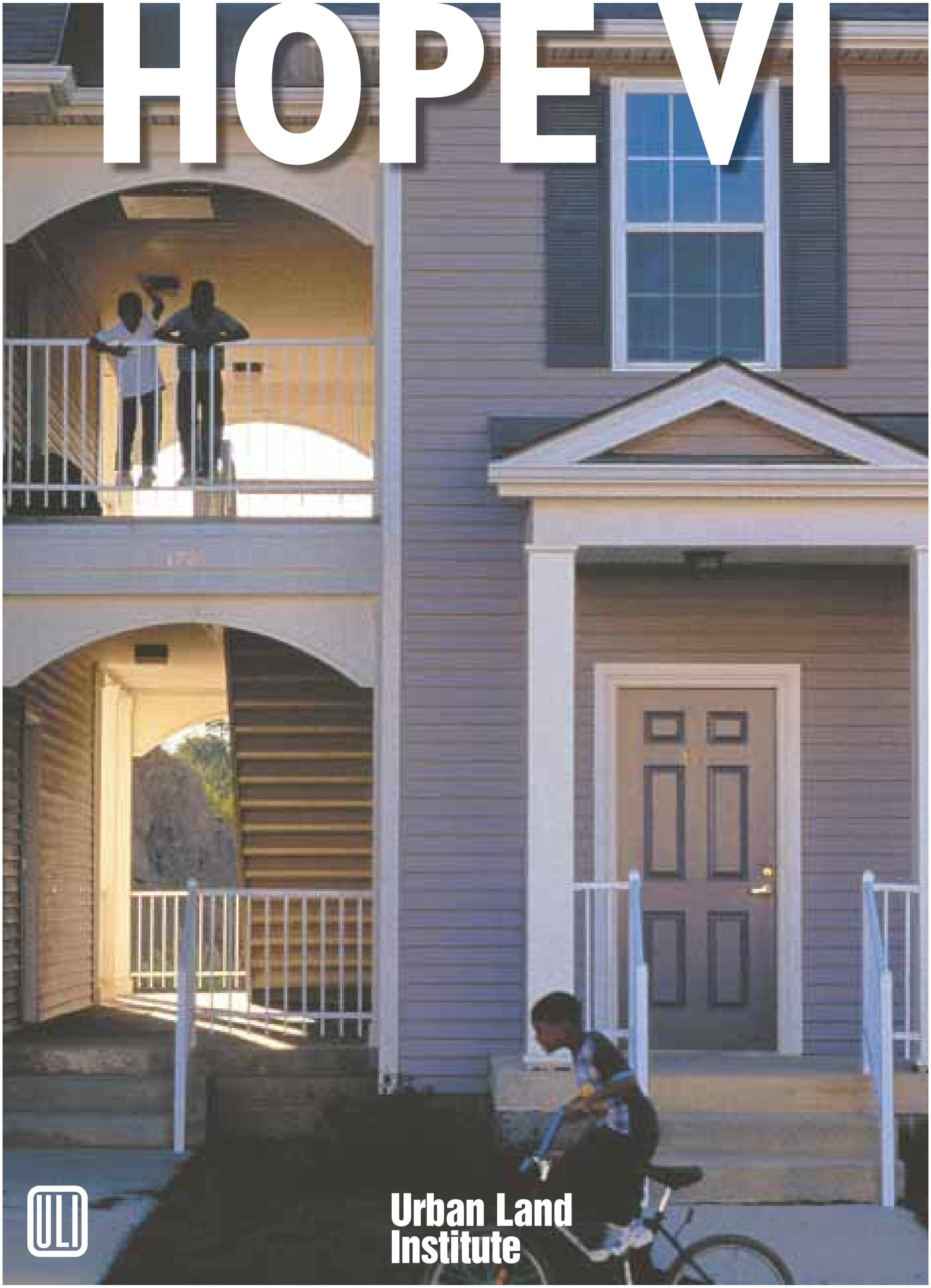
ENGAGING THE PRIVATE SECTOR IN

HOPE VI



Urban Land Institute

ENGAGING THE PRIVATE SECTOR IN
HOPE VI

Urban Land
Institute

About ULI–the Urban Land Institute

ULI–the Urban Land Institute is a nonprofit education and research institute that is supported by its members. Its mission is to provide responsible leadership in the use of land in order to enhance the total environment.

ULI sponsors educational programs and forums to encourage an open exchange of ideas and sharing of experiences, initiates research that anticipates emerging land use trends and issues and proposes creative solutions based on that research, provides advisory services, and publishes a wide variety of materials to disseminate information on land use and development. Established in 1936, the Institute today has more than 16,500 members and associates from more than 60 countries representing the entire spectrum of the land use and development disciplines.

Richard M. Rosan
President

The work that provided the basis for this publication was supported by funding under a grant with the U.S. Department of Housing and Urban Development. The substance and findings of the work are dedicated to the public. The author and publisher are solely responsible for the accuracy of the statements and the interpretations contained in this publication. Such interpretations do not necessarily reflect the views of the U.S. government.

ULI Project Staff

Rachelle L. Levitt
Senior Vice President, Policy and Practice
Publisher

Marta V. Goldsmith
Vice President, Land Use Policy

Joe Zehnder
Former Senior Director, Urban Development

Peter E. Smirniotopoulos
Contributing Editor

Jennifer LeFurgy
Former Senior Associate

Victoria R. Wilbur
Senior Associate

Nancy H. Stewart
Director, Book Program

James A. Mulligan
Managing Editor

Laura Glassman
Publications Professionals LLC
Copy Editor

Betsy VanBuskirk
Art Director

Meg Batdorff
Graphic Designer

Diann Stanley-Austin
Director, Publishing Operations

Cover photo: Park DuValle, Louisville, Kentucky. Photo courtesy of The Community Builders, Inc.

Recommended bibliographic listing:
ULI–Urban Land Institute. *Engaging the Private Sector in HOPE VI.* Washington, D.C.: ULI–the Urban Land Institute, 2002.

ULI Catalog Number: E17
International Standard Book Number: 0-87420-891-2

Acknowledgments

ULI gratefully acknowledges the U.S. Department of Housing and Urban Development (HUD) for its grant in support of the work documented in this report. In compiling information and data contained in the case study tables, ULI relied extensively upon HUD's *HOPE VI Quarter Project Progress Reports* covering the reporting period ended March 31, 2001. Additional information provided by the respective public housing authorities was updated through October 2001, where possible.

ULI would like to thank all of the participants in the forum and meetings organized as part of this project. ULI would like to thank J. Michael Pitchford, senior vice president, Bank of America, for chairing the policy forum, and Charles Kendrick, managing director, Clarion Ventures, LLC, and chair of the ULI Affordable Housing Council, for chairing the council's session on HOPE VI. ULI would like to thank HUD staff members for their active participation in this project, including Elinor Bacon, former deputy assistant secretary; Milan Ozdinec, acting deputy assistant secretary; and David Sowell, former director, and Jeffrey Riddel, team leader, Office of Public Housing Investments.

ULI also would like to thank the public housing agency staffs and the developers who shared their time and knowledge to prepare the case studies:

- In Atlanta, Georgia, Greg Giornelli, former executive director, and Carol Naughton, executive director, East Lake Community Foundation;

- In Baltimore, Maryland, Ted Rouse, vice president–residential development, Struever Bros. Eccles and Rouse, Inc.; David Foster, director of development, Housing Authority of Baltimore City; and Dan Henson, Dan Henson and Associates;

- In Charlotte, North Carolina, Nancy Crown, senior vice president, and Bernard Felder, vice president, real estate officer–Carolinas region, Bank of America Community Development Corporation (CDC); Tom Barrett, HOPE VI program manager, Charlotte Housing Authority; and Sheri Williams, project manager, LEDIC Management Group;

- In Louisville, Kentucky, Willie Jones, senior vice president, director–Southeast region, and Darnell Jackson, the Community Builders, Inc.; and Tim Barry, executive director, Housing Authority of Louisville, and Alecia Nash, formerly with the housing authority;

- In San Francisco, California, Barbara Smith, HOPE VI program coordinator, San Francisco Housing Authority; Juan Monsanto, project manager, San Francisco Housing Authority; Tony Salazar, senior vice president, McCormack Baron Associates; and Hasinah Rahim, manager, Hayes Valley; and

- In Seattle, Washington, Preston Prince, administrator, Department of Development, Seattle Housing Authority; Doug Repman, president, Quantum Management Services; with Weinstein Copeland Architects: Ed Weinstein, partner, and Randy Everett and Peter Greaves; and with Seattle Housing Authority: Ann Marie Lindboe, development finance manager; Ellen Kissman, senior development analyst; Al Levine, asset manager and director of development; Doris Koo, deputy executive director; and Randy Bruggeman, communications specialist.

Preface

The comments by John McIlwain in his foreword target directly issues of paramount importance to HUD. The department is reviewing its effectiveness in the delivery of affordable housing opportunities for low-income families, with particular emphasis on the revitalization of communities and the achievement of self-sufficiency and homeownership. As HUD Secretary Mel Martinez has stated, department programs in the past sometimes have resulted in poor-quality housing located in unsafe neighborhoods with limited access to educational and economic opportunities. The HOPE VI program attempts to improve housing quality and choice for people receiving HUD assistance. At the same time, it explicitly strives to move families toward self-sufficiency.

This report by the Urban Land Institute highlights both the substantial successes of the HOPE VI program, and its challenges. While the program has succeeded in demolishing some of the nation's most distressed public housing and replacing it with mixed-income communities, the process has been slow and time consuming. HUD has been an active partner in the development process, with attendant consequences that are both positive and negative. The role of HUD in the delivery of housing and supportive services needs to be more defined, and limited. The time frame for the production and completion of new homes needs to be shortened. To achieve this goal, housing authorities and their developer partners need to be held accountable for established completion milestones.

Much has already been done to respond to the issues enumerated in the accompanying report. Increasingly, private sector principles and practices are being adopted to develop and manage new, diverse communities that offer a wide range of choice for a broad cross section of the region's population. HUD increasingly will offer a wide array of choices and seek to view public housing as a vehicle to shift families from dependence to self-sufficiency. In these efforts, the department will seek to be cognizant of the need to be effective stewards of the limited resources available to provide shelter for those in need of assistance. HUD is committed to the ongoing refinement and increased efficiency of the HOPE VI program.

Michael Liu
Assistant Secretary, Public and Indian Housing
U.S. Department of Housing and Urban Development

Contents

Foreword

The HOPE VI program is the single most significant new federal housing initiative of the last decade. The program is producing dramatic results in some of America's worst neighborhoods—creating revitalized communities where despair predominated for decades.

The success of the program stems mainly from the fact that it is designed to respond to the failure of past federal housing programs with new solutions. The most important of these are recognition of the need to avoid isolating low-income families and realization that housing programs are about building neighborhoods and communities, as well as providing shelter.

The housing projects that HOPE VI replaces failed largely because they concentrated low-income families in an enclave where they were isolated from the rest of the community. This strategy, as we have learned, makes it all but impossible for families to thrive and for children to grow up well educated and with the job skills needed to succeed professionally.

Likewise, we have learned that housing projects can either blight or rebuild neighborhoods. Affordable housing is a part of the fabric of the neighborhood in which it is located, for good or ill, and this fact must be recognized in the project's design and development.

The HOPE VI program builds on these crucial lessons, among others. In the following report, six case studies illustrate how the new HOPE VI developments are creative—mixing incomes, uses, and ownership types; providing services to residents; and acting as magnets for redevelopment in the neighborhoods around them. All of this development is being accomplished in ways never before tried by the federal public housing program.

In addition, HOPE VI has pioneered new forms of financing that mix layers of public and private funds and new, innovative partnerships between the private sector and public agencies. The program has challenged traditional local public housing authorities to become real estate development agencies and to try new ways to develop housing. Many local housing agencies have stepped up to the challenge and are far better agencies as a result.

The program has enjoyed strong leadership from the U.S. Department of Housing and Urban Development (HUD), has attracted some of the most dedicated and creative private developers in the country, and has been funded by Congress in a remarkably steady and bipartisan fashion. HOPE VI is now at an important juncture. Designed to rebuild the worst public housing projects in the country, the program sunsets at the end of fiscal year (FY) 2002, unless reauthorized by Congress. This year is thus an opportune time to review the remarkable successes of the program and to look hard at the criticisms that have been leveled against it.

Among such criticisms have been questions about the high per-unit costs of these developments. The following study does not address this criticism. More than one study of these costs needs to be undertaken because it is a complex subject. Given all the demolition involved in these projects, what are the appropriate benchmarks against which the costs should be compared? The issue of benchmarks is important for design reasons as well. Most HOPE VI developments are built in more expensive urban areas, and innovative new urbanist designs are frequently used. How should the extensive predevelopment costs be accounted for, given the commitment to resident and community involvement needed for the projects to succeed? How should the soft costs be evaluated, given the complex public/private financing structures used? Finally, the program costs for the social service components need to be separated out because they are a distinct, though essential, part of this comprehensive program.

The genius of the HOPE VI program is that it is far more than just a building program, which is a distinct break from traditional public housing. But its genius is also its curse. It is working toward so many goals that it is a slow, time-consuming way to develop housing. For this reason, some of the first private developers to work with the program are no longer taking on HOPE VI projects. The rest generally report that the best they can do on a HOPE VI development is break even, which is not a formula for long-term success for the developers or the program. The private developers with whom the ULI team talked were generally positive about the role HUD played in leading this complex process, but cautioned that HUD has to be more responsive if the program, or one like it, is to continue. Covering more of the upfront costs as they are incurred may be one way to address this concern. Clarifying the rules and tightening the time frames may be another. HUD needs to continue analyzing this area.

The entrepreneurial spirit that exists among some public housing agencies needs to spread quickly. In their early days, these agencies were the most creative suppliers of low- and moderate-income housing in the country. To say they became ossified is news to no one. Although they are beginning to show new, exciting signs of life, much, much more has to be done to revive them if they are to be agents for change in their communities.

If the program ends—that is, if it is not reauthorized—much will be lost. To be sure, a great legacy of remarkable developments will show how it is possible to build successful housing communities for low- and moderate-income families. What will be lost, however, is the value of the partnership between the private sector and public housing agencies, as well as the lessons that have been learned about how to make those partnerships successful. Lost as well will be the impetus for public housing agencies to be creative, entrepreneurial real estate developers and agents for revitalizing communities. Ultimately, what will be lost is the opportunity to meet the need for quality public housing in our cities and to continue revitalizing urban and older suburban neighborhoods that are just now beginning to be revived.

HUD Secretary Mel Martinez has said that the department will seek reauthorization of the HOPE VI program, which is very encouraging. With or without reauthorization, HUD has the ability to continue revamping the public housing program along HOPE VI lines. The mixed-finance regulations are an important step in that direction. HUD can encourage public housing agencies to follow the example of those agencies that have begun to use these regulations to bring in private financing, to work with private developers, and to build new public housing in partnership with the local communities. If this new direction is encouraged and expanded by HUD, with the support of Congress, much of the best of the HOPE VI program can be built upon in the years to come. HUD and Congress have made a great start with the HOPE VI program, and that success deserves to be built upon for the sake of the many families and communities in need in the country. It is to be hoped that Congress will reauthorize the HOPE VI program so that HUD may continue its work in revitalizing America's public housing.

John McIlwain
Senior Resident Fellow
ULI/J. Ronald Terwilliger Chair for Housing
The Urban Land Institute
March 2002

Introduction

In 1992, Congress created a new program to improve the nation's most severely distressed public housing. The program, known as HOPE VI, for Homeownership and Opportunity for People Everywhere, encourages local public housing authorities (PHAs) to use a comprehensive approach that combines physical redevelopment of housing units with provision of supportive services for residents. Beginning in 1995, these HOPE VI "revitalization plans" began to be undertaken through public/private partnerships involving PHAs and the income-eligible residents they serve, local governments and social service providers, institutions, and the private sector, using federal funds as the catalyst for leveraging private investment.

