) and property manager are proactive on safety issues even though it is a low crime area.* The owner volunteered to host a police sub-station to develop a relationship with the Carrollton Police and increase police presence on the property. The sub-station is for police to fill out paperwork and take their breaks. The property manager keeps it stocked with snacks and water to encourage the police to use it. A courtesy patrol (non-police) also patrols the property at least once every night. The owner said these security measures were not a response to a crime problem, but preventive. However, in response to some loitering and minor vandalism a few years ago, the property manager instituted a 10pm curfew on the property for children not accompanied by an adult.

*4. Resident services focus on educational offerings, primarily for children, which any family would value.* The Learning Center's primary focus is providing after school educational and fun activities for elementary and middle school-aged children. These offerings appeal to households of all income levels. The learning center director, interns, and volunteers tutor students. The learning center provides a quiet area for doing homework and access to and training on computers. Staff also take the elementary school kids to the school playground. For working parents, it provides a positive and safe place for their children to be after school and before they get home from work. The emphasis on working households carries over to the property's screening criteria. Section 8 voucher holder must meet earned income thresholds (e.g., \$800 per month for a household of 1) even if the voucher program pays most of their rent. The only exceptions are for elderly or disabled voucher holders.

5. *The owner continually reinvests in the property.* The owner reinvests all positive cash flow on property improvements rather than splitting it with the funder. The owner also fundraised for and paid for most of the costs of building the new onsite learning center in 2004. And the annual savings from the property tax relief are required to be reinvested in the property.

### **C. What Hypotheses about Successful Mixed-Income Housing Does this Property Support?**

1. *Mixed-income housing cannot be successful unless the fundamentals of real estate development are followed.* Peters Colony is located in a desirable location for affordable housing and the developer aligned operating costs with the income that could be generated from the target market. Favorable financing and modest rehab costs kept the debt down and allowed the property to be successful while charging rents affordable to very and extremely low income households.

2. *Mixed-income housing can be created by giving all residents good housing at an affordable price.* This requires development subsidies and may involve complex financing. The desirable location and well maintained and managed property is attractive to renters with a broad range of income who are looking for decent housing at a value price. Peters Colony attracts renters from extremely low income (< 30% of median) up to moderate-income renters (> 80 percent median) without any special outreach or marketing efforts targeting particular income groups other than for the Walker units.

## **Section 2: History of the Property**

### **a. Development History**

Peters Colony was built in 1982 as market-rate housing. The property ran into financial trouble during the late 1980s and went into foreclosure. The Resolution Trust Corporation (RTC)—which was formed to dispose of assets acquired in the Savings and Loans crisis—acquired it when the lender went bankrupt.

During the foreclosure years, the property fell into disrepair. The exterior paint was peeling, several buildings had foundation problems, and five units were completely out of service and used for storage of spare parts and materials for repairs in other units. Plaster was even cut out of the walls of these units to replace holes in other units. Vacancy and rent delinquencies were also a problem. The vacancy rate was over 10 percent and radios, televisions, and microwaves were piled up in the Manager's office. They were used as collateral for late rents. In September 1994, five of the twelve move-outs were either evicted for late rent or skipped out with rent overdue

Foundation Communities identified the site in the early 1990s as a desirable location for affordable housing from the RTC Affordable Housing Disposition list. In this program,

the buyer must agree to permanently restrict 20 percent of the units to renters below 50 percent of AMI and 15 percent of units to renters below 80 percent of AMI. Properties in this program are first offered to government entities for purchase and then to nonprofits if no government entity is interested. Initially, the Texas Department of Housing and Community Affairs had planned on purchasing and operating the Texas properties, however the decision was reversed. When the property was made available to nonprofits, Foundation Communities was prepared to put in a purchase bid.<sup>1</sup> At the same time, the City of Dallas and their contractor were searching for properties to serve extremely low income, African American public housing residents from Dallas as part of a settlement agreement (known as the Walker case) resulting from a discrimination lawsuit about the placement of public housing units. Foundation Communities needed financing and serving extremely low-income households was part of its mission. Foundation Communities agreed to restrict 15 percent of the units (24 units) to households affected by the settlement agreement and to charge these tenants no more than 30 percent of their adjusted income for rent.<sup>2</sup> In return, they received a \$2.5 million dollar loan for purchase and rehabilitation at zero-percent interest. The agreement lasts for 25 years.

