NeighborWorks®

Neighborhood Reinvestment Corporation

Neighborhood Reinvestment Corporation
NeighborWorks® Multifamily Initiative

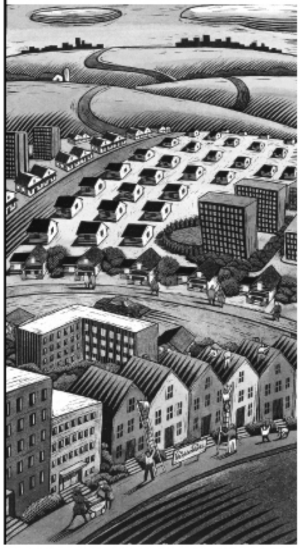
Report from

The Mixed-Income Demonstration Program:

Reaching extremely low-income families in mixed-income settings

February 2004

Congress included a special $5 million, mixed-income demonstration program in Neighborhood Reinvestment Corporation's FY 2003 appropriation. The purpose of the set-aside was to explore approaches for serving households with incomes less than 30 percent of the area median ("extremely low income" or "ELI" households) in mixed-income communities. This paper shares highlights of the 21 grant applications (17 of which have been selected for funding) and how the special congressional funding made a distinct difference in the projects.



Report from the Mixed-Income Demonstration Program
February 2004

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Acknowledgment

The principal author of *Report from the Mixed-Income Demonstration Program* was Michael Bodaken, president of the National Housing Trust.

Executive Summary

The Special Congressional Appropriation

As part of Neighborhood Reinvestment's FY 2003 appropriation, Congress earmarked $5 million of the Corporation's funding for the Mixed-Income Demonstration Program. According to the Senate Report for the FY 2003 HUD/VA Appropriations Measure (No. 107-22):

"The Committee is including $5,000,000 above the budget request to continue the Corporation's multifamily rental housing initiative. The Corporation has demonstrated success with this program; in fiscal year 2002, 110 extremely low-income people benefited from the production of new multifamily housing units."[1]

In June 2003, Neighborhood Reinvestment Corporation made 17 grant awards totaling $4.9 million to NeighborWorks® organizations, to enhance existing affordable-housing development and preservation proposals by making units affordable to households with incomes below 30 percent of the area median income – incomes typically ranging from $10,000 to $15,000 or somewhat higher depending on household size and market area.

These 17 projects demonstrate several valuable new lessons while reinforcing the early conclusions drawn from the 2002 pilot program.

Two striking new lessons were observed in this year's demonstration:

- First, the sustainability of a property can actually be *enhanced* by enabling it to serve extremely low-income households. Several projects funded are in attractive but overbuilt markets. By enabling some units to rent at very affordable rates, the property has a larger market and increased revenues, while meeting a crisis level housing need.

- Second, an efficient way to invest scarce public subsidy to create apartment homes affordable for extremely low-income households is to invest in already healthy operating properties in already healthy communities. A relatively small subsidy is needed to achieve a great deal of affordability without the financial, political and time cost of creating new units.

In addition to these new lessons, these projects again demonstrate that mixing families with extremely low incomes into a wide range of market settings is thoroughly feasible, thus reinforcing the call for housing policy which supports de-concentration of poverty through mixed-income approaches.

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[1] "Extremely Low-Income Household" is defined as a household earning less than 30 percent of the area median income. Rents affordable to so-called "ELI" households are equivalent to 30 percent of the ELI household's monthly income.

Finally, these 17 projects reinforce the lessons of last year's pilot program (see Appendix B):

- Subsidy programs must be flexible so that extremely low-income families can be included in a wide range of settings.

- Each "ELI unit" will require significant subsidy, but across the total project, the additional subsidy is quite modest.

- Subsidy sources dedicated to reaching extremely low-income families are desperately needed if America is to provide decent housing for all its working-class households.

- Sustainability is critical so that public investment is not lost.

What follows is a report on those projects and how the funds assisted in the provision of housing affordable to extremely low-income households in mixed-income developments across the United States, along with expanded explanation of the lessons offered by these projects.

The Mixed-Income Demonstration Program

NeighborWorks® organizations across the United States are building healthy neighborhoods that serve all types of households. Generally, housing figures tell a tale of higher-income households being relatively well served. Either through homeownership or affordable rentals, higher-income households fare pretty well.

In stark contrast, extremely low-income renters do not do so well. Data has recently come to light that demonstrates the plight of low-income, working households. For example, year after year, Joint Center at Harvard and the National Low Income Housing Coalition surveys demonstrate that nowhere in our nation can a person earning a minimum wage afford a modestly priced rental apartment. The Joint Center found that in no housing market, not Baltimore, not Iowa, not Texas, nowhere, could a household earning today's minimum wage afford a modest two-bedroom rental.[2]

This year, the Joint Center took a different tack on the same subject. The research examined rental-housing burdens experienced by *occupation*.

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2 According to the Joint Center for Housing Studies at Harvard, in 2000, almost five million unsubsidized households spent more than 50 percent of their incomes on housing costs. *State of the Nation's Housing*, 2001.

Consider the raw data on rent burdens on those Americans who work to make our lives easier: e.g., service station attendants, childcare workers, kindergarten teachers, waiters and waitresses, home health care aides, groundskeepers, cooks, cashiers, receptionists, janitors, carpenters, electricians, secretaries, painters, taxi drivers, and retail salespersons.

The number of rent-burdened people in these occupations is staggering. Take kindergarten teachers as a category. More than 65 percent of our nation's kindergarten teachers are paying more than 50 percent of their income for rent when the teacher is the primary breadwinner.

Nearly 50 percent of our nation's carpenters are in a similar state. Even when a carpenter lives in a household where several household members work, more than 30 percent of our nation's carpenters who rent pay more than 50 percent of their income for shelter. The same is true for all of the occupations listed above.[3]

In light of the fact that extremely low-income working households are in the midst of a housing crisis, the Neighborhood Reinvestment Corporation, a congressionally -chartered, public nonprofit corporation involved in the revitalization of declining, older neighborhoods, asked itself, "How could we expand the current distribution of mixed income housing to Extremely Low Income Households (ELI)?" Neighborhood Reinvestment proposed that there be a "merger" of the twin policy concerns – the *desire* for mixed-income housing and the *need* to serve extremely low-income individuals – in a sustainable fashion. What if Neighborhood Reinvestment were to tackle the nation's most urgent housing problem within the context of today's mixed-income housing programs?

For multifamily housing, Neighborhood Reinvestment's capital grant provides "gap" funding to make affordable multifamily development and preservation feasible. Many capital grants support properties that receive federal and state assistance (such as Low Income Housing Tax Credits, Rural Housing Service subsidies, and Section 8 rental assistance) but need additional grant funds in order to be viable.

For 2003, using funds from a special mixed-income demonstration program appropriation from Congress, Neighborhood Reinvestment Corporation offered mixed-income grants to enable properties to include units affordable to households at or below 30 percent of area median income ("extremely low income" or "ELI" households).[4] Because ELI households can afford only very limited rents, traditional subsidies such as the Low Income Housing Tax Credit ordinarily cannot reach these households. Neighborhood Reinvestment Corporation designed the mixed-income grant program to allow the widest possible range of approaches. Requirements for eligibility included site

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[3] *State of the Nation's Housing*, 2002 (Joint Center for Housing Studies of Harvard University), p. 22.

[4] ELI households earning less than 30 percent of median income are often employed. Many ELI households have significant employment income (67 percent of those in the 20 to 30 percent AMI range, and 28 percent of those in the 10 to 20 percent AMI range).

control and commitments for all other needed funding. The maximum grant was the lesser of $750,000 or $40,000 per ELI unit. Applicants could propose any income mix that included at least 5 percent ELI units. No applicant proposed more than 50 percent ELI units.[5] The basic notion of the grant was that Neighborhood Reinvestment would strategically allocate scarce public funds, or so-called "gap funds," to encourage nonprofit developers to reach the extremely low-income population.