Since 1993, Congress has appropriated more than $4.05 billion for the HOPE VI program, not including appropriations for FY 2002 (October 1, 2001, through September 30, 2002), the last year of congressional authorization for the program. Including the revitalization grant awards announced in August 2000, the HOPE VI program has funded 90 PHAs for a total of 148 revitalization grants in 34 states. HUD estimates that HOPE VI awards for 1993 to 2000 will result in demolition of almost 70,000 severely distressed public housing units and in production of more than 71,000 revitalized dwellings, including affordable, moderate-income, and market-rate units financed through HUD's mixed-finance development approach, which has become integral to the HOPE VI approach to leveraging federal funds.

In 2000, the HOPE VI program was awarded the Innovations in American Government Award by Harvard University's John F. Kennedy School of Government. The award recognized the program for "transforming some of the nation's most severely distressed public housing from sources of urban blight to engines of neighborhood renewal."

A key innovation of the HOPE VI program is the incentive it created for public housing authorities to involve private developers in the creation of these new mixed-income neighborhoods. HOPE VI and HUD's other mixed-finance development programs allow public housing funds to be combined with other public and private development funds to attract greater resources to projects. HUD estimates that the federal investment in HOPE VI will leverage a total of $7.49 billion in private funds, as well as other federal, state, and local government funds.

Through 1999, approximately 49 different private development firms have been involved in more than 80 HOPE VI revitalization projects in 48 different cities. These firms vary in size, specialization, and experience and include some of the nation's foremost developers. Some develop a wide range of types of projects in cities across the nation. Others specialize in housing development. Many are mission-driven development organizations with a commitment to affordable housing and community development.

Even with the success of the mixed-finance, mixed-income developments and the accomplished pool of private sector developers such programs have attracted, HUD is interested in broadening the number and type of private developers involved with its programs. Toward this end, HUD approached ULI to investigate how HUD's programs could attract more private sector participation and to identify the barriers to such participation.

To address these challenges, ULI organized a forum to bring together developers with experience in HOPE VI and other mixed-finance public housing, multifamily housing developers who had not been involved in mixed-finance development, directors and senior staff members from local public housing authorities, and HUD officials. The forum resulted in a set of recommendations for changes to HUD's programs that address the additional expense, delays, and responsibilities faced by developers and housing authorities participating in these projects.

ULI also organized opportunities for HUD leadership to meet with ULI members to discuss the opportunities for private sector involvement in HUD's programs. HUD officials met with ULI's new Affordable Housing Council at the 2000 ULI fall meeting and with members of ULI Los Angeles.

Finally, to better inform ULI members and others about the specifics of private sector experience with mixed-finance, mixed-income development, ULI prepared case studies of six HUD-financed, mixed-finance public housing redevelopment projects, five of which involve the use of HOPE VI revitalization grant funds. The case studies were selected to show a range of private sector development entities, housing authorities, and urban and community contexts. The focus of the case studies was to draw lessons about issues and solutions found by the private and public sector partners in these projects.

Summary of ULI Policy Forum

Engaging the Private Sector in HOPE VI

On September 8, 2000, a select group of invitees met at the ULI offices in Washington, D.C., to discuss ways to increase private sector involvement in the HOPE VI development process. The forum featured three case studies followed by an afternoon discussion. The forum brought together developers who had experience with HOPE VI or other mixed-finance public housing developments; private sector, multifamily developers without prior experience with HUD programs; executive directors and senior staff members from local PHAs; and HUD officials. A list of forum participants is found on page 7.

The forum participants heard from the developers of First Ward Place in Charlotte, North Carolina; Park DuValle in Louisville, Kentucky; and the Villages of East Lake in Atlanta, Georgia. Several characteristics and issues recurred in all the case studies.

All of the projects selected are strong examples of the type of redevelopment projects that greatly improved neighborhoods and created new opportunities for public housing residents. Their impact spread beyond the borders of the development sites and improved the physical and economic conditions in the surrounding community as well. The participants were impressed by the success of the case study projects. They expressed enthusiasm about the potential of HOPE VI and HUD's other mixed-finance approaches to improve the nation's cities significantly and permanently.

Each case study involved a development project that was complicated because of the complexities of the mixed-finance structure; the challenging inner-city sites; the wholesale redevelopment of a public housing community; the multiplicity of public agencies involved; and, at the time of these projects, the newness of the HOPE VI program. These complexities proved to be time consuming and expensive for the developers, especially in the predevelopment phase. One developer estimated that these projects took twice as long as a more traditional multifamily development.

All of the case studies addressed the critical need for services and facilities to support the self-sufficiency of residents and the sustainability of the new neighborhoods. The developers found themselves taking on new roles beyond typical property management responsibilities in providing or facilitating these services. One of the case study developers, the Community Builders of Boston, a nonprofit developer with a long history of community redevelopment projects predating the HOPE VI program, has developed and expanded its in-house design capabilities and provision of supportive services as special competencies. All of the cases included the integration of new public facilities such as parks and schools. This facet of the project involved entering additional partnerships and coordinating with community stakeholders, including government agencies and nonprofit organizations. For example, development at the Villages of East Lake involved construction of a YMCA and charter elementary school as part of the project.

Another similarity among the case studies presented during the forum is that each of the featured developers specializes in community development (e.g., the Community Builders) or affordable housing (e.g., McCormack Baron Associates). All three developers were also mission driven, even though the group includes a private developer specializing in affordable housing projects, the community development division of a large bank, and a community development foundation. Many attendees at the forum felt that projects that rely on HOPE VI funds appeal exclusively to this type of specialty developer, rather than appealing more broadly to traditional, multifamily developers.

HUD is committed to expanding the pool of developers participating in its programs. As a result, HUD has been making improvements to the program's guidelines and administration to make the program more supportive of private sector requirements and expectations. However, the consensus at the forum was that in order to appeal to more than the "boutique" development sector, unresolved issues and frustrations with the program must be ameliorated.

Participants came to agreement on the following ways the HOPE VI program could be refined and made more compatible with the practices and capabilities of successful private sector developers.

1. Provide predevelopment costs.
Private sector involvement in the early planning and predevelopment stages of HOPE VI and other mixed-finance projects adds substantially to each project's potential for success. However, the predevelopment phase of these projects can be extraordinarily costly in terms of time and front-end expenses. These costs are affected by tax-credit deadlines; lack of consensus among the development partner, the PHA, and HUD about the business terms of the development agreement; negotiation of the physical revitalization plan with existing public housing residents and other community stakeholders; and delays, miscommunications, and misdirections caused by the lack of development experience and capacity on the part of the PHA. Sometimes, just the unfamiliarity of these new partners with each others' cultures may cause delays. If HUD could provide development costs earlier in the project, the developer could proceed with relative confidence. HUD officials at the forum said that HUD understands this problem and has begun to fund predevelopment costs on a deal-by-deal basis.

2. Make yields more attractive.
Participants remarked that the amount of HOPE VI funds eligible to be paid as development fees are not competitive in the current strong residential real estate economy; the length of time and rules required in these projects make HOPE VI fees even less attractive. However, congressional monitors of the program have been reluctant to authorize increased allowances for soft costs such as

ULI Policy Forum Agenda

Engaging the Private Sector in HOPE VI • Friday, September 8, 2000 • Washington, D.C.

8:30 a.m.
Welcome and Overview

J. Michael Pitchford, *Senior Vice President, Bank of America*

Elinor Bacon, *Deputy Assistant Secretary, U.S. Department of Housing and Urban Development*

HOPE VI Video

Introduction and Overview of HUD's Mixed-Income Housing Programs

Kathleen Foster, *Principal, Kathleen Foster and Associates*

9:30 a.m.
Case Study I

First Ward Place, Charlotte, North Carolina

Nancy Crown/Bernard Felder, *Bank of America CDC*

10:15 a.m.
Case Study II

Park DuValle, Louisville, Kentucky

Willie Jones, *The Community Builders, Inc.*

11:00 a.m.
Break

11:15 a.m.
Case Study III

East Lake, Atlanta, Georgia

Greg Giornelli, *East Lake Community Foundation*

Noon
Lunch

1:00 p.m.
Discussion

- Assessing the opportunities for private sector developers in mixed-income housing projects.
- Improving outreach to private sector developers to increase private sector participation in mixed-income projects.
- Overcoming barriers to increased private sector participation in mixed-income projects.

3:00 p.m.
Wrap-up and Next Steps

3:30 p.m.
Adjourn

developer fees. HUD, on the advice of developers, issued safe-harbor guidelines that establish the amount of allowable development fees. The current range of fees was deemed a sufficient incentive given that these mixed-finance projects are typically large; however, the size of the deals, the type of expertise required, and the complexity of the financing make these projects more demanding. Participants suggested that ULI assemble an advisory committee from its membership to review HUD's fee structure.

3. Enforce accountability for project time lines. PHAs and their development partners must work with HUD to establish a balance of authority and responsibility. Often, developers and housing authorities will face negative public relations because of the controversial nature of HOPE VI projects and the critical delays caused by HUD requirements, PHA staff turnover, or misunderstandings between parties. Any and all of these can generate an adversarial relationship between the housing authority and the developer. HUD should act as a unifying force, making sure to include all members of the development team in the dialogue.

Forum participants suggested that a list of milestones or benchmarks be devised for each project and that the development team as a whole—not just the developer—be held responsible for reaching those goals within the established deadlines. Some participants questioned whether HOPE VI funds could be revoked as a penalty if the team

Forum Participants

J. Michael Pitchford (Chair)
Senior Vice President
Bank of America
Charlotte, North Carolina

Elinor Bacon
Deputy Assistant Secretary
U.S. Department of Housing and Urban Development
Washington, D.C.

Sidney Barthelemy
Vice President, Government Relations
Historic Restoration, Inc.
New Orleans, Louisiana

Joseph Corcoran
Chairman
Corcoran Jennison Companies
Dorchester, Massachusetts

Nancy Crown
Senior Vice President
Bank of America CDC
Charlotte, North Carolina

Vicki Davis
President
Mid-City Urban LLC
Silver Spring, Maryland

Thomas Doerr
Vice President
Innovative Housing Institute
Kensington, Maryland

Bernard Felder
Vice President
Bank of America CDC
Charlotte, North Carolina

Kathleen Foster
Principal
Kathleen Foster and Associates
Charlotte, North Carolina

Greg Giornelli
Executive Director
East Lake Community Foundation
Atlanta, Georgia

Renee Glover
Director
Atlanta Public Housing Authority
Atlanta, Georgia

Deborah Goddard
Director of Design and Development
Boston Public Housing Authority
Boston, Massachusetts

Chickie Grayson
President
Enterprise Homes
Baltimore, Maryland

Mike Higbee
President
Development Concepts, Inc.
Indianapolis, Indiana

Willie Jones
Regional Director
The Community Builders, Inc.
Boston, Massachusetts

Raymond Kunianksy
Chief Operating Officer
Atlanta Neighborhood Development Partnership
Atlanta, Georgia

John McIlwain
Senior Managing Director
Fannie Mae
American Communities Fund
Washington, D.C.

Marilyn Melkonian
President
Telesis Corporation
Washington, D.C.

Scott Nordheimer
Director
Mid-City Urban LLC
Silver Spring, Maryland

Andy Rosen
Vice President
Regency Housing Group
Raleigh, North Carolina

John Slidell
President
Bozzuto Homes, Inc.
Greenbelt, Maryland

David Sowell
Director, Office of Public Housing Investments
U.S. Department of Housing and Urban Development
Washington, D.C.

Diane Suchman
Consultant
Washington, D.C.

Mark Sussman
Senior Vice President
Bank of America CDC
Baltimore, Maryland

failed to meet its goals. All participants acknowledged that such action would be difficult politically, but the private sector participants in particular favored some HUD enforcement mechanism. Other participants suggested the party responsible for the delays should be penalized rather than the development team.

Participants overwhelmingly advocated establishing and more strictly enforcing deadlines. Better adherence to deadlines would also affect the timing of returns and the profitability of the project.

4. Improve communication and access to information.

Before the HOPE VI program was established, public housing authorities and developers generally operated at opposite ends of the residential development spectrum. Now these parties are partners who must work together and with HUD toward common goals. At the outset, neither knew what to expect from the other. Prior to the program, housing authorities primarily managed multifamily complexes composed of low-, mid-, or high-rise buildings, generally without the resources necessary to adequately maintain, improve, or replace the housing stock. In older, urban areas, these projects ranged in size from several hundred to several thousand dwelling units, prompting critics to claim that HUD was warehousing the poor. As America's public housing continued its physical decline, quality of life and personal safety similarly deteriorated.

At the inception of the HOPE VI program, most PHAs had little knowledge of or experience with the real estate development process. Private sector developers were unfamiliar with federal regulations and inexperienced with redeveloping low-income, infill projects that incorporate resident services. Only niche developers who were involved with HUD's Section 8 rental voucher programs or who had experience using low-income housing tax credits felt remotely comfortable with HOPE VI's goals and constraints. Since the 1960s, when HUD actions were, in many cases, more detrimental than helpful to distressed urban neighborhoods, neither the private nor the public sector had much experience with holistically redeveloping deteriorated, low-income communities. In order to bridge the chasm between institutional cultures and experience bases of the private developers and the PHAs, both housing authorities and private developers must depend on HUD's guidance and interpretation of the guidelines to be able to determine a clear and predictable path for the development process and the project.

Both developer and housing authority participants recommended that HUD provide stronger support to help them find common ground during the negotiation and development stages. Specifically, participants suggested that HUD take the following steps:

- Provide standardized development agreements;
- Host regular status and issue-clarification meetings bringing together the public housing agency, the private sector development team, and HUD project managers;
- Ensure that all communications regarding interpretation of program guidelines include all parties;
- Use its Web site to publish guidelines and rule changes; and
- Make better use of the HUD term sheet when solidifying the agreements.

The HUD participants at the forum were open to pursuing these ideas and recommended some of the solutions. Both housing authority officials and developers were frustrated by the ever-changing rules and requested greater predictability throughout the entire development process.

5. Increase use of expediters by housing authorities.

Early in the development process, housing authorities should consult with expediters or mentors—that is, members of the private sector who are familiar with the real estate development process. All too often, housing authorities have looked to their lawyers for advice. Instead, PHAs should forge alliances with local developers and business leaders who may be called on for negotiation assistance and guidance. Even accomplished housing authorities have used this approach successfully, regardless of their experience. In addition to receiving pertinent project advice and guidance, the housing authorities need to learn more about how the real estate development process works and what they should expect.

Efficient and profitable real estate development depends on certitude and consistency. The ability to forecast costs and time frames accurately forms the foundation for successful development. More consistency and predictability in the HOPE VI planning, application, and implementation process would eliminate significant barriers to private sector participation. Overall, the forum participants agreed that the HOPE VI program and other HUD mixed-finance developments were changing distressed neighborhoods, their surrounding communities, and even entire cities for the better. The HOPE VI program requires an immense culture shift on the part of housing authorities, and such change will not happen overnight. HUD has an ongoing commitment to continue mixed-finance development of public housing, and this market segment does present opportunities for private sector developers. All forum participants agreed that improvements in communication and fee structures as well as enforcement of deadlines will assist HUD in attracting and retaining private sector development partners.

Case Studies

As part of the HUD-funded project, ULI staff members prepared six case studies of projects that received HOPE VI funding or other HUD public housing funds. The cases were selected because they were identified by HUD staff and others as successful models of mixed-finance, mixed-income projects. In addition, as a group, the cases represent a range of types of developers, housing authorities, and communities. ULI staff visited each of the six projects and interviewed representatives of the public housing authority staff and the private development team involved in the project. The focus of the case studies was to determine the role and experience of the private developer and the nature of the collaboration between the public housing authority and the private development team. In each case, those interviewed were asked to highlight the issues and solutions that emerged as a result of this public/private partnership.

The Villages of East Lake

Atlanta, Georgia

The 542-unit, mixed-income Villages of East Lake replaced East Lake Meadows, one of Atlanta's most distressed public housing complexes, creating a moderate-density community in an amenity-rich environment.