Foundation Communities purchased the property from RTC in 1995 for \$1.94 million. The Foundation Communities Director reported that the price was low because of the depressed market; he stated, “A depressed market is the biggest subsidy.” Foundation Communities spent a modest \$350,000 (\$2,188 per unit) to rehabilitate Peters Colony. With that money, they replaced the cedar-board walls that were cracked (about 25 percent), repainted the exteriors, fixed the foundations of five buildings, repaired the five out-of-commission units, and tore down a wall that blocked the view of the Management Office from the development entrance.

## **b. Ownership and Management Team**

The property is owned by Foundation Communities, a nonprofit organization established in 1989. They own 12 affordable housing developments (including two that serve formerly homeless people), operate homeownership education and home savings programs, and run tax preparation clinics for low-income families.

Foundation Communities is based in Austin, Texas where nine of their twelve properties are located. They are also the property manager for those nine properties. However, Foundation Communities hired a property management company to manage Peters Colony and the two other Foundation properties in the Dallas Fort-Worth area. Foundation Communities affordable housing development operations are self-supporting, but they fundraise to pay for some of the costs of their property-based learning centers.

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<sup>1</sup> Foundation Communities submitted bids for five RTC properties and were awarded three of them (including Peters Colony).

<sup>2</sup> The Walker units count toward the RTC requirement of reserving 20 percent of the units for households below 50 percent of AMI.

Foundation Communities has won several prestigious awards for its affordable housing and resident services work. For example, in 1999, they were one of three organizations in the country awarded the Metropolitan Life Foundation Award for Excellence in Affordable Housing. The original name of Foundation Communities was the Central Texas Mutual Housing Association. The name was changed in 2001 to better reflect their mission. Their mission is to provide a foundation—through housing and resident services—that enables families with low incomes to improve their education and economic standing. Their motto is “We create housing where families succeed.”

In early 2005, Foundation Communities hired Alpha-Barnes Real Estate Services to manage Peters Colony and the two other Foundation Communities’ properties in the Dallas area. Alpha-Barnes manages approximately 95 properties, almost all of which are affordable housing developments in Texas. The previous property management company had managed the development since 1995 and the owner reports they agreed to part ways because of a disagreement over how an incident was handled at one of Foundation Communities’ other properties.

### **Section 3: Property, Residents, and Neighborhood**

#### **a. Basic Property Information**

Peters Colony has 160 units in two-story, brick and cedar, garden-style apartments. The units are modest-sized one- or two-bedroom units, and have small patios or balconies and exterior storage closets. The buildings are grouped together in three U- or V-shaped areas and all units face the interior parking lot. There are 200 parking spots (1.25 per unit) that are available to residents on a first-come, first-served basis. The interior road cutting through the development contains extra-high speed bumps to eliminate speeding cars and the pedestrian danger they create. All the units have washer and dryer hook-ups and contain walk-in closets, central air conditioning, and living room ceiling fans. Some units have a fireplace. They recently started upgrading appliances to energy-efficient appliances including frost-free refrigerators.

The property has a laundry room, a pool, a Learning Center with a computer lab, a community room, and the management office. There are also picnic areas with barbecues and a small playground. One unit is also reserved as a police substation for Carrollton police officers to fill out paper work and take their breaks. The property manager keeps the sub-station stocked with snacks and drinks to encourage the police to stop by even though there are no safety or crime issues in the development.

As *Table 1* shows, Peters Colony restricts 15 percent of the units to extremely low-income renters, 50 percent to very low-income renters, and the rest to renters with less than 80 percent of the median income. The extremely low-income units are restricted as part of the agreement with the development funder to serve former Dallas public housing residents. An additional 35 percent of the units are restricted to families with less than 50 percent of the median income to qualify for property tax relief as part of a Texas



affordable housing program. The remaining units are voluntarily restricted to households who have income below 80 percent of the median because Foundation Communities' mission is to serve low-income families and they can afford to do it at this location.