Neighborhood Reinvestment retained the National Housing Trust to review the grant applications. The National Housing Trust's review emphasized the financial sustainability of these mixed-income developments. Twenty-one Neighborhood Reinvestment nonprofit housing developers submitted projects for review.

This summary is meant to help the industry better understand how to reach extremely low-income households in a sustainable, mixed-income development.

[5] As noted below, the overall income range varied widely. All proposals offered a mix of incomes up to 50-60 percent of area median income. Some proposals offered income mixes that extended above 80 percent AMI.

Evaluation Process

Process of Evaluation by the National Housing Trust

The National Housing Trust's evaluation methodology was based on a 60-point scoring system: 30 points for financial sustainability and 30 points for demonstration program considerations. Financial stability was broken down into revenue projections, expense projections, financial underwriting criteria, capital needs and experience. Demonstration program considerations were broken down into project readiness, creativity and innovation, and ability to replicate.

Although not applied mechanically, the rating criteria were quite specific. For the project to demonstrate "project readiness," the applicant had to demonstrate that all of the items of due diligence had been completed save for the NeighborWorks® grant. For the project to demonstrate assurances of net operating income, the sponsor had to demonstrate that the gross rent potential was well in excess of reasonable expense projections and that vacancies and bad debt assumptions were reasonable in that market, based on comparable properties nearby. Both income and expense projections were compared to nearby benchmarks.

The financial underwriting required debt service coverage of at least 1.1 with reasonable expense and income trending over time. The sponsor had to provide an adequate scope of construction work, based on the repairs required by the other lenders to the property. Ideally, the sponsor had completed several successful projects involving similar financing structure (e.g., tax credits or 501(c)(3) bonds), similar tenant mix (e.g., mixed income, extremely low income), same market area and other elements similar to current proposal (e.g., new construction, preservation, rehab with tenants in place). Experience was rated including, staff continuity with experience applicable, at least 10 years of successful history in multifamily affordable housing projects, and evidence of executing innovative projects in the past. If that level of experience was not present, we required evidence of past success in projects with several, but not all, elements similar to current proposal, staff continuity, and at least five years of successful history in multifamily affordable housing

Each application was reviewed by a staff analyst and underwent at least one secondary review. Recognizing the limits of any objective scoring system, trust staff also met several times to see if our rankings were producing the most appropriate candidates for funding.

A blank scoring/grid form is available upon request.

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Highlights of the 21 Grant Applications

Variety of Housing Approaches: As one might expect, the applicants' housing approaches varied considerably. Approximately half of the housing developments involved some form of new construction. At least two were simple refinances of existing projects to reduce debt and lower some rents. The remainder involved acquisition and major rehab of existing units or adaptive reuse of a commercial building to residential use.

Financial Tools Used: A variety of approaches were taken to create mixed-income housing with at least 5 percent set aside for extremely low-income households, including:

- *Reduce debt/reduce rents:* Most applicants proposed to use the grant funds to reduce debt, thereby allowing the property to charge lower rents on some units. This approach allows for a deep level of affordability without requiring Section 8 subsidy. However, it is not feasible in all markets – nor will it reach households with incomes under about $10,000 a year, because the rent they can afford is so low it does not even cover operating expenses. Therefore, reduction of debt service is not enough of a subsidy to reach these households without additional operating subsidy.

- *Introduction of additional affordability into existing project:* Two applicants proposed paying off the mortgage on an existing mixed-income, rental project. For example, in one 40-unit apartment property, this enables the applicant to reduce rents in 10 of the units to enable households earning less than 30 percent of AMI to afford to live there. The new income mix will include a total of 22 households earning less than 50 percent.

- *"Sinking Fund":* One applicant proposed using the Neighborhood Reinvestment grant to create a sinking fund for eight ELI units to extend affordability as housing choice vouchers expire. Another used the funds for a sinking fund to offset deficits resulting from the reduced rents, a good model to stretch otherwise available subsidy funds.

- *Potential Homeownership:* This application involved a single-family new construction lease-to-own purchase project, providing households earning less than 30 percent of median with the opportunity to purchase their own home over a 15-year period.

- *Funding Gap and Resident Services:* Where a local provider wanted to target 30 percent AMI units to formerly homeless individuals, the grant would be used to fill a funding gap and provide supportive services to those formerly homeless households. In another, the Neighborhood Reinvestment grant will be used to help fill a funding gap so that an elderly and special-needs project can be constructed in a rural area. In still another, the funds will create the opportunity for an applicant to provide rental housing for extremely low-income to market-rate households in the same apartment community. Proceeds will be used to both pay down debt and provide essential supportive services for the new ELI families moving into the community.

Geographic Diversity: Applications were received from California, Colorado, Connecticut, Idaho, Maryland, Massachusetts, Missouri, New Hampshire, North Carolina, North Dakota, Ohio, Oregon, Rhode Island, Texas, Vermont, and Virginia.

Rural and Urban/Large and Small: The applicants represent a full range of geographic areas, including urban, suburban and rural locations. The proposed developments varied from eight to 208 units. Proposals included new construction, acquisition and modest rehab, acquisition and major rehab, and adaptive reuse.

Attached to this paper are brief summaries of the 17 grant applications that were selected for funding (see page 13). In addition, eight of those awarded are outlined in greater detail (see Appendix A).

The tables on the following two pages present highlights of the grant applications.

Neighborhood Reinvestment Corporation
Mixed Income Demonstration Grant Program
Key Characteristics of Grant Applications

Applicant	Awarded?	Total # Units	Units At or Below 30% AMI	Units >30% to 60% AMI	Units Above 60% AMI	Total Devel. Cost per Unit	Grant Amount	Grant Amount per 30% Unit
One	Yes	20	5	15	0	$50,000	$200,000	$40,000
Two	Yes	40	10	12	18	Not Applicable	$300,000	$30,000
Three	Yes	76	8	67	1	$201,271	$222,000	$27,750
Four	Yes	133	20	100	13	$135,000	$290,000	$14,500
Five	Yes	45	9	29	7	$138,823	$360,000	$40,000
Six	Yes	37	6	30	1	$85,009	$210,000	$35,000
Seven	Yes	33	6	27	0	$177,236	$240,000	$40,000
Eight	Yes	78	8	70	0	$58,738	$320,000	$40,000
Nine	Yes	64	16	48	0	$245,340	$369,000	$23,063
Ten	No	20	5	0	15	$98,831	$0	$0
Eleven	Yes	20	5	15	0	$158,355	$200,000	$40,000
Twelve	Yes	208	32	134	42	$78,737	$400,000	$12,500
Thirteen	Yes	32	5	27	0	$95,708	$200,000	$40,000
Fourteen	Yes	30	9	21	0	$244,215	$360,000	$40,000
Fifteen	Yes	37	2	30	5	$138,051	$80,000	$40,000
Sixteen	Yes	200	13	67	120	Not Applicable	$500,000	$38,462
Seventeen	Yes	46	5	36	5	$108,881	$200,000	$40,000
Eighteen	No	60	5	25	30	$140,744	$0	$0
Nineteen	No	24	7	12	5	$202,987	$0	$0
Twenty	No	58	10	0	48	$173,531	$0	$0
Twenty-One	Yes	72	19	53	0	$74,387	$400,000	$21,053
Applied	**21**	**1333**	**205**	**818**	**310**		**$6,131,000**	**$29,907**
		100%	**15%**	**61%**	**23%**			
Awarded	**17**	**1171**	**178**	**781**	**212**		**$4,851,000**	**$27,253**
		100%	**15%**	**67%**	**18%**			

Neighborhood Reinvestment Corporation
Mixed Income Demonstration Grant Program
Key Characteristics of Grant Applications