Summary

The Villages of East Lake is an ambitious $100 million project that replaced one of Atlanta's most distressed public housing developments with 542 new mixed-income rental townhouses and garden apartments. The developer of the Villages of East Lake, East Lake Community Foundation (ELCF), joined with the Housing Authority of the City of Atlanta (HACA) to create a moderate-density, mixed-income community in an amenity-rich environment. The goal was to ensure the community's long-term viability by using private sector property management techniques, providing supportive services for community residents, and reinvesting operating income in the project. In addition to new residences, the Villages of East Lake offers new community facilities including a new charter elementary school, a preschool, a YMCA, park space, and a public golf course. Remarkably, the HACA carried out this community redevelopment strategy without using HOPE VI funds.

In addition to incorporating a new public golf course into the physical design and supportive services of the new community and developing and financing a new charter school offering kindergarten through eighth grade, the Villages of East Lake demonstrates a number of unique features, including the following:

■ ELCF, the project's developer, provided an unusual level of leadership and financial support for the project because of ELCF's mission.

■ HACA's strategic investment of HUD public housing funds as part of the mixed financing of the project avoided the cost, time investment, and uncertainty of seeking and securing a HOPE VI revitalization grant from HUD.

■ The city of Atlanta was required only to contribute 15 acres of undeveloped property adjacent to the project, a minimal investment.

■ Profits from the East Lake Golf Club were reinvested to support the activities of ELCF.

Background

East Lake is located five miles from downtown Atlanta on the city's east side in a moderate-income neighborhood of primarily single-family, detached homes. The residential population within a one-mile radius of the site declined by 16 percent during the 1980s, then slowly increased during the 1990s to approximately 15,000 persons residing in 5,000 households. The 1996 median household income was approximately $36,000, and the current median property value in this area is estimated at about $50,500. From 1996 to 2000, the communities within the zip code that contains the Villages of East Lake had the highest percentage increase in home resale value in the Atlanta metropolitan area.

The Villages of East Lake was built on the site of a 800-unit 1970 HACA public housing development called East Lake Meadows. Over the years, the condition of East Lake Meadows had deteriorated until it was one of the worst developments in Atlanta.

The historic East Lake Golf Club, reputed to be one of the great courses in the world and home course of golf legend Bobby Jones, was located across the street from HACA's East Lake Meadows

©2000 J.D. SCOTT

The Villages of East Lake has several community and supportive services, including the East Lake Junior Golf Academy, which provides a year-round after-school program for the children of the community, a baseball field, a swimming pool, tennis courts, and playgrounds.

public housing. Beginning in the 1960s, however, the course, East Lake Meadows, and the surrounding residential community began an extended period of economic and physical decline.

In 1993, Tom Cousins, chief executive officer of Cousins Properties, a major real estate development firm based in Atlanta, purchased the East Lake Golf Club. Cousins's plan in acquiring the course was to use its refurbishment as a catalyst for revitalization of the surrounding neighborhood. Cousins began discussions with Renee Glover, executive director of HACA, which was a troubled housing authority, according to HUD. Cousins and Glover considered how the golf course and East Lake Meadows could be redeveloped, and the plan for what would become the Villages of East Lake began to emerge. ELCF was formed in 1995 to begin planning the project in earnest.

The amount of vacant land surrounding East Lake Meadows proved to be a critical factor in redevelopment of the site. ELCF and its affiliates were able to assemble approximately 115 acres around the 60 acres of public housing land. The redevelopment strategy ultimately depended on the ability to negotiate a land swap that consolidated HACA's ownership of the portions of the site to be developed into housing and that gave ELCF ownership of the portions of the site to be developed for the public golf course and other community amenities.

Negotiations with the existing East Lake Meadows residents significantly affected the design and the pace of redevelopment of the public housing. Initial planning meetings with the residents of East Lake Meadows fell apart because of the lack of trust among the residents, HACA, and ELCF. After what the residents saw as years of neglect, they were convinced that the plan was merely a ploy to evict them. After almost eight months of discussions and negotiations to build trust in the community, the residents voted to proceed with Phase I of the project. One of the most critical decisions that came out of these negotiations was that the income mix of the project would be 50 percent public housing residents and 50 percent market rate. This decision was based not on an analysis of the market or of the project's economics, but rather on the mission of the project, public perception, and political pressure.

ELCF formed East Lake Housing Corporation (ELHC) to act as developer of the project. Phase I was constructed and 100 percent occupied within 20 months of closing on financing.

After the relative success of Phase I, all parties were somewhat surprised that negotiations between the public housing residents and developers for Phase II, which began in May 1997, were even more contentious than for Phase I. After more than a year of negotiations, with HACA eventually acting as an intermediary between the residents and the developer, the residents sued HACA over interpretation of the relocation agreement. The court dismissed the suit in December 1998, a final development agreement was reached by April 1999, and Phase II was completed in February 2001.

Project Description

The site is located just off Interstate 20, which gives it excellent access to the Atlanta metropolitan area. It is also served by Metropolitan Atlanta Rapid Transit Authority (MARTA) bus service and is within 1.5 miles of a MARTA rail station. The entire East Lake project site includes approximately 185 acres, with ownership divided between ELCF, with its affiliate ELHC, and HACA. The site also includes five acres purchased by ELCF from the Atlanta Board of Education on which ELCF developed the charter school and the YMCA. Through a transfer of ownership between ELCF and the Board of Education, HACA consolidated approximately 69 acres that were then leased to ELCF for development of housing. The remainder of the site was developed by ELCF into an 18-hole public golf course, the charter school, and the YMCA. ELCF also developed a parcel owned by HACA into a baseball field, tennis courts, and a swimming pool for the benefit of the residents of the new Villages of East Lake community.

Of the total units, 50 percent are public housing and 50 percent are market rate. The public housing units also qualify as low-income tax-credit units. Income-eligible units at the Villages of East Lake are "floating units" rather than "hard units," which means that units in the project are not rigidly designated as public housing or market rate. Instead, the owners operate the property with the intent of achieving the 50/50 mix of public housing and market-rate tenants within each garden apartment complex, duplex building, and collection of townhouses.

The market-rate units rent for approximately $1,000 per month for a two-bedroom unit. At this rent level, the market-rate units leased up quickly. For instance, 95 percent of Phase I market-rate units were occupied or preleased within six weeks of completion. So far, the market-rate units have attracted predominantly African American residents. Many units are occupied by students from Morehouse and Spelman colleges in Atlanta. In addition to advertising the market-rate units to the general public, the developer has successfully marketed units through churches and other faith-based organizations where the developer believes it is finding tenants with an interest in and commitment to mixed-income communities.

Under an agreement with the property owner, the Lane Company, a Georgia corporation, manages the residential units for 5 percent of net monthly rental income.

As already mentioned, a new YMCA and a public K–8 charter school were developed as part of the Villages of East Lake. Both were constructed with funds raised by ELCF, which also operates the charter school. The new YMCA includes community space, funded by HACA, intended to replace the old East Lake Meadows community center. ELCF also funded an early childhood development center located in an HACA-owned facility leased to ELCF for a nominal amount. The new 18-hole Charlie Yates public golf course developed by ELCF is an integral part of the project.

Community and Supportive Services

East Lake Junior Golf Academy. The Charlie Yates golf course and practice facility serve as home of the East Lake Junior Golf Academy, which provides a year-round, weekday after-school program for children from East Lake. The program focuses on academic achievement and offers extensive golf instruction. The academy opened during the 1995–1996 school year and has introduced golf to more than 200 children since then. ELCF provides operating funds for the academy through fundraising activities.

Self-Sufficiency Program. Unemployed public housing residents in the Villages of East Lake are required to enroll in a self-sufficiency program that provides adult education, job-readiness training, job placement, and counseling. East Lake's property manager provides case-management services to self-sufficiency program participants, coordinating their participation and monitoring their performance in the various programs. Services for the program are provided through a consortium of providers that includes the YMCA, the DeKalb Private Industry Council, Goodwill Industries, and the Support to Employment Program. HACA funds the self-sufficiency program, which is responsible for increasing employment of public housing residents at the Villages to 80 to 90 percent, compared with 10 percent in the old East Lake Meadows development. Moreover, whereas on average only 12 percent of HACA residents systemwide earn more than $15,000 per year, at the Villages, slightly more than 50 percent of residents earn at least $15,000.

Educational Initiative. ELCF formed Atlanta's first charter school, the K–8 program at the Villages of East Lake, which offers an intensive focus on reading and math, an extended school day and school year, early childhood education, and innovative

TABLE 1. THE VILLAGES OF EAST LAKE

All information in this case study is current as of October 2001.

PROJECT SUMMARY

Brief Project Description	542 units of new, mixed-income, mixed-density housing (townhouses, duplexes, and garden apartments) in a highly amenitized community environment including a new K–8 public charter school and a new public golf course, replacing the 800-unit, severely distressed East Lake Meadows public housing project. East Lake Meadows was known as Little Vietnam, because of the violence and gang warfare waged there, and was less than 28% occupied when the redevelopment was started. This public housing transformation is remarkable for several reasons, not the least of which is that no HOPE VI funds were used in financing the redevelopment effort.
Project Status	100% occupancy as of March 2001
Site Area	185 acres, including 60-acre East Lake Meadows public housing site
Location	5 miles east of downtown Atlanta, in a moderate-income neighborhood of primarily single-family detached dwelling units

PROJECT COMPONENTS

Total Dwelling Units	542
Retail/Commercial Space	None
Educational/Institutional/ Recreational Facilities	A K–8 public charter school, a YMCA, an 18-hole public golf course, a baseball field, tennis courts, and a swimming pool
Health Care/Social Services	East Lake Junior Golf Academy, HACA-funded family self-sufficiency program, a charter school, youth employment and college scholarship program, and Strategic Neighbors program encouraging social interaction among income groups

PROJECT BREAKDOWNS

Dwelling Units by Product Type	Multifamily 398	Attached (duplex/row) 144	Single-Family Detached 0
Dwelling Units by Income	Public Housing 271	LIHTC[1]-Eligible Included in PH units	Market-Rate 271
Dwelling Units by Tenure Type	Rental 542	Ownership 0	Rent-to-Own 0
Dwelling Units by # of Bedrooms (BR)	Efficiency/1BR 46	2BR 259	3BR and More 237

SOURCES AND USES OF FUNDS

Sources of Funds		**Notes and Comments**
HOPE VI Development Funds		
HOPE VI CSSP[2] Funds		
CDBG[3]/HOME/§108		
State Housing and Community Development Funds		A 15-acre parcel was donated by the city of Atlanta.
Tax Credit Equity	$ 7,940,604	
Developer's Equity	2,425,243	
Other Equity		
Tax-Exempt Bonds	23,600,000	
Taxable Bonds	700,000	
Conventional Debt		
Affordable Housing Programs		
Foundation Grants		
Other Nonfederal Funds	18,016,961	
Total Sources	$52,682,808	

Uses of Funds		Notes and Comments
Land Acquisition		The land was contributed by development partners.
Demolition		[See Hard Construction Costs line item below]
Site Work		[See Hard Construction Costs line item below]
Hard Construction Costs	$32,751,514	
Development Soft Costs	1,104,352	
Construction Period Interest	2,172,500	
Construction Contingency	1,637,426	
Reserves (capital; operating)	1,360,000	HACA reserve account
Developer's Fee	5,703,836	10.83% of total development costs
PHA Administrative Costs		[See Other line item below]
CSSP[2] Costs		Community and supportive services provided by HACA
Closing Costs and Fees	$1,523,051	
Common-Area Improvements	$2,710,000	
Other	720,129 3,000,000	HACA transaction fee Tax-exempt bond curtailment
Total Uses	$52,682,808	

HOPE VI INFORMATION

Grant Awarded	Not applicable
Grant Amount	Not applicable
Total Project Development Cost	$100 million, including $52.6 million for housing development
HOPE VI Leverage	Not applicable
Existing Public Housing Units	650 low-rise and 150 high-rise units constructed in 1970 as family public housing
Occupancy at Application	179 units as of 06/28/92 (27.5%)

[1]LIHTC = low-income housing tax credit.
[2]CSSP = Community and Supportive Services Program.
[3]CDBG = community development block grant.

after-school programs. The school opened in August 2000 and moved into a new building one year later.

Youth Jobs and College Scholarship Program. ELCF is affiliated with the East Lake Golf Club, a corporate membership golf club located adjacent to the Villages of East Lake. ELCF seeks neighborhood youth for employment in more than 200 well-paying, part-time summer jobs through its caddie program. All student caddies are eligible for ELCF's college scholarship program, which awarded its first scholarships in August 1998.

Youth and Family Programs. ELCF supports several programs to encourage the resident interaction that is part of a healthy mixed-income community. The Strategic Neighbors program offers housing scholarships to market-rate residents who commit to initiate and participate in community programs. ELCF employs a full-time community chaplain who provides counseling, conflict resolution services, and daily community activities. Community events are held frequently, after-school mentoring programs are provided, and youth recreational leagues are sponsored. HACA has committed to reinvest $100,000 of its annual cash flow from the Villages to help fund these and other community programs. ELCF funds the majority of the program expenses.

Financial Structure

The two phases of the Villages of East Lake have a similar ownership structure in which the improvements are owned by a limited partnership. The partners are ELHC (the general operating partner and an affiliate of ELCF) with a 0.075 percent interest; Atlanta Affordable Housing for the Future, Inc., (an affiliate of HACA) with a 0.025 percent interest; and a tax-credit investor limited partner with a 99.9 percent interest. HACA leases the underlying land to the partnership for 55 years.

Both phases were financed by a combination of tax-exempt bonds issued by the Urban Residential Finance Authority (Phase I) and HACA (Phase II) and credit enhanced by Bank of America equity, which was provided by sale of low-income housing tax credits, and a no-interest loan by HACA of HUD public housing development funds. The net offering proceeds from the sale of tax-exempt bonds were lent to the project at a 30-year fixed rate. Phase II included a second sale of bonds that totaled $3 million to be repaid by a portion of the equity from the sale of tax credits. The HACA loan of HUD funds took the form of a subordinated second mortgage to be repaid from a portion of net cash flow from the operation of the rental housing units. Finally, the general partner contributed financing in the form of deferred development fees to be repaid from cash flow.

In both phases, HACA shared in a portion of the developer's fee to cover unreimbursed sunk costs incurred by HACA in developing its Olympic Legacy program for redevelopment of public housing in Atlanta.

Lessons Learned

■ The negotiations for Phase I of the Villages of East Lake emphasized the physical design of the project, the creation of the supportive services the developer deemed essential to its objective of creating a self-sustaining community, and the establishment of a relocation plan for East Lake Meadows residents. In accommodating these concerns, the developer ultimately negotiated an allocation of 50 percent public housing units and 50 percent market-rate units that significantly weakened the financial viability of the project. The 50/50 mix did not have an economically derived basis; rather, it emerged from the mission of the project, public perception, and political pressure. In retrospect, the developer would have given the financial model for the project much more priority in the negotiations with HACA and with the East Lake Meadows residents.

■ ELCF is a unique development entity formed for the purpose of undertaking the revitalization of the East Lake Meadows community. Its mission focuses on the needs of the community's families and children as much as on real estate development or profitability. ELCF's association with Cousins Properties gave it access to a significant degree of development experience. These kinds of projects require both a mission-driven developer and significant private sector expertise that are rarely found in one company. As a result, these kinds of partnerships are crucial to success.

■ As a developer, ELCF was particularly committed to the importance of community services for the success of the project. When public sector and nonprofit partners were not forthcoming to provide those services, the developer found itself in the position of creating the services, including the new charter school. Although within the mission of ELCF, this level of developer involvement in providing community services is far greater than would be the case for more typical private sector developers. In other HOPE VI or mixed-finance development projects, many of the services that were ultimately developed by ELCF are provided through partnerships with local school boards, city agencies, and nonprofits. In such projects, having partnerships with local providers in place before undertaking the project is essential.