*Table 1: Unit Income Restrictions: Peters Colony*

<b>Unit Composition</b>	<b>1 BR</b>	<b>2 BR</b>	<b>TOTALS</b>	<b>Percent</b>
Walker Settlement: <30% of AMI	5	19	24	15%
< 50% of AMI			80	50%
Unrestricted but Owner voluntarily limits to <80% AMI	26	106	52	33%
Deprogrammed Units for Learning Center and Police Substation	1	3	4	3%
<b>TOTAL UNITS</b>	<b>32</b>	<b>128</b>	<b>160</b>	<b>100%</b>

**Note:** Requirement for units restricted to <50% of AMI and <80% of AMI are not broken out by bedroom size.

## **b. Resident Characteristics**

Peters Colony is a racially and economically diverse community where two-thirds of adults are either working or going to school. (See Table 2.) Because the maximum occupancy is two people per bedroom and there are no more than two bedrooms per unit, the maximum household size is four people. Nevertheless, 39 percent of the residents are children and a married couple heads 40 percent of the households. A little over 4 percent of the residents are elderly. Three property management employees (2 maintenance workers and the assistant manager) live on site and receive an employee discount of \$50 per month. Employees are eligible to live on site and receive this benefit after they have worked at the property for 6 months.

At the end of 2004, only eight of the households were tenant-based Section 8 voucher holders. The property manager thought the share of voucher holders had gone down over time, but reported that it was never very large.

Household incomes range from zero to \$60,000 or from zero to 90 percent of area median income (AMI) adjusted for family size. Within that range, households are fairly evenly split between those with income below 30 percent of AMI, between 30 and 50 percent of AMI, and those above 50 percent of AMI. Only a few households are above 80 percent of AMI. The average household income of \$20,499 is one third the neighborhood average.

Racially, Peters Colony has a significant share of whites, blacks, and Hispanics. The share of non-white residents (66 percent) is much higher than the neighborhood (52 percent) or the city (39 percent). Moreover, almost two-thirds of the whites at Peters Colony are of Middle Eastern descent, hence there are really four sizeable racial/ethnic groups at Peters Colony.

Table 2: *Resident Characteristics as of December 2004*

<b>Resident Characteristics</b>	<b>Numbers</b>	<b>Percentage</b>
<b>Number of Households</b>	147	--
<b>Number of Residents</b>	394	--
<ul style="list-style-type: none"> <li>• <b>Race/ethnicity of Residents</b> <ul style="list-style-type: none"> <li>○ Black</li> <li>○ White<sup>A</sup></li> <li>○ Asian</li> <li>○ Hispanic</li> <li>○ Other/Unknown</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>124</li> <li>132</li> <li>12</li> <li>104</li> <li><u>22</u></li> </ul>	<ul style="list-style-type: none"> <li>31%</li> <li>34%</li> <li>3%</li> <li>26%</li> <li><u>6%</u></li> </ul>
<b>TOTAL</b>	394	100%
<ul style="list-style-type: none"> <li>• <b>Number of children under 18</b></li> </ul>	155	39%
<ul style="list-style-type: none"> <li>• <b>Employment Status of Adults</b> <ul style="list-style-type: none"> <li>○ Employed</li> <li>○ Retired</li> <li>○ Full-Time Homemaker</li> <li>○ Student</li> <li>○ Unknown</li> <li>○ Unemployed-Looking</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>151</li> <li>13</li> <li>29</li> <li>7</li> <li>5</li> <li><u>36</u></li> </ul>	<ul style="list-style-type: none"> <li>63%</li> <li>5%</li> <li>12%</li> <li>3%</li> <li>2%</li> <li><u>15%</u></li> </ul>
<b>TOTAL</b>	241	100%
<ul style="list-style-type: none"> <li>• <b>&lt; 30% of AMI</b></li> <li>• <b>30 to &lt; 50% of AMI</b></li> <li>• <b>50 to &lt;60% of AMI</b></li> <li>• <b>60 to &lt;80% of AMI</b></li> <li>• <b>80% of AMI or Higher</b></li> </ul>	<ul style="list-style-type: none"> <li>54</li> <li>44</li> <li>19</li> <li>17</li> <li><u>7</u></li> </ul>	<ul style="list-style-type: none"> <li>38%</li> <li>31%</li> <li>14%</li> <li>12%</li> <li><u>5%</u></li> </ul>
<b>TOTAL<sup>B</sup></b>	141	100%
<ul style="list-style-type: none"> <li>• <b>Median household income</b></li> </ul>	\$20,499	31.5% of AMI

Sources: RTC Affordable Housing Disposition Compliance Report (as of 12/31/04) and the property rent rolls (Dec. 2004).