Applicant	Awarded?	Total # Units	State	Target Population	Construction Type	Urban, Suburban or Rural	Home-ownership?
One	Yes	20	VT	Transitional	New Construction - Single Family	Rural	
Two	Yes	40	TX	Families	Refinance	Suburban	
Three	Yes	76	CA	Families	New Construction	Urban	
Four	Yes	133	MD	Families	Rehabilitation	Urban	
Five	Yes	45	OH	Families	Infill - Single Family	Urban	Lease - Purchase
Six	Yes	37	NC	Special Needs	New Construction	Suburban	
Seven	Yes	33	NH	Families	New Construction and Rehabilitation	Urban	
Eight	Yes	78	VA	Families	Rehabilitation	Urban	
Nine	Yes	64	MA	Families	New Construction	Urban	
Ten	No	20	CO	Elderly and Special Needs	New Construction	Rural	
Eleven	Yes	20	MO	Families	New Construction	Suburban	Lease - Purchase
Twelve	Yes	208	TX	Families	New Construction	Suburban	
Thirteen	Yes	32	NC	Special Needs	New Construction	Suburban	
Fourteen	Yes	30	RI	Families	New Construction - Mixed Use	Urban	
Fifteen	Yes	37	OR	Families	Adaptive Reuse - Gut Rehab	Urban	
Sixteen	Yes	200	TX	Families	Refinance	Suburban	
Seventeen	Yes	46	ND	Elderly	New Construction	Urban	
Eighteen	No	60	CO	Families	New Construction - Single Family	Rural	Lease - Purchase
Nineteen	No	24	CT	Families	Rehabilitation	Urban	Lease - Purchase
Twenty	No	58	MA	Families	Rehabilitation	Urban	
Twenty-One	Yes	72	ID	Families	Refinance	Urban	

Applied	**21**	**1333** **100%**
Awarded	**17**	**1171** **100%**

Projects That Scored Well

The projects scoring 45 or above were generally well underwritten by experienced nonprofits with a high degree of readiness. Invariably, sustainability of the approaches was key. *Indeed, sustainability tended to be the more decisive factor in relative rankings.*

Viability and Public Purpose Can Be Compatible: Introduction of ELI Households Can Actually Improve Sustainability

Upon review of the demonstration's results, it became clear that "mixing" ELI households into existing transactions could actually *improve* the sustainability of the transaction. Cases in point are properties that serve a very wide range of existing incomes, from ELI households to households at or above market.

For example, the two properties in Austin, Texas, Daffodil Apartments and Trails at Vintage Creek Apartments, are both serving a high percentage (45 percent and above) of households earning more than 60 percent of the area median. Nevertheless, the properties had suffered from the dilemma brought on by the current recession – that as jobs are being lost, there is a need to reduce rents to compete in the market. However, as rental rates have dropped, many families have experienced a simultaneous job loss and reduced income. Hence housing affordability is still a vital concern to those without resources. Homelessness is on the rise. Apartments affordable to extremely low-income households are in desperate need. Waiting lists for affordable apartments for ELI households are still quite long. Hence, being able to *combine* ELI households with market-rate rentals actually will strengthen the financial performance of properties in softer markets. In this case, current occupancy at Daffodil and Vintage Creek (see below) are currently hovering in the range of 85 percent. With the ELI grants, not only will those ELI households be served (something at the core of Foundation Communities' mission), but also occupancies are expected to climb to more than 90 percent as well.

Moreover, lenders actually appreciate the introduction of ELI units in such properties. MuniMae supported the Vintage Creek transaction because, as its support letter for the property opined, the introduction of these units "may be right to improve the overall position of the property." Indeed, less than two months after the grant was made, almost all the ELI units are spoken for.

In tighter markets, such as Wheaton, Maryland, the use of the ELI grant is not as necessary for the financial performance since the property can be well-occupied by low-income, moderate-income, and market-rate households. However, the tight market makes it all the more imperative that ELI households find a decent, affordable place to stay. In these instances, generally, the ELI grants are accomplishing a two-fold mission – both providing a place to live for ELI households in gentrifying communities and fulfilling the mission of the recipient.

According to Robert Goldman, executive director of Montgomery Housing Partnership: "As you know, Wheaton is gentrifying as we speak. The grant from Neighborhood Reinvestment allows us to maintain some apartments available to those who work and live in the community now and also permits some diversity in the property, something we consider important to our mission of providing housing to those who have no alternative."

Projects Awarded Funding

Alamo Area Mutual Housing Association, San Antonio, Texas
Bentley Place Apartments; 208 units, 32 of which will be affordable at 30 percent AMI – Bentley Place is a proposed new construction project in a suburban location consisting of 208 units affordable to families at 30 percent, 50 percent and 60 percent AMI and market. Bentley Place provides the opportunity to demonstrate the feasibility of providing rental housing for a wide spectrum of incomes in the same apartment community. Having obtained a zoning change and tax credit allocation, the property will move forward in 2004.

Beyond Housing, St. Louis, Missouri
Beyond Housing I 2003; 20 units, five of which will be affordable at 30 percent AMI – Beyond Housing is constructing 20 clustered, scattered-site, single-family homes as part of a broader revitalization effort located in Pagedale and University City, suburbs of St. Louis. Financing includes tax credit equity and the Neighborhood Reinvestment grant. There is no permanent debt on the project. The scattered site approach enables the mixing of these ELI and other low-income households with market-rate housing in these neighborhoods. Beyond Housing has a community center in the neighborhood that will serve as a hub for providing services to their residents. Each family must develop a plan for self-sufficiency to be able to occupy the home. Regular home visits are part of the ongoing social services plan.

Community Housing Partners, Portsmouth, Virginia
Afton Square Apartments; 78 units, eight of which will be affordable at 30 percent AMI – Community Housing Partners proposes to transform a 78-unit property in Portsmouth, Virginia. The project demonstrates how tax credit developers can serve ELI households without relying on Section 8 vouchers. Financing used was not atypical: allocation of 9 percent tax credits, Virginia Housing Foundation loan and grant, another foundation grant and a Federal Home Loan Bank grant. One unit is being set aside for community services.

Downtown Housing Improvement Corporation, Raleigh, North Carolina
Lennox Chase Apartments; 37 units, six of which will be affordable at 30 percent AMI – Construction has already started on this joint public/private supportive housing model to meet the housing needs of low- and very low-income single individuals moving out of homeless shelters and transitional housing. Those households earning less than 30 percent of AMI tend to have greater needs than the overall population. Wake County has committed a full-time staffer to provide intensive assistance to these households on site. A resident services fund is capitalized into the development budget and then loaned back to the project. Significant government and social services support is committed for Lennox Chase. Funding from Neighborhood Reinvestment will be used to assist the "sinking fund" to cover potential operating deficits, assuring that financial sustainability goes forward. Market analysis indicates that the project is located in the Research Triangle region's fastest-growing, highest-income community where moderate residents have great difficulty finding affordable housing.

Downtown Housing Improvement Corporation, Southern Pines, North Carolina
Creston Commons II; 32 units, five of which will be affordable to 30 percent AMI – Creston Commons II is a companion community to Creston Commons I, both of which are located in suburban Raleigh, North Carolina. The proposed new development will have five one-bedroom units affordable to ELI households. The Sand Hills Community Action Program Center will refer applicants for these units. The program will also provide a service coordinator who will supply follow-up services for these residents. All of the ELI households will have SSI income. Notably, the companion project, Creston Commons I, is among the highest quality rental communities in the area according to the market study. A community building constructed as part of Phase I will be available to Phase II residents as well. The financing plan is based on tax credits, a soft loan from the North Carolina Housing Finance Agency and a grant from the Federal Home Loan Bank.

Foundation Communities, Austin, Texas
Daffodil Mixed-Income Program; 40 units, 10 of which will be affordable at 30 percent AMI – This project involves the introduction of additional affordability and supportive services through payoff of the outstanding mortgage on a 40-unit, mixed-income unsubsidized rental property. Currently, 22 units are set aside for those earning less than 50 percent of median. Certain debt service savings will be used to hire a "case manager" to implement Foundations for Families, a one-on-one counseling program for the ELI households. The case manager will develop individualized family service plans identifying goals to be met in the areas of employment and income stability as well as children's education and emotional welfare. Foundation Communities has very good linkages with local service organizations. Again, this project is replicable for those nonprofits that wish to set aside already-owned apartments for a small percentage of ELI households.