■ The predevelopment phase was longer than anyone expected. Predevelopment lasted two years for Phase I and 2.5 years for Phase II. Although today HACA is one of the nation's most experienced and accomplished housing authorities with mixed-finance development, the Villages of East Lake was among its first projects. The inexperience of all parties added to the length of Phase I. Phase II was drawn out by a court case filed by the residents against HACA over the relocation plan. Litigation took three months to be resolved by the courts. The complexity of mixed-finance projects inevitably requires more time, even with the most experienced partners at the table.

Development Team Members

General Partner/Developer	East Lake Housing Corporation, affiliated with the East Lake Community Foundation
Limited Partner	Atlanta Affordable Housing for the Future, affiliated with the Housing Authority of the City of Atlanta
Master Planner	Fransman/Davis and Associates
Architect	Morton Gruber & Associates
Development Consultant to Atlanta Housing Authority	The Integral Partnership of Atlanta
Tax Credit Finance	Howard Weil Labouisse Friedrichs, Inc.
Property Manager	The Lane Company

Project Time Line

1993		Cousins Foundation acquires East Lake Golf Club.
1994		New executive management installed at HACA; informal discussions take place between Cousins Foundation and HACA.
1995	January	HACA and Cousins Foundation agree to pursue planning.
	February	Developer holds initial meetings with East Lake residents.
	October	Decision on tenant mix (50/50) is based on resident demands.
	November	Residents vote to support plan. ELCF formed by the Cousins Foundation. ELHC formed by ELCF to act as developer.
1996	March	Design/planning process with residents begins.
	September	Phase I: HACA applies for HUD funds.
	November	Phase I: HUD approves application.
	December	Phase I: Parties close on financing.
1997	January	Phase II: Request for proposals (RFP) issued.
	March	Phase I: Construction starts.
	May	Phase II: RFP closes.
1998	March	Phase I: Occupancy begins.
	April	Phase II: Design/planning process starts.
	July	Phase II: Breakdown in process with residents results in developer negotiating through HACA.
	August	Phase I: 100 percent occupancy reached.
	October	Residents sue HACA over relocation plan.
	December	Residents' suit dismissed. HACA applies to HUD for Phase II.

1999	April	Agreement reached for Phase II.
	July	Phase II financing closes.
	August	Phase II: Construction starts.
2000	September	Phase II: Construction 45 percent completed and occupancy begins.
2001	February	Phase II completed.
	March	Phase II achieves 100 percent occupancy.

Contact

The Housing Authority of the City of Atlanta
230 John Wesley Dobbs Avenue
Atlanta, GA 30303
Phone: 404-892-4700
Fax: 404-892-0546

The Terraces

Baltimore, Maryland

COURTESY OF HARRY CONNOLLY

The Terraces, a mixed-income community in west Baltimore, consists of both rental and for-sale townhouses that feature Baltimore-style brick facades and porches or stoops that are consistent with surrounding city architecture. The townhouses were built exclusively for public housing residents of the former Lexington Terrace, a public housing project notorious for crime and its substandard living conditions.

Summary

The Terraces is a mixed-income community in west Baltimore, developed on the site of one of Baltimore's most distressed public housing projects, Lexington Terrace. After the 677 units of obsolete public housing were demolished, including five high-rise buildings imploded in 1996, the 15-acre site was developed with 303 two-story houses, including 203 public housing units and 100 units of affordable and moderately priced for-sale housing; an 88-unit rental building for seniors, of which 47 units are public housing units; a recreation/daycare center; and a business center with ground-floor retail and commercial space, and an adjacent drugstore.

The demolition of the Lexington Terrace public housing project and the development, in its place, of The Terraces were accomplished through a complex network of partnerships, including a joint venture development team. The Housing Authority of Baltimore City (HABC) worked in cooperation with the New Lexington Terrace Joint Venture—a partnership between private sector developers Struever Bros. Eccles and Rouse, Inc., and Mid-City Financial Inc./Edgewood Management Corporation—which was selected by HABC through a public procurement process. This team worked with community stakeholders, including the Lexington/Poe Residents Council, planners, architects, and other professionals, to create a safer, more sustainable community. Notable features of The Terraces include the following:

■ A three-story, $6.8 million business center with ground-floor retail and an adjacent full-service Rite Aid drugstore. In the earlier years of the HOPE VI program, when HABC and its development partners applied to HUD for a revitalization grant, the department did not contemplate the integration of retail uses into the physical revitalization plan, and the development team had to work with HUD to get the necessary waivers and approvals to incorporate the business center into the overall plan for The Terraces.

■ An architecturally compatible design integrating The Terraces into the surrounding community by creating new buildings that reflect the architectural vocabulary, scale, and building materials common to Baltimore.

■ An electronic village providing residents with access to the Internet and other personal computer–based information resources. All units are wired for Internet access.

Background

Lexington Terrace was a public housing project notorious for its crime and substandard living conditions. The site consisted of five high-rise buildings and 20 low-rise buildings that housed more than 2,100 individuals in 677 dwelling units. Built in the 1950s and based on the now outdated "tower in the park" ideal, Lexington Terrace suffered from serious deterioration and physical isolation. Residents dealt with unreliable elevators, poorly maintained common areas, inadequate recreational facilities, outdated mechanical and electrical systems, and escalating drug abuse and trafficking.

To stabilize the community and to ensure a continual source of funding, the HABC sought to build a mixed-income community through the HOPE VI program. Through a partnership with the New Lexington Terrace Joint Venture team, the city was able to procure a $22.7 million HOPE VI grant in FY 1995, which allowed HABC to leverage $62 million in other public and private investment.

The HOPE VI program's parameters require that public housing residents who live in the development to be revitalized with HOPE VI funds be included in the planning process and participate in making key decisions. The master planner and architects for The Terraces, selected by HABC through a request for proposals process, used community planning workshops, referred to as design charrettes, to encourage and facilitate the participation of a variety of community stakeholders in the master-planning process. A resident leader was responsible for fostering resident participation and keeping the tenants updated on the plan's evolution. The Planning Department of Baltimore City provided support throughout the process, assisting at on-site meetings and in the detailed development of the master plan.

Despite the efforts to be inclusive, the process was not always smooth and concerted. Shortly before the city received the HOPE VI grant, the Maryland chapter of the American Civil Liberties Union filed suit against the city on behalf of public housing residents. The suit (*Thompson v. HUD*) charged HUD, the city of Baltimore, and the HABC with housing discrimination and segregation. It alleged that since the 1930s, government-funded housing in Baltimore had been segregated, causing concentrations of poverty, and in relief of the alleged segregated housing conditions, demanded that any effort to rebuild public housing allow more relocation choices for residents. Because the city was about to demolish a significant number of public housing units at Lexington Terrace, the *Thompson* litigation forced the city and HUD to devise a stronger relocation plan. The suit settlement, reached a few months later through the parties' filing of a consent decree with the court (commonly known as the Thompson Consent Decree), guaranteed residents the option of returning to the HOPE VI development, settling in rehabilitated homes in other city neighborhoods, or receiving special rental certificates that could be used in low-poverty areas throughout the region.

The city made sure to include programs that addressed the social and economic difficulties faced by families living in public housing. A first-time homebuyers program and a job-creation program were established. The city contracted for project management with Edgewood Management, a private company that manages residential properties totaling approximately 16,000 apartments (mostly subsidized) in 12 states. The company also manages 300 public housing units at Poe Homes (the national landmark site of Edgar Allan Poe's home), which is adjacent to The Terraces site.

Project Description

The physical plan of The Terraces creates a vibrant new community by using central open space and re-creating the physical neighborhood character present before the 1950s redevelopment that introduced the Lexington Terrace public housing project to west Baltimore. Narrow streets, continuous street frontage, and minimized automobile traffic create a comfortable sense of scale within a neighborhood context. Tot lots are distributed throughout the common areas behind the houses, providing a secure place for children to play and opportunities for neighbors to gather and socialize. Although these public spaces are essential in establishing a sense of community, the overall goal of the master plan is to maximize the amount of privately controlled exterior space and to minimize the amount of publicly owned and maintained space. The Lexington Terrace public housing was characterized by poorly maintained public space that the community had no stake in preserving. The developers believe that if residents have a sense of ownership in the semipublic, shared space outside their individual homes, they will contribute to its character and participate in its security, maintenance, and preservation.

The implosion of the five Lexington Terrace high-rise buildings took place in July 1996, receiving national attention and a moderate amount of fanfare from former residents. Construction on the new project began in summer 1998 and was completed in summer 2000. The Terraces consists of 100 for-sale townhouses, 203 public housing rental townhouses, an 88-unit cooperative apartment building for seniors (including 47 public housing units), and a 41,700-square-foot business center.

TABLE 2. THE TERRACES

All information in this case study is current as of October 2001.

PROJECT SUMMARY

Brief Project Description	391 units of new, mixed-income, mixed-density housing, composed of 303 two-story townhouses and 88 units of mid-rise seniors' housing. This represents a total of 250 public housing replacement units, 100 moderate-income, for-sale townhouses, and 41 market-rate rental units for seniors. The revitalized site also includes a $6.8 million, 41,700-sq.-ft. business center with three floors of commercial space, including some ground-floor retail; an adjacent, freestanding, 11,180-sq.-ft. Rite Aid drugstore; and a 23,400-sq.-ft. community center providing recreational and daycare facilities.
Project Status	Completed 2000
Site Area	15.3 acres
Location	West of Baltimore's central business district

PROJECT COMPONENTS

Total Dwelling Units	391
Retail/Commercial Space	41,700-sq.-ft. business center and a freestanding Rite Aid drugstore
Educational/Institutional/ Recreational Facilities	23,400-sq.-ft. community center

PROJECT BREAKDOWNS

Dwelling Units by Product Type	Multifamily 88	Attached (duplex/row) 303	Single-Family Detached 0
Dwelling Units by Income	Public Housing 250	LIHTC[1]-Eligible Included in PH units	Market-Rate 141
Dwelling Units by Tenure Type	Rental 291	Ownership 100	Rent-to-Own 0
Dwelling Units by # of Bedrooms (BR)	Efficiency/1BR Not available	2BR Not available	3BR and More Not available

SOURCES AND USES OF FUNDS

Sources of Funds		**Notes and Comments**
HOPE VI Development Funds	$20,010,912	
HOPE VI CSSP[2] Funds	2,691,088	
HABC Capital Funds	356,104	
CDBG[3]/HOME/§108	6,605,291	Includes Section 108 loan proceeds
State Housing and Community Development Funds	7,850,000	Maryland's Partnership Rental program
Tax Credit Equity	11,000,000	
Developer's Equity		
Other Equity	100,000	Purchasers' downpayments
Tax-Exempt Bonds		
Conventional Debt	9,200,000	$4 million from NationsBank; $5.2 million from Crestar Bank
Affordable Housing Programs		
Foundation Grants		
HABC Escrow Interest	3,000,000	
Other Interest Income	350,000	
Other Nonfederal Funds	3,768,536	
Total Sources	$64,931,931	

Uses of Funds		Notes and Comments
Land Acquisition		
Demolition	$ 6,420,000	
Site Work	9,358,988	[See Hard Construction Costs line item below]
Hard Construction Costs	37,647,542	$9,137,672 in non–dwelling unit construction
Development Soft Costs	5,394,704	
Relocation/Reoccupancy	366,780	
Construction Period Interest		
Construction Contingency		
Developer's Fee		
PHA Administrative Costs	3,052,829	
CSSP[2] Costs	2,691,088	
Other		
Total Uses	$64,931,931	

HOPE VI INFORMATION

Grant Awarded	FY1995
Grant Amount	$22,702,000
Total Project Development Cost	$65 million
HOPE VI Leverage	2.8:1—$2.80 of non–HOPE VI investment for every $1.00 of HOPE VI funds
Existing Public Housing Units	Lexington Terrace's 677 public housing units, comprising 25 buildings including five high-rises, constructed in the 1950s
Occupancy at Application	291 units were occupied prior to HOPE VI relocation (43% occupancy)

[1]LIHTC = low-income housing tax credit.
[2]CSSP = Community and Supportive Services Program.
[3]CDBG = community development block grant.

The business center includes first-floor retail and an adjacent Rite Aid drugstore. (Rite Aid agreed to a 20-year lease to help make the transaction structure work.)

The business center is owned and operated by the Poppleton Village Community Development Corporation (CDC), the NationsBank CDC (now Bank of America), and the New Lexington Enterprise Corporation, a wholly owned affiliate of HABC. The Enterprise Foundation occupies 13,329 square feet on the third floor of the business center building; the HABC Police and the Municipal Employees Credit Union occupy 5,539 square feet on the first floor. The Poppleton Village CDC was expected to purchase equity ownership in the business center for $1.00 from NationsBank CDC.

The townhouses are a mix of two-, three-, and four-bedroom homes with brick facades and front stoops—true to the Baltimore tradition. All units were prewired for cable TV, telephone, and computers, which provides residents access to the Internet, adult education and training, and a children's after-school curriculum from a central onsite learning center.

Struever Bros. Eccles & Rouse marketed the for-sale units to residents with a broad range of incomes. The majority of units were sold to low- and moderate-income residents. The goal for the income mix in The Terraces is 15 percent of the units sold to purchasers who make the median income or above; 20 percent to those making 80 percent of median income; and the remaining 65 percent of units going to those with incomes of less than 50 percent of the median income.

Financial Structure

The Terraces redevelopment project represents an effort of approximately 60 partners, including the New Lexington Terrace Joint Venture team, the

The Parren J. Mitchell Business Center includes ground-floor retail and commercial space, as well as an adjacent, freestanding Rite Aid drugstore.

Lexington Terrace Tenant Council, Poppleton Village CDC, Empowerment Zone partners, national and local financial institutions, and Baltimore-area colleges and universities.

Lessons Learned

The Terraces, like many HOPE VI projects, results from a complex network of partnerships and financing. The project was mired in lawsuits, delays, and complications, but it came to fruition and now houses hundreds of Baltimore families. The lessons both the developers and the housing authority learned include the following:

■ Housing authorities must be better prepared to deal with the entrepreneurial aspects of HOPE VI. Many authorities are familiar with managing public housing but are concerned about losing control of a project under the private management structure of HOPE VI. Education of the directors and staff is essential. Housing authorities must come to view themselves as an integral part of the city's total vision and not as a separate entity.

■ Local HUD offices need to be more responsive to the concerns of the developer and the PHA staff. The HOPE VI program was intended to provide PHAs with unprecedented flexibility in devising solutions to local housing needs. As a consequence, the program does not impose a lot of structure. With the help of local HUD offices, much can be accomplished. The assistance offered by the Washington, D.C./Baltimore HUD office was helpful and of high quality.

■ HUD should streamline the communication process among HUD staff, the PHA staff, and the developer, and clearly outline its rules and expectations before a project begins. Information that passes through a variety of channels to which all parties do not have equal access impedes progress and fosters distrust. It would have been helpful for one HUD office to serve as a focal point for information dissemination and as a dispute mediator.

■ Attracting and retaining high-quality staff at housing authorities should be a high priority. Staff turnover at HABC was cited as a major factor in causing and perpetuating delays.

■ Two years passed before a development agreement was reached. That time frame is unacceptable to the private sector and should be shortened substantially through stricter deadlines and greater support from HUD.

Development Team Members

Developer	New Lexington Terrace Joint Venture (Struever Bros. Eccles and Rouse, Inc., Mid-City Financial Inc./ Edgewood Management Corp.)
Property Management	Edgewood Management
Architects	CHK Architects and Planners (now Torti Gallas and Partners–CHK, Inc.) Peter C. Doo Architects
General Contractor	Struever Bros. Eccles and Rouse, Inc.

Project Time Line

1994	Initial replanning of Lexington Terrace takes place.
1995	New Lexington Terrace Joint Venture is formed between Struever Bros. Eccles and Rouse, Inc., and Mid-City Financial Inc./Edgewood Management Corporation.
	HABC and New Lexington Terrace Joint Venture submit HOPE VI application.
	HOPE VI grant awarded.
	Maryland chapter of American Civil Liberties Union files suit against HUD on behalf of public housing residents.
1996	Lawsuit settled. Five high-rise buildings are imploded.
1998	Construction begins.
2000	Construction completed.