<sup>A</sup> 83 of the 132 whites ( 63%) are of Middle Eastern descent.

<sup>B</sup> Excludes units where employees live (3) and households with missing current income information (3).

### **c. Neighborhood Characteristics**

Peters Colony is located in Carrollton, Texas. The City of Carrollton is a geographically large (37 square miles) and prosperous suburb with 115,000 residents and growing. It has low unemployment and lots of job opportunities with over 5,000 businesses and a daytime workforce of 75,000.<sup>3</sup> The average household income in 2004 was almost \$75,000; the 2000 poverty rate was 5.6 percent.

<sup>3</sup> Information is from City of Carrollton's web page (Carrollton City Profile): [www.carrollton.gov](http://www.carrollton.gov) accessed March 2005.

Peters Colony is in the southern one-third of the city, on the border of the Dallas and Denton County boundaries that cut through the city. Peters Colony is bordered by an elementary school (and playground), single-family homes, another apartment complex, and a nature preserve portion of the 177-acre Green Belt Park. The property is also within walking distance from the middle school and high school and walking distance or a short ride from grocery stores, drug stores, banks, other retail stores, and a regional hospital. It is also a few minutes drive from two major highways.

As a whole, residents in the neighborhood are higher income and less likely to be a minority compared to Peters Colony residents (see Table 3). The neighborhood median income is three times higher than Peters Colony (\$61,295 versus \$20,499). While the neighborhood is also racially diverse, the proportion of blacks is lower (14 percent versus 31 percent at Peters Colony) and the shares of whites and Asians are higher. About one-third of the housing units are owner-occupied and half of all the housing was built after 1990. Peters Colony was built earlier, in 1982.

*Table 3: Summary Neighborhood (Census Tract) Information*

<b>Characteristic</b>	<b>Number</b>
<b><i>Neighborhood Population</i></b>	
Number of Households	2072
Number of Residents	5503
<b><i>Neighborhood Income Levels</i></b>	
2004 HUD Estimated MSA Median Family Income	\$65,100
2004 Est. Tract Median Family Income	\$61,295
Tract Median Family Income %	94.2%
% Below Poverty Line	13.5%
<b><i>Race/Ethnicity</i></b>	
% Black	14%
% White (non-Hispanic)	48%
% Asian	17%
% Hispanic	19%
% Other race	2%
<b><i>Neighborhood Housing</i></b>	
Total Housing Units	2,115
Median Age of Housing Stock	16 (late 1980s)
% owner occupied	31%
% renter occupied	67%
% vacant	2%

Source: 2000 Census and American Fact Finder on [www.census.gov](http://www.census.gov)

## Section 4: Maintaining High Occupancy Rates and Positive Cash Flow

When Foundation Communities took over Peters Colony in 1995, it was partially occupied. The rehab was modest, so residents either did not have to move out or could move within the development during this work. Between the unoccupied units, the units brought back on line, and turnover, the owner was able to provide the 24 Walker units they agreed to. Within the first year of ownership, occupancy was stabilized above 95 percent. The occupancy remained high, around 98 percent, up until the last few years. The local market has softened because new tax credit and market-rate developments have come on line in the Carrollton area. The vacancy rate in early 2005 was almost 6 percent and the property manager has had to do more marketing and offer specials to keep vacancy rates low. The rest of this section describes the marketing, management, and occupancy policies that enabled Peters Colony to be successful.

### a. Rents Are Not Pushed to Market Levels, but Instead Set Just High Enough to Cover Operating Costs and Improvements

As discussed earlier, favorable financing and a modest rehab ensure that Peters Colony is carrying a debt burden that can support affordable rents and ongoing improvements. Peters Colony sets the rents as low as it can while still covering expenses, rather than pushing the rents to as high as it can while still meeting its income-restriction goals. As part of this philosophy it kept its rents flat for several years in the early 2000s before being forced to raise them in the last few years. Even so, the rent raises in the last few years were only \$10 per month (only about 2 percent for even the lowest price units).