Foundation Communities, Austin, Texas
Vintage Creek Mixed-Income Program; 200 units, 13 of which will be available to 30 percent AMI – This project consists of an equity infusion into an existing multifamily property through partial, voluntary redemption of the outstanding 501(c)(3) bonds issued three years ago. The redemption of the $500,000 permits Foundation Communities to set aside 13 units for extremely low-income families at break-even rents. A number of families are already lined up to move in. The families will be assisted via Foundation Communities service-enriched housing programs. Debt service savings will be used primarily to reduce rents in 13 of the 80 units restricted to households earning less than 60 percent of income. The development is already owned and managed by Foundation Communities. The property suffered from flat rents, and introduction of ELI households will actually lead to higher occupancy for the property. The bondholder, MuniMae, agreed to allow the prepayment.

Lewis and Clark CommunityWorks, Mandan, North Dakota
Mandan Library Square; 46 units, five of which will be available to 30 percent AMI – This four-story, 46-unit, one- and two-bedroom unit property is targeted to senior households earning less than 60 percent of median income. The property is currently under construction with the building designed to match the historic architecture of the surrounding area. According to the market study for the property, there is a desperate need for elderly, affordable housing in Mandan, specifically a need for an additional 133 affordable, senior apartments. To date, there are more than 160 persons on the Library Square housing waiting list.

Manchester Neighborhood Housing Services, Manchester, New Hampshire
Straw Mansion Apartments; 33 units; six of which will be affordable at 30 percent AMI – This adaptive reuse project involves the rehabilitation of one older motel and a brick Victorian residence (the “Straw Mansion”) into newly refurbished apartments, and the new construction of a third building nearby. The project is an excellent example of urban, inner-city neighborhood revitalization. The waiting list for this type of housing in Manchester is more than nine months. The project is replicable in any community that has a tight rental market but that has large rental homes, motels and/or vacant land available for redesign into affordable housing.

Montgomery Housing Partnership, Wheaton, Maryland

Pembridge Square Apartments; 133 units, 20 of which will be affordable at 30 percent AMI – This involves the substantial rehab and preservation of an urban/suburban property located in a gentrifying neighborhood near the District of Columbia. Grant funds will help enhance the use of Section 8 vouchers and the ability of the Montgomery Housing Partnership to build a community center. Notably, this project has a very broad income mix, meaning that apartments will be rented to extremely low-income, low-income, and market-rate households. Therefore, the targeting of the ELI households will not result in the property being labeled a "low-income housing project." In fact, the project should blend in well with the market-rate housing being constructed nearby.

Neighborhood Housing Services Inc., Boise, Idaho

Gateway Crossing Mixed Income Project; 72-unit multifamily complex; 19 will be affordable at 30 percent AMI – Gateway Crossing is an apartment building located in Nampa, Idaho. Boise NHS, working with the Nampa Police Department and mayor's office, has transformed the property, formerly plagued with crime, to a safe, family-oriented community. The Gateway site manager was cited as "Crimefighter of the Year" by the Nampa Police Department. Neighborhood Reinvestment funds will be used to seed a sinking fund used to offset the difference between rents affordable to those earning 60 percent of median income to those earning 30 percent of median income.

Portage Area Development Corporation, Ashtabula, Ohio

Ashtabula Homes; 45 units; nine of which will be affordable at 30 percent AMI – Ashtabula Homes is a proposed 45-unit, scattered-site, single-family, "lease-to-own" project in Ashtabula, Ohio. The project involves a 15-year lease-to-purchase program based on Ohio's Housing Credit Program. Primary financing involves low-income housing tax credits and a standard mortgage. The project provides affordable rents to nine ELI households for 15 years while these households, or others like them, are prepared to become homeowners. Replicable for areas with relatively soft markets, where the local government wants to provide both affordable rental and homeownership possibilities without entirely excluding ELI households.

Rockingham Area Community Land Trust, Springfield, Vermont

Scattered-Site Mixed-Income Initiative; 20 units, five of which will be affordable to ELI households (rents affordable to households earning less than 30 percent of Area Median Income) – The proposed development consists of five scattered-site transitional buildings in rural Vermont. RACLT already owns these buildings and is using the funding to both reduce debt and provide rehabilitation for five units that will serve extremely low-income households. Residents in these dwellings are required to form a transition plan for their own sustainability, and RACLT monitors their progress on a weekly basis. This program is easily replicable for organizations that seek to set aside already-owned apartments for ELI households.

Sacramento Mutual Housing Association, Sacramento, California
Lemon Hill Townhouses; 76 units, eight of which will be affordable at 30 percent AMI – Sacramento Mutual Housing will construct 76 affordable townhomes in an urban setting, all of which will be affordable to those earning less than 50 percent of median, and eight of which will be affordable to ELI households. Excellent resident services will be available for the residents. The sponsor has also received 30 project-based vouchers and has a 10-year contract for housing choice vouchers. Although this grant request will not produce greater affordability, it will improve the operating economics by affording services to an "at-risk" tenant population and extend the deep affordability of the 10 "housing choice" units when those vouchers cease to be available.

Umpqua Community Development Corporation, Roseburg, Oregon
Grand Apartments; 37 units, two of which will be affordable to 30 percent AMI – This is a high-profile, urban, adaptive-reuse, gut rehab of a historic hotel in Roseburg, Oregon. This project not only intends to serve a wide variety of incomes – from extremely low-income to market – but also intends to help stimulate an urban renewal area in Roseburg. The ELI units are supported without Section 8 subsidies. The market study indicates that this is the only apartment construction in the area and should have a heavy demand. Financing includes several local and federal sources, tax abatement, and both low-income housing and historic tax credits. It represents a model for a high-profile urban project where there is strong local support to serve as a redevelopment catalyst.

Urban Edge Housing Corporation, Roxbury, Massachusetts
Amory Street Residences; 64 units; 16 of which will be affordable at 30 percent AMI – Amory Street Residences involves the new construction of an eight-unit townhouse and a 56-unit apartment building. Of these, 16 will be set aside for households who were formerly homeless with supportive services provided by three local service agencies and financially supported by a project-based Section 8 contract. Creative means to reintegrate formerly homeless individuals into stabilized housing communities by capturing new Section 8 project-based assistance via conversion of the Housing Authority's existing vouchers. Moreover, Urban Edge has partnered with three other service organizations to enhance their ability to provide services to these individuals. This structure is replicable in many cities where infill and vacant lots are available and local housing authority is willing to provide applicant project-based vouchers. The remainder of financing structure was complicated, using FHA bonds, tax credits, and subordinate funding from five separate sources.

Woonsocket Neighborhood Development Corporation, Woonsocket, Rhode Island Front Street Mixed-Income/Mixed-Use Development; 30 units, nine of which will be affordable to 30 percent AMI – This housing development was part of a new mixed-use development with 30 affordable housing units, nine of which will be available to ELI households. Other parts of the development include new retail space, a new community center and home office/childcare space. Woonsocket Neighborhood Development Corporation already owns the site. The nonprofit has partnered with a homeless and transitional housing organization to provide services. The apartments will be large, attractive units with amenities that include decks and private parking. The special ELI units will be marketed through local businesses that employ extremely low-income households, the local homeless/transitional shelter program and community churches. Residents will have an ownership interest in the Managing General Partnership with seats on the nonprofit owner's board. The financing is complex, requiring six separate sources

Appendix A

Sample Projects

Beyond Housing, St. Louis, Missouri: Beyond Housing I 2003

Foundation Communities, Austin, Texas: Vintage Creek Mixed-Income Program

Lewis & Clark CommunityWorks, Mandan, North Dakota: Mandan Library Square

Montgomery Housing Partnership, Wheaton, Maryland: Pembridge Square

Portage Area Development Corporation, Ashtabula, Ohio: Ashtabula Homes

Rockingham Area Community Land Trust, Bellows Falls and Chester, Vermont: Scattered-Site, Mixed-Income Initiative

Urban Edge Housing Corporation, Roxbury, Massachusetts: Armory Street Residences

Woonsocket Neighborhood Development Corporation, Woonsocket, Rhode Island: 719 Front Street

Beyond Housing, St. Louis, Missouri

Property: Beyond Housing I 2003

Key Issue: New construction of 20 units of clustered, scattered-site, single-family rental homes in the suburbs of St. Louis, with five units serving extremely low-income households without any permanent debt

Pagedale, Missouri, is an incorporated inner-ring suburb of St. Louis. Essentially a post World War II working-class community, the housing stock has slowly eroded, and school scores have slipped over the past few decades. The average income of a family residing in Pagedale is approximately $25,000. Typical households are single, employed, female heads of households with some post secondary education, with two or three children ranging in age from 5 to 15.