Contact

Housing Authority of Baltimore City
417 East Fayette Street, Suite 1337
Baltimore, MD 21202
Phone: 410-396-5003
Fax: 410-545-6737

First Ward Place

Charlotte, North Carolina

First Ward Place is a 406-unit, mixed-income development that replaced the distressed Earle Village, a 409-unit public housing project built in 1966. The mixed-density project includes single-family homes, such as these in the Parkside district. The view from First Ward Place reflects its location in the heart of Charlotte.

Summary

First Ward Place is a 406-unit, mixed-income, mixed-density, multiproject community located on 27 acres adjacent to the central business district in downtown Charlotte, North Carolina. The project includes the complete redevelopment of Earle Village, a failed 409-unit public housing project built in 1966 under the auspices of urban renewal. Today, Charlotte's First Ward is an economically and racially diverse neighborhood incorporating 283 units of low-to-moderate-income rental housing in the First Ward Place development; 68 housing units for seniors at Autumn Place; and 55 market-rate, low-income, and affordable homeownership units. The First Ward also includes critical support for the sustainability of the community through supportive services, a community center, services for seniors, a swimming pool, and child-care facilities.

The Charlotte Housing Authority (CHA) and NationsBank (now Bank of America) Community Development Corporation joined with the Charlotte-Mecklenburg Planning Commission to create a comprehensively planned, new community that has breathed new life into Charlotte's First Ward neighborhood. The redevelopment of the First Ward includes many innovations and provides valuable lessons about the mixed-finance process. The project's notable features include the following:

- First Ward Place was one of the first HOPE VI projects funded. Thus, several procedures that would become standard for HOPE VI projects evolved as this and other early HOPE VI projects progressed.

- Income-eligible households seeking housing through CHA at First Ward are required to be enrolled in CHA's award-winning Family Self-Sufficiency (FSS) Program. The FSS Program gives residents the opportunity to pursue job training, higher education, and counseling services for a five-year period. Public housing residents are then expected to make the transition to rental properties or homeownership. Money-management and homeownership classes supplement this program. Earle Village residents who chose not to participate in CHA's FSS Program were relocated through HUD's Section 8 program to other public housing projects in Charlotte.

- In addition to providing housing affordable to a broad range of incomes, First Ward includes Autumn Place, a 68-unit housing facility for seniors.

Background

Downtown Charlotte is divided into four geographic wards. Through the first half of the 20th century, Charlotte's First and Second wards were vibrant, economically diverse neighborhoods serving as a center for Charlotte's African American residents, their culture, and their institutions. But, as happened in many cities, suburban growth gradually drew residents from the city's center. This loss of population and the accompanying precipitous disinvestment by both private and public sectors caused these neighborhoods to deteriorate.

In the 1960s, urban renewal plans targeted the First Ward for redevelopment. Much of the existing housing was demolished. The 409-unit Earle Village housing project, which was built in 1966, replaced

TABLE 3. FIRST WARD PLACE

All information in this case study is current as of October 2001.

PROJECT SUMMARY

Brief Project Description	533 units of housing, both on and off site, including 406 new units of mixed-income, mixed-density, mixed-tenure housing composed of 283 rental apartment units and townhouses, a 68-unit apartment building for seniors, and 55 for-sale townhouse and single-family units made affordable to a range of first-time homebuyers and market-rate purchasers. New community amenities include the First Ward Child Development Center and the 34,000-sq.-ft. Hoefener Community Services Center, which includes instructional and meeting rooms, a computer center, and recreation and exercise facilities.
Project Status	Completed 2001; rental units 100% occupied; all sales completed
Site Area	27 acres
Location	First Ward, adjacent to Charlotte's central business district

PROJECT COMPONENTS

Total Dwelling Units[1]	533
Retail/Commercial Space	None
Educational/Institutional/ Recreational Facilities	34,000-sq.-ft. Carole A. Hoefener Community Services Center; First Ward Child Development Center, serving up to 132 children from infancy to pre-kindergarten

PROJECT BREAKDOWNS[2]

Dwelling Units by Product Type	Multifamily 271	Attached (duplex/row) 107	Single-Family Detached 28
Dwelling Units by Income	Public Housing 255	LIHTC[3]-Eligible 50	Market-Rate 101
Dwelling Units by Tenure Type	Rental 351	Ownership 55	Rent-to-Own 0
Dwelling Units by # of Bedrooms (BR)	Efficency/1BR 105	2BR 188	3BR and More 113

SOURCES AND USES OF FUNDS

Sources of Funds		**Notes and Comments**
HOPE VI Development Funds	$37,750,826	$7,643,719 CHA loans included in HOPE VI amount
HOPE VI CSSP[4] Funds	3,989,329	
CDBG[5]/HOME/§108		
State Housing and Community Development Funds		
Tax Credit Equity	9,783,004	
Developer's Equity		NationsBank accepted a percentage of net operating income instead of a developer's fee
Other Equity	690,000	NationsBank CDC equity contribution
Tax-Exempt Bonds		
Conventional Debt	7,900,000	NationsBank loans
Affordable Housing Programs		
Foundation Grants		
Other Nonfederal Funds	774,800	
Total Sources	$60,887,959	

Uses of Funds		Notes and Comments
Land Acquisition		
Demolition	$ 3,406,060	
Site Work	1,921,804	
Hard Construction Costs	42,852,589	$4,983,847 in non–dwelling unit construction
Development Soft Costs	4,033,939	
Construction Period Interest		
Construction Contingency		
Developer's Fee		
LIHTC[3] Costs	43,000	
Other Financing Costs	55,000	
PHA Administrative Costs	4,247,316	
CSSP[4] Costs	3,989,239	
Other	339,012	Resident relocation costs
Total Uses	$60,887,959	

HOPE VI INFORMATION

Grant Awarded	FY1993 implementation and FY1995 amendment funds
Grant Amount	$41,740,155
Total Project Development Cost	$60.9 million
HOPE VI Leverage	0.24:1—$0.24 of non–HOPE VI investment for every $1.00 of HOPE VI funds
Existing Public Housing Units	409-unit Earle Village public housing project, constructed in 1966
Occupancy at Application	~240 units were occupied prior to HOPE VI relocation (~60% occupancy)

[1]As reported in the *HUD Quarter Project Progress Reports* for the quarter ended March 31, 2001.
[2]Breakdown reflects 406 units of on-site new construction only. Remaining 127 units are rehabilitated or located off site.
[3]LIHTC = low-income housing tax credit.
[4]CSSP = Community and Supportive Services Program.
[5]CDBG = community development block grant.

only a fraction of the number of original dwellings. As did many public housing developments, Earle Village succumbed to crime, poverty, and decay. At the time of its redevelopment in 1994, Earle Village was estimated to be only 60 percent occupied.

CHA originally sought to rehabilitate Earle Village in the early 1990s but decided to pursue a HOPE VI grant to help create more sustainable options and provide leverage for the revitalization of the entire neighborhood. CHA submitted a HOPE VI application in 1993. In FY1993, CHA received a HOPE VI revitalization grant, which was supplemented by an amendment in FY1995, that provided a total of more than $41.7 million to demolish Earle Village and create a new mixed-income neighborhood. CHA teamed with NationsBank CDC, the City of Charlotte/Charlotte-Mecklenburg Planning Commission, and Charlotte Center City Partners (a group of citizens and business leaders advocating downtown investment) to form First Ward Partners. These principal stakeholders pooled their resources and hired Pittsburgh-based Urban Design Associates (UDA) to create a conceptual master plan for the First Ward. Working with public housing authorities, local development agencies, and municipal governments interested in revitalizing distressed urban areas (some characterized by obsolete public housing, such as in Newport News and Richmond, Virginia), UDA had been creating master plans for well-designed, high-quality, mixed-income communities organized to encourage positive social interaction and a true sense of ownership for more than ten years before the HOPE VI program began.

Early in the master plan process, UDA held numerous meetings with First Ward interest groups. This process included an intensive four-day planning session to which city council members, planning

Today, First Ward is an economically and racially diverse neighborhood with 283 rental apartments, 55 for-sale units, and 68 apartments for seniors.

commissioners, residents, and all First Ward property owners were invited. The group envisioned a racially and economically diverse, walkable, well-designed, safe, and convenient neighborhood. The revitalization of First Ward Place through the HOPE VI program would spur development in adjacent parcels, thus serving as the catalyst for broader neighborhood revitalization. Under UDA's guidance, First Ward Partners and assembled community stakeholders developed a neotraditional plan giving the neighborhood a sense of place and an identity as a unified community.

Project Description

First Ward Place includes 283 one-, two-, three-, and four-bedroom rental apartments and two-, three-, four-, and five-bedroom townhouses. Eighteen percent of the rental units are designated for residents earning less than 55 percent of median income and were financed using low-income housing tax credit equity. Thirty-five percent of the rental units house residents paying market-rate rents. The remaining rental units are leased to public housing–eligible households through CHA, with the monthly rent, plus utilities, limited to 30 percent of household annual income. As household income rises, rents increase proportionately. As is the case with most HOPE VI projects, the subsidized units are indistinguishable from the market-rate units.

The HOPE VI revitalization of the First Ward also includes Autumn Place, which houses seniors who relocated from other CHA properties. The center for seniors comprises 66 one-bedroom and two two-bedroom apartments and was 100 percent funded through the HOPE VI grant.

As part of the HOPE VI revitalization, 55 for-sale townhouses and single-family homes were also constructed and marketed in First Ward Place. More than a third of these homes were reserved for former CHA residents who graduated from CHA's Home Ownership Institute. The remaining units were sold to market-rate buyers at prices of up to $160,000. The funding for the single-family homes was 85 percent private and 15 percent public from the HUD HOPE VI grant.

The HOPE VI First Ward revitalization also included a number of new community amenities. Construction of a child development center was funded entirely out of the HOPE VI grant. A new 34,000-square-foot community center with classrooms, a computer center, a multipurpose room, and an 11,000-square-foot gymnasium was funded from the HOPE VI grant and by the Mecklenburg County Park and Recreation Department.

Each family living in the public housing units is required to participate in the CHA's FSS Program. The FSS Program is designed to help individuals and families become financially independent and to make the transition out of public housing within five years (mandatory for all public housing residents except those who are elderly or disabled). The program provides educational and job opportunities as well as vocational training, caseworkers to oversee the participants' medical needs, child care, and money-management training. This program, developed by CHA, has become a national model for helping public housing residents become independent of government assistance.

An integral part of CHA's FSS Program is the Home Ownership Institute, which teaches participants the responsibilities of homeownership, credit repair, and budgeting. At the end of the 13-month course, graduates may purchase one of the subsidized for-sale houses in First Ward Place. Graduates of the FSS Program who do not qualify for or who decline to take part in the Home Ownership Institute program may elect to live in one of the market-rate rentals.

The project was developed in five phases over a period of three years. All of the rental housing was built in the first two phases, the community center and the units for seniors were built during the third phase, and the single-family homes and townhouses were built in the fourth and fifth phases.

Financial Structure

CHA initially engaged NationsBank to serve as a development consultant. Later, the bank agreed to act as a development partner and to create a mixed-finance development under the HOPE VI program.

NationsBank secured approximately $10 million in low-income housing tax credit equity that was needed to subsidize the low-income units. NationsBank did not collect a development fee but receives half of any income the project generates after management expenses, maintenance expenses, operating expenses, debt service, and property taxes. The $41.7 million HOPE VI grant contributed to funding part of the development costs of the project, demolition, design and construction, site improvement, relocation, administrative costs of CHA, and costs related to the FSS Program run by CHA. CHA will continue to own the land, and the improvements will be owned by First Ward Place LLC, in which NationsBank and CHA are members. NationsBank selected LEDIC Management Group to serve as property manager.

Lessons Learned

Lessons from the First Ward Place experience include the following:

■ CHA selected NationsBank as its development partner without going through a competitive process. CHA selected NationsBank because the two organizations had enjoyed a positive working relationship on the early project to rehabilitate Earle Village. The partnership succeeded with NationsBank, and the bank brought many assets to this project, including experience with these kinds of projects, but the decision not to issue an RFP raised questions that slowed the progress of the project.

■ Neither party had experience with HOPE VI projects, and much of the process was learned by doing. CHA and NationsBank have since worked with HUD on developing more explicit guidelines, allocation of responsibilities, and more realistic time frames.

■ The redevelopment of public housing is often a controversial issue, and both CHA and NationsBank were subjected to negative publicity from this project. The bank found itself in an unexpected and undesired position of having its investment in community redevelopment being criticized as a purely profit-driven means of gentrification. Both CHA and the bank have since worked to create better public relations and to assure the community that HOPE VI is not a wholesale displacement of low-income residents, but rather that the program contributes to community stabilization and enrichment.

■ The FSS Program and support services, which are run by CHA, are critical for the ongoing success of this new mixed-income community. The property management company suggested that it would have been helpful if HUD had established a set of guidelines outlining its expectations for property managers and social service providers.

Development Team Members

Public Housing Authority	Charlotte Housing Authority
On-Site Developer	NationsBank Community Development Corporation
Master Planner	Urban Design Associates
Architect	FMK Architects
Civil Engineer	GNA Design
Market Analyst	John Wall and Associates
Property Management	LEDIC Management Group
Realtor	First Charlotte Properties

Project Time Line

1993	Charlotte-Mecklenburg Planning Commission and Charlotte Housing Authority initiate revitalization of First Ward. They submit a joint HOPE VI application for Earle Village. Charlotte Housing Authority wins $41.7 million HOPE VI grant.
1994	Charlotte Housing Authority teams with the city of Charlotte, NationsBank CDC, and Charlotte City Center Partners to become First Ward Partners. (Charlotte-Mecklenberg Planning Commission joined team late in the process.)
1995	First Ward Partners hires UDA to develop the conceptual plan for First Ward.
1996	Charlotte City Council approves the First Ward Plan. Construction of Autumn Place housing project for seniors begins.
1997	Construction begins on 283 rental units, 17 single-family detached homes, and 38 townhouses.
2001	Five phases complete.

Contact

Charlotte Housing Authority
1301 South Boulevard
Charlotte, NC 28203
Phone: 704-353-0292
Fax: 704-336-7767

Hayes Valley

San Francisco, California

After the 1989 San Francisco earthquake, the apartments in the former Hayes Valley, locally known as "Death Valley," were replaced by the new Hayes Valley, a neighborhood of townhouses and apartments. Hayes Valley is unique among HOPE VI projects in that it does not include any market-rate housing.

Summary

Hayes Valley is a $44.2 million, multiblock, mixed-income community located in the heart of San Francisco. The site was formerly the Hayes Valley public housing project, known for its high crime rates, and was dubbed “Death Valley.” After receiving a $21.9 million HOPE VI grant, the San Francisco Housing Authority (SFHA) and its development partners embarked on demolishing the old Hayes Valley and building anew. The new Hayes Valley contains 195 family-sized townhouses and flats, including 117 units of public housing and 78 units for families earning 50 percent or less of the San Francisco–area median income.

Hayes Valley is atypical of more recently funded HOPE VI projects in that it does not contain any market-rate or for-sale units. The high cost of living in the Bay Area generally (and particularly in the city of San Francisco), combined with an acute shortage of affordable housing, prompted SFHA to make each Hayes Valley replacement unit as affordable as possible. SFHA also determined that the redevelopment of Hayes Valley should serve a population that would find it especially difficult to find housing in the city.

Redeveloping the site was no small task. In order to take on such an ambitious and financially challenging project, SFHA teamed with McCormack Baron Associates, a well-known mixed-income residential development company based in St. Louis that SFHA selected through a HUD procurement process. The development process was long and complex; however, Hayes Valley has received considerable national recognition. Other notable features of this undertaking include the following:

- HUD’s designation of the new Hayes Valley development as a Campus of Learners site enabled SFHA to make computer technology and computer training part of the self-sufficiency program benefiting Hayes Valley’s new residents. In February 1999, Microsoft Corporation awarded the Hayes Valley Computer Learning Center $15,000 and donated computers and software programs. San Francisco State University (SFSU) staff members volunteer to teach computer courses at the center.