Table 4 below shows the 2004 rental rates at Peters Colony compared to comparable apartments and the HUD Fair Market Rent (which is set at 40<sup>th</sup> percentile of rent in the entire metropolitan area).

*Table 4: 2005 Rent Schedule at Peters Colony*

Unit Size	Rent for Households <50% of AMI	Rent (2004)	Market Comps (2004)	HUD FMRs (FY2005)
1 BR	\$510	\$540	\$613	\$713
2 BR – 1 Bath	\$610	\$640	\$722	\$868
2BR- 2 Bath	\$640	\$715	\$828	\$868

Notes: Residents in Walker Units (restricted to <30% of AMI) pay no more than 30% of income in rent. Market comparables provided by Property Manager for December 2004.

The rents at Peters Colony are 11 to 14 percent below their market comparables. In dollar terms, their rent is \$73 to \$113 per month less than their peers. Furthermore,

renters with income below 50 percent of the median get an additional \$30 per month discount and the extremely low-income renters in the Walker Units pay only 30 percent of their adjusted income in rent.

The below-market rents help draw lower income renters who have a hard time paying market rents and draw some higher income renters attracted by the value.

### **b. Resident Services Focus on Educational Offerings, Primarily for Children, that Any Family Would Value**

Peters Colony has a Learning Center that offers after school tutoring, a structured summer education program, and teen group programs. It also has a computer lab and is starting English-as-a-Second Language classes for adults. The Learning Center is run by a social worker and educator employed by Foundation Communities (rather than by Peters Colony). The Learning Center Director usually has three to six other interns and volunteers who help organize and lead activities. One volunteer is a local artist that teaches art class once a week. This past summer she ran an art show for children age 6 to 16. Children had to submit a short application to a panel of judges to have their artwork displayed. The art show was a success as the community showed up in force to see the art and support the children. The Learning Center activities draw children from all income groups in the development. In a meeting with residents, the consensus was that the Learning Center was one of their biggest draws to Peters Colony.

Foundation Communities also runs an Individual Development Account (IDA) Matched Savings Program. While open to other Foundation Community residents, they are making an aggressive outreach at Peters Colony to attract more participants. The IDA program matches provides 2 dollars for every dollar in savings to participants who are ready to purchase a productive asset, such as a home, a small business, or post-secondary education. Participants attend a 10-hour personal finance course and asset specific workshops and must save for at least one year before being eligible for the savings match.

### **c. Strict Screening to Avoid Problematic Tenants**

Screening of potential renters includes a criminal and credit background check and a rental history check. If the applicant has any felonies on their record—no matter how old—he or she is not eligible to live in the development. Furthermore, some misdemeanors are also grounds for denying an application. The Foundation Community Director also mentioned that one of the benefits of the on-site Cop Shop is that it attracts people “who are comfortable with extra police presence.” That is, people who were involved in criminal activity would be less likely to be attracted to the property because of the Cop Shop.

Peters Colony does make some exceptions for credit problems that occurred under difficult circumstances, but the Foundation Communities website

([www.foundcom.org](http://www.foundcom.org)) states "...the need for affordable housing is so acute that we must select tenants who we believe will be successful and contribute to our communities."

All tenants, except voucher holders and Walker unit renters, have to have income that is at least 2.5 times their rent. Section 8 voucher holders are an exception because the housing authority pays the difference between the rent and 30 percent of the voucher holder's income. However, non-elderly, non-disabled voucher holders must meet minimum earned income thresholds. The earnings threshold ranges from \$800 per month for one-person households to \$1000 per month for households of three or more.

The extremely low-income renters in the Walker Units have a different screening process all together. The Dallas Housing Authority determines the eligibility for the Walker Units. However, the Walker renters still need to pass Peters Colony's criminal background check to be allowed to live in the development.

#### **d. Location is the Large Marketing Asset**

Being located in Carrollton is a selling point for the development. It is a low-crime, low-poverty city that has an abundance of employment opportunities. Furthermore, Peters Colony is in a residential neighborhood (including many detached single family homes) convenient to schools, shopping, and transportation corridors.