Beyond Housing has undertaken a comprehensive community plan in Pagedale, part of which is the development of these 20 lease-to-purchase homes. Beyond Housing operates the Family Support Center in Pagedale that will facilitate the delivery of resident services to assist families in reaching their goals of independence. The Family Support Center provides a wide array of individualized services including, but not limited to money management; parenting skills; GED training; summer camps for kids in the community; health screening for community residents and more. During the 15-year rental period, intensive homeownership counseling will be available to all rental residents to prepare them to purchase their homes. The 17 Pagedale homes will be located on 13 separate blocks. They are part of a significant revitalization of Pagedale, where Beyond Housing's efforts have led to an increase in housing prices, with one home in Pagedale last year selling for $100,000, something unheard of just two years ago.

Five different designs will be used for the homes to ensure that the homes fit into the existing landscape and offer long-term value in the neighborhoods.

In addition, three of the 20 homes will be developed in University City, a more moderate-income suburb. Home to Washington University, University City has a more diverse economic base, with some homes selling for more than $500,000. Nevertheless, the northern portion of University City has seen some hard times, with housing deterioration and a decrease in homeownership.

This project is sustainable, in part, due to the dramatic need for affordable rental housing for extremely low-income households in St. Louis. Beyond Housing receives more than 250 inquiries for housing each month and typically has only an average of two units for rent.

Moreover, the grant is key to helping Beyond Housing accomplish its mission. According to Chris Krehmeyer, "The grant from Neighborhood Reinvestment to reduce debt on these properties permits us to provide caring services for the people who will reside in these homes. Our job is to help people realize their dreams, whether those dreams are a better education or a home to own. This grant helps people reach their dreams."

Foundation Communities, Austin, Texas

Property: Trails at Vintage Creek Apartments

Key Issue: Mixed-Income Demonstration Project will make 13 units of existing property available to extremely low-income (ELI) households and provide supportive services to those residents

The Trails at Vintage Creek is an existing 200-unit apartment community in suburban Northeast Austin owned by Foundation Communities. It is a mixed-income community consisting of one-, two-, and three-bedroom apartments and duplexes and located in a residential neighborhood. Prior to the grant, the property served households between 50 and 80 percent of area median income (AMI).

The Neighborhood Reinvestment grant enabled Foundation Communities to retire $500,000 of the mortgage bonds on Vintage Creek early, reducing their debt services payments and saving about $3,200 per month. The lender, MuniMae, was very flexible in allowing prepayment prior to the bonds' terms and helped move the process quickly toward approval. This savings has enabled Foundation Communities to reduce rents for 13 units to serve ELI families with incomes of less than $20,000, and provide these families with supportive services. Rents for these units range from $317 to $412 per month. According to Executive Director Walter Moreau, "Our board has been looking for ways to expand our service to extremely low-income families, and this grant from Neighborhood Reinvestment makes it possible to do this in a sustainable way."

With Austin's recent economic downturn, rents have dropped and vacancy rates have climbed. Unfortunately, the plight of extremely low-income households has not been alleviated by this "renter's market," and apartments affordable to these families are still very hard to come by. Though an average rent for a two-bedroom unit in the current economy has dropped to $800, it is still much more than a family earning 30 percent of AMI (in the range of $12,000 to $20,000, depending on household size) can reasonably afford. Because these households have an unmet demand for affordable housing, Foundation Communities believed that these 13 new, low-cost units would lease quickly, improving the property's overall occupancy rate. In less than a month since the units came on line, almost all the 13 units have been leased. The typical family renting these ELI apartments is a single mother with two young children earning hourly wages of $7.30 or about $15,184 per year with a 40-hour work week. More than half of these apartments are occupied by current or former Temporary Assistance to Needy Family (TANF) recipients and 15 percent serve families that were formerly homeless. According to Cacki Young of Foundation Communities, “These families are so grateful to live in a place where they can feel proud and can also have support to work towards their goals.”

Foundation Communities strives to “create housing where families succeed.” This mixed-income demonstration program complements Foundation Communities’ previous work plan by allowing the owner to retire existing debt, stabilize an existing affordable-housing asset and help new extremely low-income households succeed. This approach is sustainable because the rents on the ELI units will be adjusted over the years to be equal to average operating costs and a small amount for a capital reserve. Foundation Communities hopes to replicate this program in its other properties in Austin and North Texas.

As a part of its lease, each family renting an ELI unit will be required to work with the property’s case manager to develop a comprehensive family service plan. This plan addresses key issues for these families, including employment and income stability, job training and adult education, physical and mental health of all family members, and the children’s educational and emotional welfare. Initial leases will be limited to six months to assure that the family is complying with this provision and will be renewed for one-year terms upon successful completion of the initial lease term.

The case manager will help connect families with the resources and services they need, including child care vouchers, food stamps, child health insurance, earned income tax credit (EITC), education, job training, family counseling, and substance-abuse counseling. The case manager will host orientation sessions for prospective families, outlining the goals of the program, family requirements and available services. Families will be able to take advantage of Foundation Communities’ typical resident services, such as after-school programs, pre-kindergarten, teen programs, adult education, social services referrals, food pantry, and special matched savings accounts. In addition, these families may also benefit from additional services available to those participating in the “Foundation for Families” program. For example, families may be able to receive financial assistance for up to six months free childcare through The Bridge, a childcare funding source.

Lewis & Clark CommunityWorks, Mandan, North Dakota

Property: Library Square

Key Issue: Construction of 46 low-income senior housing units in downtown Mandan, with five units serving extremely low-income (ELI) households

The city of Mandan has approximately 17,000 residents located along the Missouri River that separates the cities of Mandan and Bismarck. Bismarck, the third largest community in North Dakota, serves as the state capital and is the governmental, business, cultural and financial center of North Dakota.

As the population of the country ages, the lack of affordable housing for seniors is becoming a serious problem. According to HUD, more than 7.4 million elderly households pay more than they can afford for their housing. Mandan, the county seat of Morton County, is no exception. According to the market study, there is a desperate need for affordable housing for the elderly in Mandan, specifically a need for an additional 133 units. Library Square, a recently completed 46-unit property, is expected to fill some of that need, with one- and two-bedroom units targeted to senior households earning less than 60 percent of median income. The property will fill up quickly given that a waiting list of 160 people existed prior to completion of the project.

The Neighborhood Reinvestment grant enabled Lewis and Clark CommunityWorks (LCCW) to fill a gap in the project's financing enabling them to complete construction and firm up the property's financing. The grant has also enabled LCCW to reduce rents for five units to serve extremely low income senior households, with incomes of less than 30 percent AMI (or about $14,000 for a two-person household). Rents for the property's 46 units will range from $304 to $590 per month, depending on the type and size of the unit.

Partnering with MetroPlains Developers, an experienced tax credit developer, Lewis and Clark CommunityWorks worked closely with the city of Mandan to purchase the site and construct Library Square as a part of the redevelopment of the city's downtown. The four-story building is constructed with a brick façade and historic features that are designed to match the historic architecture of the surrounding area. At the property's recent grand opening, the mayor noted that Library Square was a vision for the community and the beginning of where the community wants Mandan to go.

Through the construction of Library Square, LCCW has been able to further its mission – to provide affordable housing and development opportunities to strengthen and stabilize communities. According to Sherri Arenz, LCCW's housing program director, the Library Square project "was something that we as an organization put a lot time, effort and heart and soul into … [We] are very pleased and excited to see the effect our hard work has had on the community as well as providing a much needed housing option for the elderly."

