

## **Rental Housing – Encouraging New Production MassHousing’s Innovative Housing Authority Development Program**

### **Background**

MassHousing’s Housing Authority Development Program (HADP) bridges the historical divide between public housing authorities, quasi-public finance agencies, and private developers by making possible the creation of new affordable housing units on existing public housing authority land, the full replacement of obsolete public housing units, and the rehabilitation of existing affordable units. By building partnerships with local housing authorities, and by combining and leveraging resources in new ways, MassHousing has already created or revitalized 1,759 new units of which 1,558 are affordable.

At first, it seemed that the opportunities for MassHousing and Public Housing Authorities to work together – while important – were likely to be fairly limited. On the contrary, based on what has been learned through this innovative program, the Agency sees enormous long-term potential. Ultimately, it may be possible to develop thousands of new affordable apartments cost-effectively on local housing authority land, or on surplus land leased from cities and towns. The sheer size of local housing authority holdings validates this potential. Massachusetts is home to 250 local housing authorities that manage a total of 84,000 affordable apartments. Of these units 50,000 are state-funded. The remaining 34,000 units are federally-funded. 235 housing authorities have state-aided units. Sixty-six have federal public housing. Public housing authorities in Massachusetts range widely in size: from the Mendon Housing Authority which oversees 30 units, to the Boston Housing Authority which manages 27,800 units.

### **Assessing the Call for Action**

Much of the public housing stock in Massachusetts was built in very different times. The design assumptions of that era no longer fit today’s needs. Many unit sizes and amenities are not up to today’s minimum market standards or to building code requirements. Obsolete designs – and deferred maintenance – have resulted in extremely inefficient operations and extraordinary utility costs. Troubled developments often detract from their immediate neighborhood, and from the greater community.

When thinking about distressed public housing, most people call up images of crumbling family developments from the 1940s and 1950s. While it is true that many of these properties have fallen into disrepair, there is also an emerging crisis with housing for the elderly. Elderly housing built in the 1960s and 1970s was no frills. Unit sizes were tiny (250 to 350 square feet) and floor plans worked poorly by today’s standards. Few were handicap accessible. As a result, many local housing authorities experience high vacancy rates in their elderly developments, especially at their older, less attractive developments.

Whether outdated public housing is family or elderly, sometimes it’s best to start simply from scratch. The great thing about starting over is that there are so many more options, including improvements to:

- apartment designs and layouts
- the organization of common spaces
- energy-efficiency and long-term sustainability features (ones that can greatly lower project, community, and societal life-cycle costs)
- site layouts that establish defensible private and public spaces, sometimes by reintegrating the property with surrounding neighborhoods and by recreating original street grids
- accessibility (via better apartment layouts, wider doors and openings, and the addition of ramps and elevators).

In addition, in a number of cases MassHousing is helping housing authorities develop “green field” projects – developments on sites with no previous construction.

**Overcoming a lack of HOPE (VI) is Not Enough**

HOPE VI funds are scarce and the process of securing them is highly competitive. Most HOPE VI funding goes to revitalization projects submitted by large, urban housing authorities. But the vast majority of Massachusetts' 250 public housing authorities are small. They cannot possibly compete for these limited funds. MassHousing considers being able to achieve great results without HOPE VI funding to be one the key requirements for our Housing Authority Development Program. This is true not only for small and medium-sized authorities, but for large ones as well.

**Focusing on Innovative Partnerships**

By bringing together (a) local housing authorities (and officials from their city/town), (b) the Agency's housing finance, energy-efficiency, and life-cycle cost expertise, and (c) private developers and managers, the Housing Authority Development Program seeks to make possible affordable housing activities and results that would otherwise be impossible. Historically, these groups have not worked well together. Yet all of these players bring value. Value can be created in the following ways when MassHousing helps to bridge this historical divide:

- Local housing authorities and their boards have strong working relationships with their communities, and can often provide free land for new development
- Cities and towns sometimes provide free (or highly discounted) land
- Land can be swapped, further increasing value by focusing on opportunities to move land usage toward its highest and best use
- MassHousing offers expertise in sustainable, energy-efficient multi-family housing design
- MassHousing's deep experience and opportunity-focused approach to underwriting facilitates innovation, faster learning and significant improvements to the development process
- MassHousing offers the flexibility to combine subsidized rentals with both market-rate and homeownership units
- Using affiliates, land leases, and other legal structures, the housing authorities can control these properties long-term and keep them affordable
- LHAs can operate these properties themselves, or contract the management out to a third party.