In the past, marketing efforts were minimal because the development sold itself. Most renters came from drive bys or word-of-mouth. The market has softened somewhat in recent years because several new developments have come on line; so more marketing has been done in the past few years. Current marketing efforts include advertising in the free weekly newspapers, flyers posted at nearby medical centers, laundromats, and retail establishments, and banners and balloons on the front of the property to attract attention to drive bys.<sup>4</sup> They resorted to offering rent promotions such as discounted first month's rent in early 2005. The property management office is also open on the weekend when there are vacancies. Otherwise, weekend hours are by appointment only.

#### **e. Asset Manager is Attentive**

The asset manager monitors net exposure on a monthly basis. Net exposure is the percentage of all units where there is a vacancy with no one scheduled to move in or a unit where the tenant has given notice. The asset manager also looks at the occupancy rate and work orders. However, the number of days a unit is vacant between renters is not tracked. On an annual basis, the asset manager does a unit-

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<sup>4</sup> The City of Carrollton only allows banners to be up between noon on Friday to noon on Monday without a permit. If a permit is sought, it is only good for two weeks. Hence, the banners are only up on the weekend.

by-unit inspection of the property. Even though the asset manager is in a city a few hours away, he or another Foundation Communities staff member usually does an exterior or drive-by inspection on a quarterly basis.

Some of the staffing policies established by the asset manager provide another level of property attentiveness. The Learning Center Director, who is on the property every weekday, is a Foundation Communities staff member. The Director works with the property manager to respond to concerns raised at Resident Council Meetings or in one-on-one conversations. The property management office is on site, so the site's property manager is also there most of the day. Property management staff also get a \$50 a month discount if they live on the property. Three employees were taking advantage of this opportunity in early 2005. This provides more round-the-clock eyes and ears at the development.

The ongoing capital improvements also indicate the asset manager is attentive to the needs of the property. Since 1998, the major improvements include adding a playground (1998), replacing all the roofs (1999), replacing half of the hot water lines (2002), replacing all siding and repainting (2002), adding a new expanded learning center with computer lab (2004), and replacing appliances with energy efficient appliances (2004-2005).

#### **f. Ownership is Resident-Focused**

Foundation Communities' operating philosophy is to focus on the residents. Their mantra is "We create housing where families can succeed." It is why they fundraise to provide resident services and it why they focus on helping to empower residents.

The resident focus starts with the Board of Foundation Communities. One-third of the board members are residents of the developments Foundation Communities owns. At Peters Colony, the resident-focus continues with the Resident Council and its resident-elected officers. The Resident Council meets monthly and is assisted by the Learning Center Director. A typical meeting will have 12 to 15 attendees, but they will get 25 or more attendees if there is an issue. The decision to put in extra-high speed bumps on the property road was initiated by residents.

Another concrete example of the resident focus is the hardship exemption. As mentioned earlier, a resident undergoing a temporary hardship can get a rent postponement, discount, or complete abatement for up to three months. The decision is made by a committee consisting of Foundation Communities staff, the property manager, and resident leaders (from Peters Colony and other Foundation Communities' properties).

Foundation Communities also conducts an annual Resident Satisfaction survey to identify issues that may have gone unnoticed. The survey asks about management, maintenance, rent, and services. Between the board, the resident council and the annual survey, the owner ensures that residents' voices are heard.

## Section 5: Financing Sources and Costs

Obtaining financing for a mixed-income project that allows for realistic debt repayment levels is key to success.

Foundation Communities took advantage of an opportunity to obtain a zero-interest loan in return for subsidizing the rents of 24 units for former Dallas public housing residents with income below 30 percent of the area median. The former public housing residents pay only 30 percent of their income in rent; the difference between their rent and the full rent is the subsidy. The \$2.5 million loan covered 99 percent of the development costs. The other 1 percent was covered by a grant from the Neighborhood Reinvestment Corporation (now called Neighborworks® America).