The project is within walking distance of most of Mandan's retail area, including gift shops, banks, restaurants, beauty shops and the post office. In addition, nearby police and fire stations help provide a sense of security for the residents. The property contains a central kitchen and dining area with a game room, including pool table and bingo, parlor and room for health services and a beauty shop. Each floor has its own laundry room and storage area. Some covered and uncovered parking will be available for residents. Golden Age Services will provide food services for residents who want to have their meals delivered and will also be moving their downtown meal-serving site to the property. Bis/Man Transit will provide transportation for residents who need it.

Due to a problem with a diesel spill in downtown Mandan, financing presented a challenge for the partnership. A small corner of the southwest side of the Library Square lot was contaminated. Through the support of the city, the state (including the Health Department), NDHFA, Fannie Mae Partnership Office, HUD, and the state congressional delegation, LCCW was able to obtain a "comfort letter" from EPA, the very first "no association letter" from the state and an indemnification from the city of Mandan on the site. According to Arenz, "Through the hard work of everyone, we were able to convince the funders to really look at the environmental reviews and make the determination that the site was in fact buildable." Because of the spill, Library Square had to be built on slab foundation with a vapor barrier. The architect and contractor worked very closely with the state Health Department to make sure appropriate precautions were taken not to disturb the diesel fuel.

Montgomery Housing Partnership, Wheaton, Maryland

Property: Pembridge Square Apartments, 133 units

Key Issue: Preservation of existing, unsubsidized property in a rapidly gentrifying urban market in a truly mixed-income project – serving families with incomes less than 30 percent of area median to market renters

The gentrification of the entire area and the development of luxury townhouses surrounding the Pembridge Square Apartments in Wheaton, Maryland, make it "critical to preserve this property," explains Robert Goldman, president of Montgomery Housing Partnerships Inc (MHP), "Pembridge could be the last of the run-down properties in Wheaton that needs to be fixed up."

Wheaton is a diverse community – 50 percent white, 19 percent black or African-American, 12 percent Asian, 26 percent Hispanic or Latino – located 15 miles north of Washington, D.C. The area median income (AMI) in the community is $86,000 for a family of four. Wheaton's high-density commercial areas, Westfield Shopping Town and the Metro, allow people who live in Wheaton easy access to jobs.

Montgomery Housing Partnership, a highly experienced, community-based nonprofit, purchased Pembridge Square. The property is home to 133 households, many of whom are immigrant families working in service jobs, some working two or more jobs in order to make ends meet. It is located next to Amherst Square, a project undertaken by MHP four years ago, and surrounded by new luxury townhouses selling for more than $400,000. Pembridge Square will benefit from a significant renovation of more than $45,000 a unit.

The $300,000 mixed-income demonstration grant from Neighborhood Reinvestment will serve to help with gap financing and enhance the use of Section 8 vouchers. As a result, 20 units will be reserved for families below 30 percent of AMI rather than 50 percent of AMI. Another 20 units will be reserved for very low-income households (less than 50 percent of AMI), and 80 apartments will be for families at less than 60 percent of AMI. The remaining 13 units will rent to families at market rates.

Unsubsidized rents for new units at Pembridge will range from $650 to $975 for a one-bedroom apartment, $790 to $1,000 for a two-bedroom apartment, and $910 to $1,160 for a three-bedroom unit. Without the grant, these rents are beyond the resources of the extremely low-income individuals who would like to live near where they work. Notably, the income mix at Pembridge will prevent the property from being labeled a “low-income housing project.”

Grant funds will also help MHP build a community center. Once completed, Pembridge Square will combine its services with neighboring Amherst Square to create more services and amenities for residents of both properties. Amenities will include community space in both buildings, a play lot, a laundry and a management office on site. The new community center will offer children’s programs, including after-school activities, reading clubs, computer classes and summer programs. Adult services will include English and computer classes, a health-promotion program and a financial program that includes an “Individual Development Account” family savings program. Once the project is finished, MHP will consolidate the property management between Pembridge and Amherst and will move the rental office to Pembridge because of its more central location. Managing the properties together will achieve significant economics of scale.

Many aspects of this project are replicable. There are many deteriorating structures in otherwise revitalizing urban areas that could be saved before they are gentrified. While MHP used tax credits and FHA financing in its financing structure, it should be noted that MHP also was able to secure a $3.8 million soft loan for basic cash flow from Montgomery County’s Housing Initiative Fund that would not be available in every jurisdiction.

Goldman concludes, “The Neighborhood Reinvestment grant was very helpful in making this project work, filling gaps and allowing us to serve a lower-income population. It was great to save Pembridge, give stability to these working families, and provide a mix of housing opportunities for Wheaton.”

Portage Area Development Corporation, Ashtabula, Ohio

Property: Ashtabula Homes

Key Issue: Providing an affordable rent to extremely low-income households as they prepare for homeownership without relying on Section 8 during the rental period in a middle-income neighborhood

The Affordable Housing Tax Credit program provides the opportunity for renters of tax-credit units to ultimately become homeowners. In Ohio, the Portage Area Development Corporation (PADCorp) has developed a comprehensive neighborhood-revitalization strategy using this tool. Approximately half of these homes are located in neighborhoods of mainly middle-income homes. The other half are in neighborhoods that need to be revitalized. The nonprofit intends to construct 45 units of scattered-site, single-family homes in northeast, southeast and southwest neighborhoods of Ashtabula. Of these, nine will be made available to extremely low-income households, with incomes under $18,000. Twenty-nine homes will serve those earning less than 50 percent of median, and the remaining seven will be at market rate.

Each home will include a new refrigerator, stove, dishwasher and disposal, washer and dryer hook ups, energy-efficient furnaces and windows. Financing includes a combination of proceeds from the sale of tax credits, long-term debt, and state of Ohio grant funds. Target rents range from $445 to $660. Tenants will have an option to purchase the homes at the end of the minimum tax-credit holding period at a predetermined price equal to the outstanding debt, anticipated to be in the range of approximately $50,000 at that time. If the tenant does not wish to purchase the home, he or she may remain in tenancy at the then-affordable rent.

A family of four earning less than $34,200 would typically qualify to live in these homes. In marked contrast, a family of four earning 30 percent of the median income in Ashtabula earns approximately $18,000. Nine of the units will be set aside for such families. In order to assure that all households will be ready for homeownership, PADCorp will provide the following services to each family: credit counseling, personal financial training from its NeighborWorks® Homeownership Center, job training, life-skills training and healthcare outreach. Currently, PADCorp has 150 customers in its homeownership program. Of these, 50 earn less than 30 percent of AMI. Due to the high volume of applicants, PADCorp believes the project will be pre-leased prior to construction.

The Neighborhood Reinvestment grant of $360,000 will allow PADCorp to simply replace that amount of debt with a loan from PADCorp to the project at a much-reduced rate, to allow for affordable rents to households earning less than 30 percent of adjusted median income.

Without the grant from Neighborhood Reinvestment, however, Bill Hale, executive director of PADCorp says, “We would not have been able to serve the 30-percent population, which has been overlooked in a lot of affordable rental housing that’s been produced in the last 10 to 15 years. Moreover, we were able to persuade the neighbors that a 20 percent set aside for extremely low-income households was something that would not detract from their property values. We had a similar grant from Neighborhood Reinvestment last year in Portage County, and it has been very well received thus far.”

Rockingham Area Community Land Trust, Bellows Falls and Chester, Vermont

Property: RACLT Scattered-Site Mixed-Income Initiative

Key Issue: Transition formerly homeless individuals to long-term self-sufficiency and stability by introducing them into otherwise market-rate rentals, avoiding concentration and using a partnership program that involves 10 other nonprofit groups and government agencies

Not all states have a large inventory of large apartment complexes. The Rockingham Area Community Land Trust Scattered Site Mixed Income Initiative pays off debt on market units, unrestricted by income or rent guidelines, and sets aside five of these units for extremely low-income households. Grant proceeds will be used to buy down debt and reduce rents for these five units. RACLT operates in rural Vermont, serving 20 towns across two counties.