- SFHA tracked the 264 families who relocated from Hayes Valley. Sixty-six percent (173 families) moved to other housing in San Francisco, 32 percent moved elsewhere in the Bay Area, and the other 2 percent moved away from the area. Of the 173 families that remained in San Francisco, 67 moved into other public housing.

- The new Hayes Valley was designed and constructed to address the housing needs of SFHA’s public housing families, who—because of increases in family size—could not be accommodated in the former public housing project, which was composed primarily of studios and one-bedroom units; almost 60 percent of the new Hayes Valley townhouses are two-bedroom units, with an additional 30 percent of the total composed of three- and four-bedroom townhouses. Although the number of new Hayes Valley units represents only 66 percent of the 294 public housing units demolished as part of the HOPE VI redevelopment of the site, SFHA has replaced almost 97 percent of the bedrooms.

Background

The Hayes Valley public housing project, named after its surrounding neighborhood, was built in 1961 to house low-income families. Not long after the project's completion, however, Hayes Valley suffered the fate of many other public housing projects. Throughout the 1970s and 1980s, the Hayes Valley neighborhood had a reputation for crime and urban decay. Only after the 1989 earthquake did concerted attempts at redevelopment take place.

SFHA knew that it needed to rebuild Hayes Valley and, in 1992, partnered with McCormack Baron Associates, selected through an RFP. McCormack Baron was experienced in the development, financing, and management of high-quality, subsidized low-income housing throughout the country. SFHA looked to McCormack Baron as its development partner in the redevelopment of Hayes Valley to provide SFHA with valuable advice and guidance. McCormack Baron assisted the housing authority in preparing an application for tax credits and performed the majority of the predevelopment work. McCormack Baron worked with SFHA for five years before breaking ground in 1997. Both executive director turnover at the SFHA (seven different executive directors in that time) and planning commission rigidity were cited as part of the delay.

In 1995, HUD awarded SFHA a $21.9 million HOPE VI grant that allowed SFHA to leverage more than $20 million in private investment, primarily in the form of tax credit equity and private SFHA-insured mortgages. SFHA also relied on lawyers, financial advisers, and development consultants to work through the complex finance issues.

As is the case with most HOPE VI projects, the property management at Hayes Valley is privatized, and McCormack Baron is serving in that role. Privatized property management addresses concerns about housing authority management track records and tax-credit compliance issues, and assures equity investors that requirements of Internal Revenue Code Section 42 are met. The current property manager is a resident of Hayes Valley and an employee of McCormack Baron.

Project Description

The Hayes Valley revitalization plan called for complete demolition of the remaining 294 public housing units and construction of 195 units on two neighboring sites. To meet the dual goals of reducing the density of development in the neighborhood and providing larger housing units with a greater number of bedrooms, SFHA was unable to replace all of the units. This loss of public housing units became very controversial because of the severe lack of affordable housing in San Francisco. However, the new housing has 449 bedrooms, only 14 fewer bedrooms than the 463 in the original complex. Former residents were given the first right to return; 175 families chose to do so. SFHA tracked the residents who opted out. Families who chose to return to Hayes Valley were required to participate in the family self-sufficiency programs.

The land planners and architects eliminated the super-block infrastructure by reintroducing the traditional San Francisco street grid, by building a new street in each block, and by matching the characteristics of the surrounding neighborhood. The moderate-income units had to be indistinguishable in appearance from the public housing units. The townhouse building type allows each unit to have direct access from the street and a rear yard or deck. The planners and architects also added basic interior improvements that have been long excluded from public housing as unnecessary luxuries, such as closet doors, dishwashers, disposals, clothes washers, dryers, private open space, and garages.

In addition to the new housing, Hayes Valley offers child care, a computer learning center, tutorial assistance for children, a Walgreen's job-training facility, and business incubator space. HUD also designated Hayes Valley as part of the San Francisco Campus of Learners (SFCOL) program, which uses computer and telecommunication technology to promote educational, job-training, and employment opportunities for residents. SFCOL has teamed with SFSU to help with network support, tutors, and even parts of the development process. At SFHA's request, SFSU faculty began working with McCormack Baron and housing authority construction division staff, the computer learning center director, and residents to gather the requisite expertise and resources. SFSU participants helped to

TABLE 4. HAYES VALLEY

All information in this case study is current as of October 2001.

PROJECT SUMMARY

Brief Project Description	195 public housing and tax-credit townhouses on neighboring sites totaling 3 acres, plus a HUD-designated Campus of Learners facility including a computer learning center, a child-care center, a job-training facility, and business incubator space. In order to address San Francisco's critical shortage of affordable housing, no market-rate units were included in this redevelopment project.
Project Status	Completed 1999; 100% occupied
Site Area	3 acres
Location	West San Francisco

PROJECT COMPONENTS

Total Dwelling Units	195 new homes, comprising 117 SFHA public housing units and 78 tax-credit units serving households with incomes at or below 50% of area median
Retail/Commercial Space	None
Educational/Institutional/ Recreational Facilities	HUD Campus of Learners site, including a computer learning center operated in cooperation with San Francisco State University and funded, in part, by Microsoft; a child-care center; a Walgreen's job-training facility; and business incubator space

PROJECT BREAKDOWNS

Dwelling Units by Product Type	Multifamily 0	Attached (duplex/row) 195	Single-Family Detached 0
Dwelling Units by Income	Public Housing 117	LIHTC[1]-Eligible 78	Market-Rate 0
Dwelling Units by Tenure Type	Rental 195	Ownership 0	Rent-to-Own 0
Dwelling Units by # of Bedrooms (BR)	Efficiency/1BR 12	2BR 124	3BR and More 59

SOURCES AND USES OF FUNDS

Sources of Funds		**Notes and Comments**
HOPE VI Development Funds	$20,257,002	
HOPE VI CSSP[2] Funds	1,600,000	
Other PHA Funds	736,467	
CDBG[3]/HOME/§108		
Developer's Equity	40,000	
Tax Credit Equity	16,400,000	
Homebuyers' Equity		
Construction Financing/Rental		
Construction Financing/For-Sale		
Permanent Financing	4,000,000	FHA-insured mortgage
Land Sales/Leases		
Other Nonfederal Funds	1,154,366	
Total Sources	$44,187,835	

Uses of Funds		Notes and Comments
Land Acquisition		
Demolition	$ 2,712,440	
Site Work	1,423,064	
Hard Construction Costs	26,332,555	
Development Soft Costs	5,849,251	
Construction Period Interest		
Relocation/Reoccupancy	980,895	
Developer's Fee	1,500,000	
LIHTC[1] Costs	110,733	
Other Financing Costs	1,985,073	
Reserves	1,669,584	Includes $1.6 million in self-sufficiency escrow accounts
PHA Administrative Costs	944,208	
CSSP[2] Costs	680,032	
Total Uses	$44,187,835	

HOPE VI INFORMATION

Grant Awarded	FY1995
Grant Amount	$21.9 million
Total Project Development Cost	$44.2 million
HOPE VI Leverage	1.02:1—$1.02 of non–HOPE VI investment for every $1.00 of HOPE VI funds
Existing Public Housing Units	294 dwelling units at time of HOPE VI application; 169 of Hayes Valley's original 463 public housing units were previously demolished by SFHA
Occupancy at Application	264 units (90%) occupied prior to HOPE VI relocation

[1]LIHTC = low-income housing tax credit.
[2]CSSP = Community and Supportive Services Program.
[3]CDBG = community development block grant.

define the scope of work, identify local contractors, locate private sector contributions, and provide student volunteers to inventory and test donated computers. Equally important, the Hayes Valley SFCOL program has created access to the vast resources of the California state university system.

Financial Structure

The Hayes Valley Housing Corporation, a nonprofit affiliate of SFHA, is the managing general partner of the development partnership formed with McCormack Baron Associates and includes staff and residents on its board of directors. The land is leased to the partnership for 55 years as a condition of receiving private funds ($16.4 million in low-income housing tax credit equity and $4 million from a Federal Housing Administration–insured first mortgage). SFHA has an option to purchase the new improvements after 15 years as a condition of the land lease. A portion of SFHA's HOPE VI grant is structured as a negatively amortizing loan to provide funds for exercising the purchase option. (The development partnership maintains $1.6 million in escrow accounts, which will be available to SFHA and will be valued at approximately $2.35 million.) SFHA has the right of first refusal to purchase the improvements at any time if the partnership decides to sell.

Hayes Valley generates annual rental revenues of $1.5 million, with annual subsidy payments of $270,000, and its operating costs are lower than other SFHA dwellings. SFHA was able to save $136 per unit during the first year of operation, or $190,944 annually.

Of the HOPE VI grant, $1.6 million was spent on community supportive services.

Residents of the former Hayes Valley celebrate the dedication of their new community, located in the heart of San Francisco.

Lessons Learned

■ SFHA partnered with McCormack Baron in the early 1990s, and their relationship helped them prepare for the HOPE VI application and implementation process. SFHA noted that HUD approvals are smoother if the housing authority has a solid relationship with a developer. In addition, SFHA participated in HOPE VI Plus, which requires the authority to be partnered with a developer before being considered. McCormack Baron was satisfied with HUD's role, noting that HUD pressed SFHA and the city when things were dragging and kept SFHA on top of tax-credit deadlines.

■ SFHA encouraged partnerships as much as possible before HOPE VI. Through these partnerships (especially with SFSU) and by working with a private sector developer, the housing authority became better known, improved its image, and gained valuable experience.

■ The developer was frustrated by the number of executive directors, seven in five years, with which it had to work in the course of the project. Some of SFHA's executive directors did not support the HOPE VI program and refused to move it forward. Because the housing authority controlled the finances, the situation was disruptive to and costly for the development partner. As a result, McCormack Baron appealed to HUD, which interceded, renegotiating the deal. HUD, through its local field office, should strongly encourage housing authority boards to choose executive directors who are amenable to HOPE VI and mixed-finance development before bringing them on board in the midst of implementing a HOPE VI revitalization plan.

■ McCormack Baron spent a significant amount of staff time on site. Developers must be willing to devote more staff time and to travel more often to HOPE VI projects than for a conventional development project. Staff should also be prepared to work with a community that may be highly skeptical of real estate developments.

■ Initially, the Hayes Valley project generated some negative publicity due to the loss of units, but that has faded since the project's completion. The developer started meeting with the residents on a regular basis, kept them informed, and even took them to see other HOPE VI projects in Oakland and Atlanta.

Development Team Members

Developer	McCormack Baron Associates
Property Management	McCormack Baron Management
Architect	Backen Arrigoni & Ross
Contractor	Nibbi Brothers

Project Time Line

1992	SFHA and McCormack Baron team up to rebuild Hayes Valley.
1995	HOPE VI grant awarded.
1997	Hayes Valley North construction begins.
1998	Hayes Valley North completed and occupied.
1999	Hayes Valley South completed and occupied.

Contact

San Francisco Housing Authority
1815 Egbert Avenue
San Francisco, CA 94124
Phone: 415-715-3220
Fax: 415-715-3201

NewHolly

Seattle, Washington

COURTESY OF THE SEATTLE HOUSING AUTHORITY

NewHolly's design seamlessly blends mixed-income housing into the surrounding neighborhood. Phase II will provide 96 units of housing for residents earning less than 60 percent of the area median income, with 60 of those targeted to residents who earn less than 30 percent of the area median income.

Summary

NewHolly is a $157 million, mixed-income community located in southeast Seattle on the grounds of the former Holly Park public housing project. The 110-acre site will contain 1,433 units of housing, with approximately one-third available for families with very low incomes, one-third for those who are just below the Seattle median income, and the remaining third for market-rate homes. The three-phase project includes a public library branch; community college classrooms; a family center; parks; garden space; a seniors' village; and a mix of single-family residences, duplexes, townhouses, multiplex units, and flats. The Seattle Housing Authority (SHA) blends the project into the surrounding residential neighborhood through a mix of traditional housing styles, renovated infrastructure, and new streets, as well as by offering community services.

From a development perspective, NewHolly is a unique project because SHA acted as the sole general partner. SHA, with some private sector advice, entered into several complex agreements with various partners in order to initiate and implement the project. HUD does not encourage housing authorities to redevelop their own properties because of the enormous skill shift, but SHA proved it was prepared and made the transition from steward to developer. Since the completion of Phase I, SHA has received several regional and national awards for its work on NewHolly. The project's other notable features include the following:

- The NewHolly Neighborhood Campus houses a variety of social and community services.
- All of the low-income housing units that were demolished will be replaced either on site or at other locations in the city. HOPE VI redevelopment is often criticized for causing a net loss in affordable housing units, and Seattle housing advocates urged the city to consider one-for-one replacement. SHA entered into a memorandum of agreement with the city that allowed SHA to partner with nonprofit housing developers to build replacement units throughout the city.
- Residents and program participants are a large part of the planning process and the continuing oversight. Neighborhood block clubs based on location rather than housing type are an integral part of the decision-making process. Residents from various economic and ethnic backgrounds work together with service providers and SHA staff to create a healthy and dynamic community.
- After the award of the HOPE VI grant, SHA assembled a blue-ribbon panel of private sector development experts to advise SHA on the associated processes and possible pitfalls. SHA continues to work with outside consultants on implementation strategies.

Background

NewHolly was formerly known as Holly Park, a garden apartment community rapidly constructed in the early 1940s for defense workers. Although originally intended to last only ten years, in 1953 the housing was turned over to SHA for use by low-income families. SHA continued to oversee the project for more than 40 years, but the low-quality construction materials, an oddly configured

TABLE 5. NEWHOLLY

All information in this case study is current as of October 2001.

PROJECT SUMMARY

Brief Project Description	1,433-unit mixed-income, mixed-use redevelopment on 110 acres in south Seattle, including a 49,000-sq.-ft. neighborhood campus featuring a branch of the Seattle Public Library, satellite facilities for South Seattle Community College, a teen center, and child-care facilities
Project Status	Phase I, including the demolition of 568 of Holly Park's original 871 public housing units and construction of 453 new homes, has been completed. The first housing to open in Phase II was completed in June 2001; all site work will be completed in 2002. The master-planning process for development of a transit-oriented development in Phase III is now underway, with demolition scheduled to begin in the first quarter of 2002.
Site Area	110 acres
Location	South Seattle

PROJECT COMPONENTS

Total Dwelling Units	1,433 total residential units planned, providing housing affordable to a broad range of incomes, including very low-income households (less than 30% of area gross median income [AMI]), families below Seattle's AMI, and market-rate renters and homebuyers
Retail/Commercial Space	No commercial or retail space is being developed on site. However, a neighborhood shopping center is being developed independently on a nearby parcel on the periphery of the NewHolly site.
Educational/Instructional/ Recreational Facilities	49,000-sq.-ft. NewHolly Neighborhood Campus, including a Seattle Public Library branch, South Seattle Community College instructional facilities, a teen center, and child-care facilities

PROJECT BREAKDOWNS

Dwelling Units by Product Type (Phase I and II Only)	Multifamily 318	Attached (duplex/row) 424	Single-Family Detached 291
Dwelling Units by Income	Public Housing 400	LIHTC[1]-Eligible 622 (includes 318 seniors' units and 100 for-sale units affordable at <50% AMI)	Market-Rate 411 (includes 40 unrestricted rental dwelling units)
Dwelling Units by Tenure Type	Rental 1,033	Ownership 400	Rent-to-Own 0
Dwelling Units by # of Bedrooms (BR)	Efficiency/1BR 318	2BR Not available[2]	3BR and More Not available[2]

SOURCES AND USES OF FUNDS

Sources of Funds		**Notes and Comments**
HOPE VI Funds	$ 48,116,503	
SHA Developer's Fee Contribution	2,835,000	
Other PHA Funds	4,603,857	
City of Seattle	11,221,051	
State Housing Trust Fund	3,700,000	
CDBG[3]/HOME/§108	3,334,559	
Tax-Exempt Bonds	7,940,000	Net principal amount, after LIHTC[1]/HOPE VI curtailments
Conventional Bank Loans	1,498,457	
Federal Home Loan Bank	1,465,000	
Tax Credit Equity	23,833,757	
Interest Income	2,060,925	
For-Sale Construction Financing	44,790,288	Includes Washington Mutual Bank credit facility
Other Grants	958,533	
Donations	832,039	
Total Sources	$157,189,969	

Uses of Funds		Notes and Comments
Land Acquisition		
Demolition	$ 2,829,563	
Site Work	18,979,918	
Hard Construction Costs	76,864,216	
Development Soft Costs	15,559,889	
Construction Period Interest		
Relocation/Reoccupancy	1,743,488	
Developer's Fee	8,055,560	
Other Financing Costs	8,969,706	
Reserves	3,839,352	
PHA Administrative Costs	1,852,085	
CSSP[4] Costs	18,496,192	
Total Uses	$157,189,969	

HOPE VI INFORMATION

Grant Awarded	FY1995
Grant Amount	$48.1 million (includes FY93 $500,000 HOPE VI planning grant)
Total Project Development Cost	$157 million
HOPE VI Leverage	2.27:1—$2.27 of non–HOPE VI investment for every $1.00 of HOPE VI funds
Existing Public Housing Units	871 in Holly Park
Occupancy at Application	613 units (70%) occupied before HOPE VI relocation

[1]LIHTC = low-income housing tax credit.
[2]Phase III is currently undergoing a new master-planning process and, as a consequence, a breakdown of total NewHolly units by product type is not available.
[3]CDBG = community development block grant.
[4]CSSP = Community and Supportive Services Program.

site plan, and crumbling infrastructure contributed to Holly Park's decline and eventual obsolescence. SHA went through several modernization efforts but realized that the barracks-style housing and curving streets served to boost crime and isolation.