### a. Development Costs

It cost \$15,823 per unit to purchase and rehab Peters Colony (see Table 5). Three-fourths of this cost (\$12,109 per unit) was to acquire the property. Only \$2,188 per unit was spent on rehab and another \$1,309 per unit was spent on closing costs and the developer fee. The remaining \$219 per unit (\$35,000) was set aside as a special reserve. The special reserve was for utility assistance and resident services.

*Table 5: Development Cost Information: Peters Colony*

<b>Development Cost Information</b>	<b>Amount</b>	<b>Percent of Total</b>	<b>Cost Per Unit</b>
Site acquisition/prior site dev fees	\$1,937,448	76.5%	\$12,109
Site Improvements/Construction	\$350,000	13.8%	\$2188
Closing Costs	\$59,300	2.3%	\$371
Developer Fee	\$150,000	5.9%	\$938
Special Reserve	\$35,000	1.3%	\$219
<b>Total Development Costs</b>	<b>\$2,531,748</b>	<b>100%</b>	<b>\$15,823</b>

### b. Operating Costs

The initial pro forma was based on income growth of 3.25 percent per year (including an 8 percent vacancy rate) and expense growth of 4 percent per year. Both income and expenses have grown slower than projected even though vacancy has been lower than projected on average. The lower than expected income growth is a result of the owners desire to keep rents as affordable as possible and their decision to commit to serving a lower income population than originally envisioned. Starting in 1997, they received property tax relief from the State of Texas for agreeing to restrict half of the units to renters at less than 50 percent of AMI. The tax savings must be reinvested in capital improvements and resident services above and beyond what are considered necessary expenses (proxied as 40 percent of the property tax abatement). In addition, because of Foundation Communities' mission and because the financials allowed it, they voluntarily restrict all rental units to people below 80 percent of AMI at initial occupancy.



As part of commitment to keep rentals affordable, rents were not increased for several years in the early 2000s. However, their analysis indicated they could not keep this up indefinitely because some expenses were increasing faster than income. In the past two years, the owner has increased rents \$10 a month each year.

Nevertheless, as can be seen Table 6, the owner was able to maintain a healthy operating budget by keeping a tight grip on expenses and participating in the affordable housing program to eliminate their property taxes. In 2004, the property abatement saved them approximately \$141,000. Table 6 also shows that they invested \$238,194 in capital improvements in 2004, which resulted in drawing down their replacement reserves by \$18,118. However, the owner reports they have a healthy replacement reserve balance of \$450,000 or \$2,812 per unit.

*Table 6: Comparison of Initial Revenue and Expense Projections vs. Actuals (in dollars)*

	<b>2004 Budget Projected in Initial (1995) Pro Forma</b>	<b>2004 Actual Budget</b>
<b>Rent Potential</b>	<b>\$1,232,573</b>	<b>\$1,255,200</b>
- Vacancy loss	\$83,990	\$42,734
- Walker Unit Rent Subsidy	\$182,967	\$142,302
- VLI Unit Rent Discount	0	\$70,372
- Other Rent Losses (employee discount, deprogrammed units)	0	\$100,006
<b>=Net Rental Income</b>	<b>\$965,886</b>	<b>\$899,786</b>
+ Other Property Income	\$27,070	\$31,982
<b>= Total Property Income</b>	<b>\$994,039</b>	<b>\$931,768</b>
- Admin Expenses	\$91,092	\$60,530
- Payroll Expenses	\$193,570	\$131,904
- Marketing Expenses	0	\$4,231
- Maintenance Expenses	\$71,166	\$46,185
- Service Contracts	\$64,049	\$36,632
- Utilities/Insurance/Taxes	\$260,797	\$164,529
- Resident Services	\$14,233	\$132,151
- Replacement Reserve	\$91,092	\$0
<b>= NOI before Debt Service</b>	<b>\$161,330</b>	<b>\$355,606</b>
- Debt Service	\$100,000	\$98,628
- Asset Management Fee	\$38,635	\$36,902
<b>= Cash Flow</b>	<b>\$32,732</b>	<b>\$220,076</b>
- Capital Improvements	0	\$238,194
<b>= Net Cash Flow or Change in Replacement Reserve</b>	<b>\$32,732</b>	<b>(\$18,118)</b>

Sources: Operating Pro Forma and “Financial Report, Foundation Communities, Inc. and Affiliates, December 31, 2003.”