In Vermont, an extremely low-income household, earning $14,300 or 30 percent of the Area Median Income, can afford a monthly rent of no more than $360 while the fair market rent for that same unit is nearly double that amount, more than $700. A minimum-wage earner in Vermont can afford a rent of no more than $325 per month.

The proposal is to buy down debt so that rents can be reduced to meet ELI household thresholds. The project consists of five different sites with one ELI unit at each location. The remaining units will remain market rate.

Importantly, the RACLT Mixed Income Housing Program is tied to its Service Enriched Housing Program. That program is a collaborative interagency venture to help people successfully make the transition from homelessness to long-term self-sufficiency and housing stability. In the case of this proposal, each formerly homeless household will be provided a special network of support services, including job placement and training, crisis intervention, household budgeting, parenting services, substance-abuse control and prevention, and children's' services. Each household is individually screened to determine how his or her advocate can best develop a transition plan for the household.

According to Stephen R. Chipman, executive director of RACLT, "The [Neighborhood Reinvestment] ELI demonstration program is unique in affording the flexibility of creating extremely low-income housing in creative ways. I am not aware of any other source that could offer the same flexibility."

Urban Edge Housing Corporation, Roxbury, Massachusetts

Property: Amory Street Residences

Key Issue: New construction serving formerly homeless individuals and families in mixed-income setting in a very tight rental market

In the tight housing market of Boston, it is a challenge to provide any type of affordable housing, but it is particularly difficult to provide safe and affordable housing for very low-income households and formerly homeless individuals. With incomes rising quickly in the Boston area – the median reached $74,200,[6] compared to a nationwide median of approximately $45,000 for a family of four – housing prices for families have skyrocketed.

The Urban Edge Housing Corporation is undertaking the first new construction project to be built in the Jackson Square area on the southern edge of Boston since 1993. The Amory Street Residences will provide affordable homes to very low-income households, specifically targeting formerly homeless households, in a mixed-income urban environment.

Jackson Square is an ethnically and socioeconomically diverse neighborhood sitting at the crossroads between the city's African-American and Latino neighborhoods. This area is one of the most economically distressed in Boston, with an average income of $45,150 and more than 65 percent of the housing units occupied by renters. More than one-third of these renters spend 30 percent or more of their income on rent.

Amory Street Residences involves the new construction of two separate buildings on contiguous parcels – a four-story, eight-unit townhouse and a seven-story, 56-unit apartment building. Sixteen of the 64 total units will be set aside for extremely low-income households and are in fact designated for formerly homeless households. The remaining 48 units will be targeted to households at or below 60 percent of AMI. The sites are within a stone's throw of the Jackson Square Subway Station.

To ensure long-term success, Urban Edge has forged partnerships with three local service providers – Pine Street Inn, Dimock Community Health Center and Casa Nueva Vida. Enhanced supportive services will be provided to the formerly homeless households in

[6] See www.mhp.net/termsheets/iniativeguidebook/appendixa.pdf

cooperation with these three service providers. All residents will be able to use standard Urban Edge services such as job-readiness or literacy training.

Urban Edge is one of the region's largest and most productive community-development corporations, currently managing more than 1,000 residential apartments in the Greater Boston area. Amory Street Residences is part of Urban Edge's neighborhood development strategy for the Jackson Square area and will set the standard for much of the development to follow in Jackson Square. Because the success of Amory Street Residences will have an enormous impact on the pace and scale of development in Jackson Square over the next five years, city officials and community leaders are very engaged in the review process.

As part of Urban Edge's neighborhood development strategy, it has also proposed a 44-unit mixed-income homeownership project on land it already owns, two blocks away from Amory Street Residences. This condominium project will include 22 affordable units for first-time homebuyers and 22 market-rate units. While not part of the Amory Street Residences project, the timing will result in two new developments located two blocks from each other with a total of 108 units of mixed-income rental and homeownership opportunities completed within about a year of one another.

The Amory Street Residences' structure is replicable in many cities where infill and vacant lots are available and the local housing authority is willing to provide project-based vouchers for the property. While the remainder of financing structure was complicated – using FHA bonds, tax credits, and subordinate funding from five separate sources – social service organizations in many areas could help provide support services in a similar way as at Amory Street Residences. The partnerships created with the local service providers are a model for other nonprofit housing developers who want to reach this population but do not have social service staff to meet their needs.

Urban Edge was awarded $369,000 from Neighborhood Reinvestment to close a gap in its development budget and to help fund the additional costs of enhanced resident services necessary to serve households earning less than 30 percent of median income.

Woonsocket Neighborhood Development Corporation, Woonsocket, Rhode Island

Property: Front Street Mixed-Income/Mixed-Use Development

Key Issue: Incorporation of rents affordable to extremely low-income households into a tax credit, mixed-use project

Woonsocket Neighborhood Development Corporation (WNDC) has been restoring abandoned houses, building new homes and revitalizing neighborhoods to improve life in northern Rhode Island since 1987. An opportunity for WNDC to develop a unique mixed-income, mixed-use project led to WNDC's application to Neighborhood Reinvestment for this grant.

Rhode Island's metropolitan areas are experiencing rapid rent escalation. Woonsocket is no exception. The city's vacancy rate is approximately 5 percent. Moreover, a considerable portion of the housing supply is dilapidated and deteriorating. These properties are ripe for rehabilitation and rent hikes to serve higher-income households, leading to greater displacement of existing residents. Over the past years, more than 250 HUD-assisted and -insured rental apartments, affordable to extremely low-income households, have opted out of HUD's Section 8 contract, meaning that the units are now renting at much higher market rents. Homeownership prices have spiked up as well.

WNDC has worked in the Lower Bernon neighborhood for the past eight years, having already constructed 100 affordable apartments in the neighborhood. The Front Street project redevelops an abandoned 4.5 acre shopping plaza in the Lower Bernon neighborhood of Woonsocket into a model of mixed-income and mixed-use development. The site is currently vacant, with all demolition having been completed. Financing includes a mix of tax-credit equity, mortgage debt, and funds invested by WNDC.

The plan is for two signature buildings consisting of 30 affordable apartments for families (nine of which will be affordable to ELI households); 10,600 square feet of space for entrepreneurs; a relocated historic diner; a 1,200 square foot community center; nearly 3,800 square feet of home office space for residents of the apartments; all of which have views of the Blackstone River. There are two buildings with three stories each. The first level in each building is commercial, home or community space. The two upper floors are residential. The buildings will meet Energy Star standards. Primarily, WNDC will rent to households earning less than

$20,000 annually, such as nurses' aides, store cashiers, teacher aides, childcare workers, security guards, office clerks and secretaries.

The $360,000 mixed-income demonstration grant from Neighborhood Reinvestment Corporation will make it possible for WNDC to rent to families with extremely low incomes (less than 30 percent of the area median). Current market rents range from $667 to $837 for similar units. The nine very affordable apartments at Front Street will rent from $226 to 272 a month. The Neighborhood Reinvestment grant will be structured as a deferred loan from WNDC, used primarily for a deficit reserve instead of paying down debt. This structure enables WNDC to subsidize the property over time. If the loan had not been deferred, other state and local subsidies would have been withdrawn due to local rules and regulations. Ironically, these rules, reflecting state and local efforts to prevent "over-subsidization," result in the inability of affordable-housing developers to serve ELI households. The result of this structure is the ability of nine ELI households to afford to reside at the property.

The 30 affordable apartments consist of 10 two-bedroom and 20 three-bedroom units to serve large families. They are designed in a large townhouse style. WNDC will provide two community playscapes and a community center for resident use. Residents will have an ownership interest in the general partner with seats on its board, and on the sponsor's board. WNDC has secured a partnership with the local homeless shelter, whereby the shelter will provide supportive services to residents moving from transitional housing to WNDC's permanent housing.