**A Track Record of Success**

The following five completed and occupied projects (a few of many) illustrate what MassHousing has done and some of the innovations that have been made to transform neighborhoods and the lives of residents. None of these projects involve HOPE VI funding.

- **Franklin Hill - Boston Housing Authority (BHA):** 266 units of family housing. Franklin Hill was the BHA's "most troubled development." First developed in 1952, the property's units had deteriorated to the point of being uninhabitable. The existing site was a haven for crime. All of the existing buildings were demolished and completely rebuilt. The new property – built in two phases – reconnects some of the earlier street layout, better integrating it with the surrounding community. The development includes townhouse style units with back yards and mid-rise buildings with elevators. This project used a combination of state, federal and MassHousing resources, including tax-exempt construction financing and 4% tax credits.
- **High Rock Homes - Needham Housing Authority:** 40 units of family housing. High Rock Homes was an obsolete family public housing development. The 20 existing units were demolished and replaced by an entirely new plan that better respected current market needs and the surrounding neighborhood. The new units are all townhouse style. Use of modular housing techniques reduced overall construction costs. Half are affordable rentals (low-income) and half are affordable homeownership units. MassHousing provided a variety of resources, including \$6

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million in taxable financing and \$2.9 million in tax-exempt debt as well as \$1.5 million from MassHousing's Priority Development Fund (gap-filler financing) program. The project also received funding from the state's Department of Housing and Community Development. The town of Needham used \$1,260,000 in Community Preservation Act funds to purchase the land.

- **Baker Street Project** – *Foxboro Housing Authority*: 20 units of family housing. MassHousing funded the Foxboro Baker Street project through the Affordable Housing Trust Fund, which it administers on behalf of the Commonwealth. Financing included a combination of private debt, state Section 8 vouchers, and donated surplus state land. Free land cut total development costs. State technical assistance made it possible for the housing authority to use a modular design, which sped up construction and saved an estimated 15-20% on labor costs.
- **Keet House and Tamarack Road** – *Amherst Housing Authority*: 8 units of family housing. MassHousing provided \$330,000 from the Affordable Housing Trust Fund. Under an innovative state program, technical assistance was provided for the design of modular buildings, shortening the construction time frame and saving an estimated 15-20% on labor costs. The project also received private financing and Community Preservation Funds from the Town of Amherst (the land was purchased using CDBG funds and given to the housing authority). The properties are directly owned and managed by the Amherst Housing Authority.
- **Asher's Path** – *Mashpee Housing Authority*: 56 units of elderly housing. Asher's Path is an entirely new development on previously vacant land. The site was donated by the Town of Mashpee to the Mashpee Housing Authority. The housing authority is leasing the land for 75 years to the borrower, a limited partnership controlled by the housing authority. The market value of the land was \$360,000. The development includes fifty-six (56) one-bedroom apartments. MassHousing provided taxable permanent financing in the amount of \$893,000, and a subordinate loan through the Agency's Priority Development Fund program for \$925,000. The housing authority formed an affiliate, for the purpose of owning the development, which has allowed the housing authority to control affordability of the apartments in perpetuity.

**Applying the Lessons Learned**

MassHousing has learned a great deal. A flexible, efficient loan product was created that is custom-tailored to match public housing authority needs. To overcome conflicting requirements, the Agency has conformed to established housing authority rules, regulations, and conventions. Housing Authorities are now allowed to use their own tenant selection process, their own MBE/WBE goals, and the architect selection process specified by public housing regulators (federal or state, depending on the project). To be consistent with the Commonwealth's filed sub bid law – which housing authorities must follow – MassHousing also modified its General Contractor selection process.

MassHousing's Housing Authority Development Program began with relatively small ambitions, but the Agency now believes that it has discovered something surprising; a much larger opportunity. Housing finance agency partnerships with local housing authorities – and with cities and towns – can make housing development more cost-effective, while creating substantial quality of life benefits for residents, for local communities, and for taxpayers. Such partnerships can bring to together the best of private sector and public sector resources in a way that transforms what's possible. MassHousing's approach and innovations – be they operational, legal, financial, or technical – are broadly applicable. They can be adopted easily by state housing finance agencies across the country and can be used to significantly expand affordable housing production without HOPE VI funding. Applied nationally, such an approach to liberating previously trapped assets and ideas could ultimately increase cost-effective affordable housing production by tens of thousands of thousands of units per year.