In order to achieve long-range stabilization, SHA sought to build a mixed-income community through the HOPE VI program. In 1993, SHA brought together Holly Park residents, service providers, and business and community leaders to help promote the rebuilding of Holly Park and to provide input for the HOPE VI grant application. SHA also appointed a full-time redevelopment planner and hired support staff to undertake the lengthy planning and administrative duties.

In 1995, HUD awarded SHA a $48.1 million HOPE VI grant. The award allowed SHA to leverage almost $110 million in other public and private investment by taking advantage of tax-exempt bonds and tax credits and by using highly structured bridge debt, foundation grants, and city and state contributions. The key to the project's success was involving residents and the surrounding community at every step and assembling a team of dedicated development and financial consultants. The team works directly with lenders and investors to coordinate documents and to layer the various subsidies required. Partners include the city of Seattle, the Washington State Housing Finance Commission, the Federal Home Loan Bank of Seattle, Fannie Mae, Bank of America, Washington Mutual Bank, Key Bank, Northwest Mortgage/Wells Fargo, Washington State Housing Finance Unit, and Seattle Habitat for Humanity.

After receiving the HOPE VI award, SHA assumed it would partner with a private sector developer and issued an RFP. However, SHA could not come to agreement with the developer it chose and began to realize that it could accomplish the redevelopment itself, with some assistance, at a lower cost. SHA assembled a panel of redevelopment experts

The NewHolly Neighborhood Campus is a state-of-the-art community facility that signifies the social and physical changes taking place in the neighborhood. The campus is home to community-based nonprofit organizations and public entities that offer a comprehensive range of services and programs. The campus is a gathering place for a broad, diverse group of people who build on the assets and positive energy of the community.

COURTESY OF THE SEATTLE HOUSING AUTHORITY

and conferred with them about the best way to approach the partnering and complicated finance mechanisms associated with the project. Some of the panel members eventually were brought on to assist in the project. The involvement of the private sector was crucial to the success of the project; not only did SHA's private sector experts provide advice on an unfamiliar topic, but also they were a critical balance and catalyst in the endeavor.

The housing authority wanted to choose a development team that was sensitive to community issues and familiar with Seattle. It assembled a Seattle-based team that included a successful local developer, which became the project management consultant, and Weinstein Copeland Architects, a Seattle-based planning and architecture firm. SHA also contracted with the San Francisco firm of Devine & Gong to guide it through the complicated finance issues.

SHA selected Quantum Management Services (QM) as the property manager. QM is familiar with managing low-income properties, but senior executives acknowledged that converting the site to a mixed-income community was a long and complex task. QM was impressed with the flexibility of the SHA leadership, which the company believes is a required ingredient in the success of the project. QM adopted new rules and expectations, such as collecting rents on site rather than at the SHA central office and using QM's own, separate financial accounting software.

QM's responsibilities vary from running an on-site job-training program for residents to coordinating the budgetary aspects of the relocation efforts. It also has strict requirements for who will be allowed to live in NewHolly. Tenants must not have consumer debt, a criminal record, or unfavorable rental references. QM developed the screening tests, the marketing plan, and the lease-up and strategic plans. QM held a lottery among tenants who had elected to return to the revitalized Holly Park site to establish the order in which they would move into their NewHolly homes.

The on-site career development center and its participants are now, but only temporarily, funded out of the HOPE VI funds. QM and SHA have been working with the on-site nonprofit organizations to help them identify their own funding sources and eventually to become self-sustaining.

Project Description

The NewHolly revitalization plan called for demolition of all existing units and construction of 1,433 mixed-income units. SHA and the city agreed to replace all of the low-income units, either on site or throughout the city. SHA will partner with nonprofit developers to construct the off-site units. The project will include a 318-unit village for seniors, including 154 units of assisted living for frail seniors.

NewHolly also hosts a 49,000-square-foot NewHolly Neighborhood Campus housing a variety of programs that include a Seattle Public Library branch, classrooms for South Seattle Community College, a teen center, and a child-care center. Site improvements include new roads connected to the neighborhood grid, new utilities, and an extensive park and open-space program.

The designers generated conceptual strategies that were inspired by the traditions of Seattle neighborhood design. They replaced the winding, curvilinear street pattern with a conventional grid design, blended the scale with the surrounding neighborhoods, and accommodated parking in side-yard aprons and in rear-yard garages in order to reduce vandalism and congregation of youths in parking lots. As in most HOPE VI projects, the market-rate units are indistinguishable from the subsidized units.

The NewHolly site is located along a corridor for the planned SoundTransit light-rail line, and the

SHA-owned properties adjacent to housing and the rail line will become prime targets for mixed residential and commercial development.

Financial Structure

SHA is the sole and managing general partner of the Holly Park Limited Partnership, which will own the rental portion of NewHolly Phase I. An equity contribution of $17 million was secured from Fannie Mae, which is the project's investor limited partner.

All of the for-sale housing at NewHolly has been financed with a line of credit from Washington Mutual Bank. The proceeds from the sale of the housing are used to pay off the line of credit and to reimburse the public funds used to build the infrastructure. The public funds reimbursement and any profits made on the house sales will be used to finance the public housing in NewHolly Phase III (to be constructed). SHA estimates that $12 million will be available to help pay for the Phase III public housing.

Lessons Learned

■ SHA took substantial economic and political risks in becoming its own master community developer. However, the results were extremely gratifying and SHA gained valuable expertise in financing, development, and implementation. It should be noted that SHA is considered a high-performing public housing authority and that many housing authorities would have difficulty committing staff time and resources to mixed-finance development. Nevertheless, with gradual consultation and leadership from the private and nonprofit sectors, other housing authorities could prepare to become self-sufficient.

■ SHA staff members believe that the success of NewHolly is due to the excellent contacts and partnerships that were made during the HOPE VI process. Before HOPE VI, SHA was an isolated entity working to manage public housing. The HOPE VI program gave SHA the opportunity to participate in more diverse opportunities.

■ The pro bono panel of experts who advised SHA on the project's feasibility was essential. A few members of the team eventually were selected to help with the development. On January 19, 2000, SHA received an audit-related memorandum from the Northwest/Alaska District inspector general (IG) for audit of HUD. The IG determined that a complaint filed against SHA was partially valid. The complaint alleged that SHA had used firms to provide services at Holly Park whose principals acted as consultants on a panel of experts. These firms were then awarded contracts less than one year from the time they served on the panel. In order to avoid similar problems, SHA does not solicit for a one-year period for work related to any of the HOPE VI sites from those firms that might be represented on any panel of experts formed to analyze the HOPE VI sites. This ban is in place for one year following the time the panel of experts' work is complete.

■ NewHolly was the first HOPE VI project for the development team, which described its mandate as "create a new mixed-income neighborhood on a fast-track basis, incorporating extensive community involvement and design review, with a very restrictive budget, with multiple constituents." The team developed a strong relationship with SHA but nevertheless was stymied by the delays, staff turnover, and paring down of its designs. The go-between role of the project management consultant, Popkin Development, helped open communication and ease tensions. The developer found having a permit coordinator on board helpful in navigating the city bureaucracy.

■ SHA staff members working on NewHolly were given latitude for this project as a result of the fact that their superiors were developing entrepreneurial skills and were building the housing authority's development department from the ground up. SHA's development director was able to push her ideas through and be an agent for change, while the project management consultant made sure no one on the development team was alienated.

Development Team Members

Developer	Seattle Housing Authority
Project Management Consultant	Popkin Development
Property Management	Quantum Management Services
Architects	Weinstein Copeland Architects Solomon ETC Architects
General Contractor	Absher Pacific Walsh Construction
Tax Credit Counsel	Riordan & McKinzie
Financial Consultant	Devine & Gong

Project Time Line

1993	HOPE VI Advisory Committee forms and advocates the revitalization of Holly Park.
1994	Market studies are conducted, preliminary plans drawn, and an application is submitted to HUD.
1995	SHA receives $48.1 million in HOPE VI funds. SHA issues developer RFP; one firm responds. The parties enter into a 90-day due diligence period that does not lead to agreement. As a result, SHA decides to be the lead developer of the project.
1996	Relocation and environmental assessment begin.
1997	Mixed-finance proposal submitted to HUD. Seattle city council approves $6.3 million in city funds for Phase I.
1998	Closing of mixed finance takes place; construction begins.
1999	Phase I rental housing completed and fully occupied. NewHolly branch of the Seattle Public Library opens.
2001	First housing of Phase II completed.

Contact

Seattle Housing Authority
120 Sixth Avenue North
Seattle, WA 98109
Phone: 206-615-3561
Fax: 206-615-3559

Park DuValle

Louisville, Kentucky

COURTESY OF THE COMMUNITY BUILDERS, INC.

Park DuValle is a mixed-income neighborhood with rental and for-sale housing. At full buildout, Park DuValle will contain 1,213 rental and for-sale homes that blend naturally into the traditions of Louisville community design.

Summary

Park DuValle is located on approximately 125 acres on the west side of Louisville, Kentucky. It replaced the Housing Authority of Louisville's (HAL) Cotter and Lang Homes, which at 1,116 aggregate dwelling units constituted Louisville's largest public housing project. At full buildout, the revitalized Cotter and Lang Homes site, renamed Park DuValle, will be a mixed-income, mixed-density, mixed-tenure neighborhood comprising 1,063 rental and homeownership units organized according to a new urbanist master plan by Urban Design Associates (UDA). An additional 150 public housing replacement units—bringing the HOPE VI development total to 1,213 residential units—will be constructed off site. The new housing, streets, and public spaces in the Park DuValle master plan are designed to blend seamlessly with the surrounding neighborhoods and to build on Louisville's traditions of community design.

Background

In 1993, two local planning efforts began to address Cotter and Lang Homes, which were characterized by rows of institutional buildings in a dangerous, indefensible, uncontrolled site with undifferentiated open space. The neighborhood had a population that was 87 percent renters and 78 percent unemployed with a median income of $5,249. In 1993, HAL completed a comprehensive plan for modernization of Cotter and Lang Homes. At the same time, the city of Louisville was preparing an application for designation of the West Louisville neighborhood as an Empowerment Zone. The planning process for the Empowerment Zone application had built a broad-based coalition of stakeholders looking for comprehensive and integrated strategies to transform the West Louisville neighborhood.

Also in 1993, at the national level, Congress and HUD had begun to rewrite the rules governing the production of public housing. The new rules, introduced through HUD's Urban Revitalization Demonstration program, or HOPE VI, encouraged holistic revitalization of public housing developments that combined physical improvements, economic integration, and provision of community and support services. The new rules encouraged using partnerships between public housing authorities and private sector developers to replace public housing with new mixed-income neighborhoods that integrated public housing residents and communities into the mainstream of city life.

HAL took the opportunity, created by community-based support for change and the promise of new flexibility at the federal level to foster locally created solutions to local housing problems, to rethink totally its plan for Cotter and Lang Homes. HAL worked with the Park DuValle Neighborhood Advisory Council (PDNAC), an outgrowth of the Empowerment Zone planning process, to craft this new plan. PDNAC's members included a broad range of stakeholders such as Cotter and Lang residents, other West Louisville residents and institutions, city leaders, and housing authority staff.

The objectives of the plan were to transform the derelict public housing of the Cotter and Lang Homes into a mixed-income neighborhood with rental and for-sale housing available for a wide range of income groups. The plan was premised on the principles of new urbanism to give the neighborhood a new, secure, and attractive image and to connect it to the wider community. The plan recognized the importance of incorporating quality public facilities, open space, and retail, as well as supportive services for residents, into the revitalized neighborhood.

In 1995, HUD approved HAL's plan to use its public housing capital funds—comprehensive grant and development funds—for demolition and redevelopment of Cotter and Lang Homes. These funds were supplemented in 1999 with a $20 million HOPE VI revitalization grant.

Project Description

Park DuValle is being developed in four phases, the first two of which have been completed, with the third phase nearing completion. The first phase, completed in 1998 and called The Oaks, consists of 100 rental units in three affordability tiers—59 are public housing units; 21 are affordable for households with incomes up to 60 percent of area median income (AMI), which is the low-income housing tax-credit eligibility limit; and 20 are market-rate units without income restrictions. Phase I was developed by HAL through an affiliated nonprofit development corporation formed for that purpose. The units at The Oaks are new-construction, wood-frame buildings configured as townhouses.

For all subsequent phases (II through IV), which include both rental and for-sale units, HAL changed its strategy and selected a private developer through a public procurement request for qualifications (RFQ) process. The Community Builders, Inc., (TCB) was selected as the master developer for all site improvements and as the project developer for the 213-unit Phase II rental component. As with the first phase of development undertaken by HAL through its affiliate, the second phase included new rental units in three income tiers—92 public housing units, 56 tax-credit units, and 65 market-rate units.

It may be instructive to note here that, although the public housing eligibility limits are higher than those for tax credit–eligible units, public housing residents do not pay more than 30 percent of their eligible income for rent and utilities. Tax-credit rents generally are set at an amount affordable to households earning somewhere between 45 percent and 59 percent of AMI, depending upon the requirements of the state allocating agency's qualified allocation plan for the annual award of tax credits. As part of the objective to create a mixed-income community, the different income tier units are mixed evenly throughout the development. Phase II also included 125 for-sale units for which the Louisville Real Estate Development Company (LREDC), an affiliate of the Louisville Community Development Bank, sold the lots and provided financing for the affordable units.

Phase III, which is nearly complete, includes 30 townhouses, a 19-unit apartment building, and a 59-unit seniors-only building. Preliminary construction of Phase IV is underway and is expected to be approved and completed in 2002. As part of phases III and IV, construction has begun on a town center that will include ground-floor commercial space in the apartment and seniors' buildings, a health care center that is being built with separate Department of Health and Human Services funding, and stand-alone retail, some of which is already outfitted.

HAL acknowledges that one of the most persuasive elements of TCB's proposal was the master plan for the entire site, which was prepared by UDA. The master plan creates a new community consisting of small-scale neighborhoods composed of compact residential blocks with houses attractively sited on a new boulevard or on narrower residential streets. Garages and rear alleys for services further enhance the aesthetics and functionality of neighborhood streets. UDA devoted substantial time and attention to the development of a pattern book, a strategy the firm has employed with great success in previous community revitalization plans. The development and adoption of a pattern book helps to ensure that the buildings to be sited and constructed according to the master plan will have the look and feel of a traditional Louisville neighborhood. The master plan also calls for providing a mix of community-serving amenities, including schools, parks, and a town center offering shopping and services, as well as making the new neighborhoods of Park DuValle very walkable, connecting them to each other, and weaving them into the surrounding urban fabric of West Louisville.