The project will, thanks to the Neighborhood Reinvestment grant, serve a variety of income groups, from formerly homeless families and minimum wage earners to families earning up to 60 percent of area median. "Our goal is to maintain affordable rents for those who don't receive assistance through the Section 8 program," said Joseph Garlick, executive director of WNDC. "We're using Neighborhood Reinvestment's grant funds to reach residents at the lowest point on the income scale."

Appendix B

Neighborhood Reinvestment Corporation's Working Conclusions on Mixed-Income Policy – From 2002 ELI/Mixed-Income Pilot Demonstration

1. Mixed-Income Subsidies Must Be Flexible.

Broad Guidelines, Not Formulas. Federal or state subsidies to facilitate mixed-income rental housing should combine broad policy guidelines with maximum flexibility for property-specific decisions. Variables that need to be tailored to the particular neighborhood and property context include:

- The size of the property,
- The intended resident profile,
- The overall range of incomes,
- The number of units targeted to each income range,
- The extent to which non-housing services and more intensive management will be needed, and
- The unit types (e.g., two-bedroom, two-bath townhouse) and building types (e.g., two-story walkup) that should be produced.

We have formed a working conclusion that "mixed-income *neighborhoods* trump mixed-income *developments*." When the objective is seen as creating an appropriate income mix within the broader neighborhood context, the need for flexibility is particularly evident.

Avoid Conflicting Requirements. Because mixed-income subsidies will almost always be combined with other subsidies, and will generally not be the dominant form of subsidy, mixed-income subsidies should accept the compliance and monitoring provisions of the primary subsidy program(s). Similarly, mixed-income subsidies should avoid requirements that would conflict with commonly utilized subsidies such as the Low Income Housing Tax Credit, HOME, CDBG, Rural Housing Service programs, Section 8, and the FHLB AHP.

2. Each 30 Percent AMI Unit Requires Significant Subsidy.

Mixed-income subsidy programs will need to allocate significant amounts of subsidy per unit (but the subsidy would be applied only to a limited number of units per property).

The Maximum ELI Rent is $387 Below the Maximum Tax Credit Rent. Using 2001 national average incomes, and assuming a 30 percent housing cost burden, a two-person household at 30 percent AMI needs a $387 per unit per month reduction in rent, *below* the rent that would be affordable to an otherwise similar household at 60 percent AMI.[7]

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[7] Detailed calculations are provided in the expanded discussion below.

A Typical ELI Unit Requires $50,000 Per Unit Additional Subsidy. A $387 per unit per month rent reduction corresponds to a reduction in supportable debt (*below* the level supportable with rents affordable at 60 percent AMI) of roughly $50,000 per ELI unit. Of course, this additional subsidy would be needed only for the ELI units. For example, in a 50-unit property with 10 ELI units (20 percent), the additional subsidy needed would be $500,000 ($10,000 per total unit, $50,000 per ELI unit).

However, the Grant Applicants Were Able to Work Within a $40,000 Per Unit Limit. By comparison to the $50,000 per unit discussed above, the mixed income demonstration program allowed a maximum grant of $40,000 per unit. In general, the Neighborhood Reinvestment Corporation grant applicants were able to work within this limitation, because the properties – before adding the mixed-income grants – were already affordable to households with incomes somewhat below 60 percent AMI. Thus, in practice, the rent reduction needed to achieve affordability for ELI households was less than the illustrative $387 discussed above. Other applicants were able to combine the grant with Section 8 rental assistance to achieve affordability for ELI households.

These cost considerations point to our next working conclusion.

3. Mixed-Income Rental Housing Needs a Dedicated Funding Source and an Appropriate Allocation System.

Neighborhood Reinvestment Corporation recognizes that subsidy allocators will (and should) want to produce the largest number of "affordable" units. However, the direct pursuit of that goal will result in few, if any, ELI units being created, because (as noted above) each ELI unit requires roughly twice as much subsidy as an otherwise similar unit affordable at 60 percent AMI.

In order to achieve more ELI units in mixed-income developments, two requirements are paramount:

- Additional funding, ideally targeted for producing these units, and
- A funding allocation system that recognizes that an ELI unit has a public policy value that is commensurate with its higher subsidy cost.

These objectives could be realized by providing additional funding to the tax-credit program, and by modifying the federal guidelines for Qualified Allocation Plans. For example, a change in guidelines could result in the widespread use and acceptance of a productivity-measurement approach in which one ELI unit had the same weight as two units affordable at 60 percent AMI. However, it would be difficult to reconcile that approach with the need for flexibility outlined above, or with the generally flexible and non-prescriptive nature of the LIHTC program.

An alternative approach is to create a mixed-income subsidy program external to the tax-credit program. One approach, as recommended by the Millennial Housing Commission, is to provide additional funding for this purpose under the HOME program.

4. There Are Many Approaches for Reaching People at or Below 30 Percent AMI

Any mixed-income program should allow for a wide range of techniques for achieving mixed-income communities.

The grant applications reflected a wide variety of mixed-income approaches. Many applications proposed a combination of approaches. Approaches included:

- Reduction in mortgage debt to allow rent reductions,
- Use of rental assistance (tenant-based or project-based) to provide additional affordability below 30 percent AMI,
- Addition of non-housing services to support the viability of the mixed-income community,
- More intensive management to support the viability of the mixed-income community, and
- Mixing homeownership with mixed-income rental.

5. Sustainability Is Vital.

Neighborhood Reinvestment Corporation uses the term “sustainability” to refer to our objective of structuring affordable rental housing so that it will be affordable, a positive force in the community, physically viable, and financially viable on a long-term basis, without needing injections of future federal subsidies. We were pleased to see the Millennial Housing Commission recommend that sustainability be elevated as a national policy goal, and placed on an equal footing with the goal of affordability to taxpayers.

However, the grant applicants reported that key elements of sustainability were not acceptable to other programs that provided funds to the properties.

These results spring directly from a well-intentioned but short-sighted focus on producing the maximum number of units. This simply must be changed.

Accordingly, we believe that the sustainability message needs to be more widely communicated and incorporated into the day-to-day practices of all affordable housing professionals. There may also be a need to incorporate sustainability into the federal guidelines for programs such as LIHTC, HOME and CDBG.

NeighborWorks® Multifamily Initiative
Launched in 1999, the NeighborWorks® Multifamily Initiative is the collaborative portfolio management program for NeighborWorks® organizations whose primary mission is development, ownership, or management of affordable rental housing. Currently, 68 NeighborWorks® organizations, operating in 29 states, belong to the Multifamily Initiative. Together, they own or manage more than 34,000 affordable housing units.

The goals of the Multifamily Initiative are to:

- Develop or preserve 15,000 units between 2004 and 2008,
- Attract $1 billion in investment in these affordable properties,
- Support portfolio performance and asset-management systems of members so that 90 percent of portfolios are positively performing,
- Serve 15,000 residents with asset-building services through learning centers, and
- Increase multifamily resident leadership so that 3,500 residents serve in leadership on properties or communities.

The Multifamily Initiative has created the Neighborhood Capital Corporation (NCC) as an additional source of risk capital. NCC provides predevelopment loans and interim acquisition loans, which can be subordinated to conventional mortgage debt. Initially capitalized by Neighborhood Reinvestment, the NCC now is building its capital base through both direct investment and agreements with lenders who would like to participate in this type of lending.

Neighborhood Reinvestment Corporation
The Neighborhood Reinvestment Corporation of Washington, D.C., is a public nonprofit organization established by Congress in 1978 to revitalize urban, suburban and rural neighborhoods nationwide. The Corporation carries out its mission by mobilizing public, private and community resources at the neighborhood level and expanding affordable housing opportunities for lower-income households through the NeighborWorks® network. The network consists of more than 225 nonprofit, community-development organizations serving more than 2,500 communities throughout America. In the past five years, NeighborWorks® organizations have generated more than $7.2 billion in reinvestment and helped more than 160,000 families of modest means to purchase or improve their homes or secure safe, decent rental housing or mutual housing. Further information on Neighborhood Reinvestment and the NeighborWorks® network is available at www.nw.org.

Report from the Mixed-Income
Demonstration Program
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