TABLE 6. PARK DUVALLE

All information in this case study is current as of October 2001.

PROJECT SUMMARY

Brief Project Description	1,213 units of new, mixed-income, mixed-density rental and for-sale housing to be constructed in four phases, including 445 public housing replacement units and 163 tax-credit units. Community and supportive services facilities include expanded and renovated education center; both new and existing magnet elementary schools; $2.3 million in renovations to an existing community center and a public park; an on-site management office, a marketing center with community space, and a swimming pool; a new town center; a new community health center; a seniors' building; and new regional offices for the sewer district.
Project Status	313 rental and 93 for-sale units completed and occupied as of March 31, 2001; Phase III nearing completion; town center and Phase IV residential units currently under construction
Site Area	125 acres
Location	West Louisville

PROJECT COMPONENTS

Total Dwelling Units	1,213, including 150 off-site public housing replacement units
Retail/Commercial Space	New construction of an on-site management office, a marketing center with community space, and a swimming pool; a new town center with 15,500 sq. ft. of retail and professional space; and new regional offices for the Metropolitan Sewer District (former Algonquin Shopping Center)
Educational/Instructional/ Recreational Facilities	New K–5 elementary school; $15 million renovation and expansion of DuValle Education Center (including Head Start, preschool, and adult education facilities); $1.5 million in renovations to Southwick Community Center and projected $800,000 in renovations to Russell Lee Park; a $14 million Park DuValle Community Health Center; and a 4,000-sq.-ft. facility for independent-living seniors

PROJECT BREAKDOWNS

Dwelling Units by Product Type[1]	Multifamily 241	Attached (duplex/row) 341	Single-Family Detached 481
Dwelling Units by Income	Public Housing 591 (includes 153 for-sale @ <80% AMI)	LIHTC[2]-eligible 163	Market-Rate 105 @ 80–100% AMI 45 @ 100–115% AMI 309 @ >115% AMI
Dwelling Units by Tenure Type	Rental 763	Ownership 450	Rent-to-Own 0
Dwelling Units by # of Bedrooms (BR)[1]	Efficiency/1BR 104	2BR 272	3BR and More 687

SOURCES AND USES OF FUNDS

Sources of Funds		**Notes and Comments**
HOPE VI Development Funds	$ 17,375,000	
HOPE VI CSSP[3] Funds	2,625,000	
Other PHA Funds	46,260,000 7,172,909	HUD public housing development funds HUD comprehensive grant program funds
CDBG[4]/HOME/§108	10,863,400	
Homeownership Zone/EDI	4,600,000	
McKinney Act (fed.)	150,000	
Tax Credit Equity	37,005,000	
Homebuyers' Equity	1,176,000	
Construction Financing/Rental	6,394,000	
Construction Financing/For-Sale	38,033,000	
Land Sales/Leases	4,155,000	
Other Nonfederal Funds	4,130,692	
Total Sources	$179,940,001	

Uses of Funds		Notes and Comments
Land Acquisition	$ 10,318,485	
Demolition	6,153,000	
Site Work	15,223,000	
Hard Construction Costs	125,605,141	
Development Soft Costs	6,907,427	
Construction Period Interest	3,701,388	
Relocation/Reoccupancy	1,150,000	
Developer's Fee	5,930,000	
LIHTC[2] Costs	297,559	
PHA Administrative Costs	2,029,000	
CSSP[3] Costs	2,625,000	
Total Uses	$179,940,000	

HOPE VI INFORMATION

Grant Awarded	FY1996
Grant Amount	$20 million
Total Project Development Cost	$179.9 million (includes additional $53,432,909 in HAL public housing funds)
HOPE VI Leverage	7.89:1—$7.89 of non–HOPE VI investment for every $1.00 of HOPE VI funds
Existing PH Units	1,116-unit Cotter and Lang Homes public housing projects
Occupancy at Application	611 units (55%) occupied prior to HOPE VI relocation

[1]Information on the product type and bedroom configuration for the last 150 dwelling units was not available.
[2]LIHTC = low-income housing tax credit.
[3]CSSP = Community and Supportive Services Program.
[4]CDBG = community development block grant.

The developers believe that a thorough understanding of the market demand and potential market position of the new community was essential for success. The resulting marketing strategy for Park DuValle, developed through a series of focus groups with potential new residents, addresses elements of the master plan and overall development strategy critical to changing negative perceptions about the neighborhood in the following ways:

- Addressing crime;
- Creating a design for a "neighborhood" rather than a "project";
- Creating a feeling of quality in the housing through design and materials;
- Creating an initial critical mass of development;
- Providing renters and homeowners with value for their dollar; and
- Targeting current or past West Louisville residents.

The plan reflects both the developer's and HAL's commitment to the importance of community facilities and supportive services for the success of a new mixed-income community. The city of Louisville and the local school board, which contributed approximately $12 million and $16 million, respectively, became important partners in providing new or expanded community facilities. Park DuValle includes the following community amenities, many of which were developed or improved as a result of HAL's decision to redevelop Cotter and Lang Homes:

- The DuValle Education Center, which underwent a $15 million renovation and expansion to accommodate Head Start, preschool, and adult education programs, and a new K–5 elementary school, the Carter Traditional Elementary School;
- The existing John F. Kennedy Montessori School, a 500-student public elementary magnet school;

Constructed according to a new urbanism master plan, homes in Park DuValle include front porches to increase the sense of community.

COURTESY OF THE COMMUNITY BUILDERS, INC.

■ The Southwick Community Center, which underwent $1.5 million in renovations to better accommodate youth team sports programs and community recreational opportunities; renovations costing $800,000 are also planned for Russell Lee Park;

■ An on-site management office, a marketing center with community space, and a swimming pool for residents;

■ A new town center, with 15,500 square feet of retail and professional space; a new $14 million Park DuValle Community Health Center; and a 4,000-square-foot building for independent-living seniors; and

■ New regional offices for the Metropolitan Sewer District, developed through a $4 million purchase and renovation of the Algonquin Shopping Center, which will bring hundreds of jobs into the community.

As the master developer for all Park DuValle site improvements, TCB coordinates and implements the Park DuValle Community Building Program, which is the name given to the community and supportive services component of the project. TCB is responsible for the following:

■ Providing outreach to residents and the surrounding community;

■ Conducting intake and referral of residents into community programs and services;

■ Monitoring residents' performance and progress in self-sufficiency programs delivered by third-party service providers;

■ Orchestrating the delivery of site programs for eligible residents; and

■ Developing collaborations with service providers to implement the community-building and self-sufficiency programs. TCB is responsible for the community-building program and HAL is responsible for the self-sufficiency program.

The admissions and occupancy policy for Park DuValle establishes the tenant eligibility requirements. TCB is responsible for monitoring all eligibility and occupancy requirements, referring income-eligible residents to the appropriate supportive services programs and/or providers, and, if necessary, enforcing the lease terms through eviction or nonrenewal of the lease.

At the end of Phase II, the rental units at Park DuValle are fully occupied and meeting the income distribution goals of approximately one-third low income (less than 30 percent AMI), one-third moderate income (30 percent to 60 percent AMI), and one-third market rate. More than 90 percent of the households are African American, most of whom have historic ties to the West Louisville community.

Financial Structure

A significant portion (31.5 percent) of the total public and private funds for Park DuValle came to HAL from HUD's public housing comprehensive grant program ($7.2 million) and from HUD development funds ($46.26 million), as well as community development block grant (CDBG) funds from the city of Louisville. The funds from these sources are being used for site and infrastructure development costs for all phases, as well as for the construction of rental units. TCB is acting as site and infrastructure developer. HOPE VI funds were used exclusively to fund part of the second mortgage program for the homeownership units developed in Park DuValle.

Phase I was developed and is owned as a condominium by Chauncey Louisville, LLC, which is owned by Chauncey Development Corporation, a nonprofit development corporation affiliated with HAL. Chauncey Louisville is the managing member and the National Equity Fund is the investor member of the tax-credit investment partnership providing equity funding for this phase.

For Phase II, HAL decided to procure a private sector developer for production of the rental units as well as for the overall site and infrastructure development for all remaining phases. The rental portion of Phase II is owned by Park DuValle II Limited Partnership, of which DuValle II, Inc., is the general partner and PNC Bank is the tax credit equity partner. HAL, which retains ownership of the land, provided Park DuValle II Limited Partnership with a 75-year ground lease for the land on which the rental units were built.

TCB acted as the fee developer for the rental units under contract with Park DuValle II Limited Partnership. Under that contract, TCB received out-of-pocket expenses, overhead, and a development fee. HAL, in turn, became a subcontractor to the developer and received approximately half of the development fee as compensation for its project management activities. TCB is also under contract with the project owners to provide property management services and community support services.

Housing Partnership, Inc., a local nonprofit agency, provides homeownership training and marketing for the 125 for-sale units in Phase II. Lots are sold to homebuilders that have been prequalified by LREDC at a cost that recovers HAL's costs in the land. The homebuilders were selected by LREDC on the basis of their ability to complete the project and with the goal of having at least 50 percent of the builders be minority-owned firms. LREDC's economic development objective of expanding the capacity of minority-owned construction companies has been well served by this approach. Homebuilders typically make a 15 to 18 percent fee. The lots are presold to homebuyers with the financing already in place. For income-qualified purchases, LREDC provides soft second mortgages using a combination of HOPE VI and Economic Development Incentive (EDI) funds.

For subsequent phases, TCB will continue to be the developer. Negotiations for Phase III have been completed, and closing occurred in March 2001. Negotiations on the Phase IV mixed-finance proposal began in summer 2001 and are expected to be completed in 2002.

Lessons Learned

■ The development strategy sought to transform totally the identity of the neighborhood from its past as a troubled public housing project. At the same time, the strategy sought to draw on the attractiveness and identity that the West Louisville community has for segments of the market. The former was accomplished through planning a well-designed, traditional pedestrian-scaled neighborhood with mixed uses and ample community amenities such as parks, schools, and easy access to employment centers. The latter was accomplished through units designed to evoke characteristic Louisville housing types, inclusion of well-landscaped boulevards in the tradition of Algonquin Parkway, and targeted marketing of the development to West Louisville residents and others with traditional links to the neighborhood. Also, because the attraction of the new development was the neighborhood that would be created by the project, completing a critical mass of units and blocks early on was important to make the planned neighborhood seem real.

■ Park DuValle, as designed by UDA, has been heralded as a well-executed example of new urbanist design in an urban setting. TCB believes that the quality and amenities of the residential blocks created by this plan have contributed significantly to the market success of the project. HAL credits the design approach with making TCB's original proposal distinctive and attractive to HAL and the community. The emphasis on design is not limited to the plan. The housing units themselves are designed to give the neighborhood physical diversity and a comfortable neighborhood scale. This approach holds true even for the multiunit buildings, many of which give the impression of being single-family or townhouse buildings.

■ TCB has long held delivery of effective supportive services as a main element of its affordable-housing development strategies. Its experience has been that addressing the social side of poverty improves property values by, among other things, reducing property maintenance expenses. TCB project managers spend time mediating conflicts over community expectations of property maintenance and use, as well as ensuring that tenants understand and are able to meet standards for housekeeping and property conditions. Community supportive services also include workforce development assistance. TCB's management philosophy sees the time spent on this effort to build a working community as an investment in the economic and social stability of the development. Park DuValle also includes homeownership training and assistance for low-income renters making the transition to homeownership. HAL views diligent homeownership assistance as essential for the economic success of that part of the program.

■ Developers working with mixed-finance development programs should expect greater predevelopment costs and longer periods during which those costs go unrecovered. These conditions result from the necessity of dealing with multiple agencies and multiple programs all with multiple time lines. In Park DuValle this effect was most apparent with the delay between HUD approval of the development phase and state approval of the low-income tax credit application.

Development Team Members

Developer Phase I	Chauncey Development Corporation (an affiliate of HAL)
Master Developer Phase II–IV	The Community Builders, Inc.
Developer of For-Sale Units	Louisville Real Estate Development Company, a for-profit development corporation affiliated with the Louisville Community Development Bank
Master Planner	Urban Design Associates
Sponsor/Landowner	Housing Authority of Louisville
Public Sector Project Manager	City of Louisville Mayor's Office
Tax Credit Finance	PNC Bank and JER Hudson
Rental Property Manager	The Community Builders, Inc.
Homeownership Marketing, Counseling, and Training	Housing Partnership, Inc.

Project Time Line

1993	HAL completes the comprehensive modernization plan for Cotter and Lang Homes.
	The Empowerment Zone planning process is undertaken by the city of Louisville Mayor's Office.
	The 1993 Federal Appropriations Act establishes the Urban Revitalization Demonstration program (HOPE VI).
1994	HAL changes its plan for Cotter and Lang Homes to a mixed-income strategy.
1995	HUD approves demolition of Cotter and Lang Homes and disposition plan for Phase II.

1996	June	RFQ for Phase II developer issued.
	October	HUD approves mixed-finance proposal.
	November	Construction starts on Phase I.
	December	TCB approved as master developer.
1997	February	Phase IIA tax credit award made.
	December	Phase II development agreement with TCB entered.
1998	February	Phase IIB tax credit award made. Phase II application to HUD made.
	March	Phase I completed.
	October	Construction starts on Phase II.
1999	February	Phase III tax credit award made.
	November	Negotiations on development agreement for Phase III begin.
2000	February	Phase IV tax credit award made.
	March	Phase II completed.
	June	Mixed-finance proposal submitted to HUD for Phase III.
	November	Evidentiaries submitted to HUD.
2001		Phase III closing occurs. Phase IV tax credit award made. Phase III mixed-finance proposal approved.
2002	Scheduled:	Phase III completed.
		Phase IV approval; start of construction.

Contact

Housing Authority of Louisville
420 South Eighth Street
Louisville, KY 40203
Phone: 502-569-3400
Fax: 502-574-3459

ENGAGING THE PRIVATE SECTOR IN
HOPE VI

The Urban Land Institute

Learn how private developers and public officials have collaborated to develop quality affordable housing under the HOPE VI program. This new book explains the role of the developer and public/private partnerships, the financial structure, and the challenges and their solutions in developing HOPE VI communities. Included are six case studies of successful projects describing the development process and costs, community and support services, the timeline to completion, and lessons learned.

Case Studies Include:

■ The Villages of East Lake, Atlanta, Georgia: A mixed-income development of 542 units, this project includes garden apartments, duplexes, and townhouses, plus a charter school and a golf academy.

■ The Terraces, Baltimore, Maryland: Offering commercial retail space and a community center, this mixed-income development includes more than 300 townhouses and 88 apartments in a mid-rise building.

■ First Ward Place, Charlotte, North Carolina: This mixed-income development, which includes a child-care facility and a community center, offers low- and moderate-income rental apartments, housing for seniors, and more than 50 for-sale units.

■ Hayes Valley, San Francisco, California: Both public housing and moderate-income housing are included in this development of townhouses and apartments, plus a learning facility with job training, a computer center, and child care.

■ NewHolly, Seattle, Washington: Offering more than 1,400 low- and moderate-income and market-rate units, this property includes both single- and multifamily housing options, plus a public library branch, community college classrooms, and teen and child-care facilities.

■ Park DuValle, Louisville, Kentucky: Featuring a new urbanist design, this mixed-income, mixed-density development includes more than 1,000 rental and for-sale units.

Related Titles from the Urban Land Institute

Developing Successful Infill Housing
2002/Order #D105

Urban Infill Housing: Myth and Fact
2002/Order #U22

Developing Infill Housing in Inner-City Neighborhoods
1997/Order #D15

ULI Order #E17

ISBN 0-87420-891-2

ULI–the Urban Land Institute
1025 Thomas Jefferson Street, N.W.
Suite 500 West
Washington, D.C. 20007-5201
www.uli.org