

Virginia Housing Development Authority Community Transformation Initiative

"What many people don't realize is that the cost to fix up these old buildings is greater in small towns than what the rents can support. You need every form of financial help available or these types of projects just can't happen."

Joe Fortier, Developer, Taylor Hollow Companies

Brief Description of VHDA's Community Transformation Initiative

The desire to preserve communities that generations have called home is the core value of Virginia's small town revitalization efforts. It's also driving a trend in which local governments, developers and non-profits are working together to transform historic downtowns into hubs for shopping, entertainment, working and—most importantly—urban living. Since the 1960s, Virginia's small towns and cities have seen continued movement away from their once vital downtowns into outlying suburbs, shopping centers, and commercial strips. As a result, many small downtowns face high vacancy rates and a dwindling mix of retail tenants. Although the interest in mixed-use revitalization is there, smaller localities often lack the resources and financing options to turn that interest into reality. That's where the Virginia Housing Development Authority (VHDA) and its Community Transformation Initiative can help.

VHDA's Community Transformation Initiative is a three-pronged program offering revitalization training, planning grants and loans to finance developments promoting mixed-use/mixed-income (MUMI) housing in qualified revitalization areas. The initiative also increases local government support for affordable housing.

Why/When it was undertaken

Several years ago, VHDA embraced the trend of "walk-able" communities, where home, work and play are all within a short distance. These MUMI communities offered diverse rental and homeownership opportunities, so in 2004 we successfully petitioned the Virginia General Assembly to grant the authority permission to finance MUMI projects, based on the growing market demand for long-term, permanent fixed-rate financing for these types of developments.

What VHDA has accomplished

Prior to our Community Transformation Initiative, many local governments and mixed-use developers wouldn't have considered working with VHDA. Now, however, the authority attracts new developers to use VHDA MUMI financing in their mixed-use projects, rather than going the traditional market route with no affordable housing component. One example is The Station on South Locust in Floyd, Virginia. The oldest part of the original building, a former service station, dates to the 1940s. Other parts of The Station, added on in the 1970s, once housed Vernon Baker's furniture store and Mama Lazardo's Pizza. Today, the 17,000 square-foot building is a vibrant MUMI development that features a new restaurant, as well as a variety of retail shops and artist studios on the first floor. And because the community believes that part of a healthy downtown is having people living there, The Station also has nine one- and two-bedroom second-floor apartments.

"The Station took what had become a blighted area and transformed it into a shining star reflecting our heritage," said Floyd Town Clerk and Treasurer, Karen Hodges. "And turning the second floor into modern, upscale apartments helped us address downtown housing issues, while giving residents a new appreciation of living in downtown Floyd."

Funding for The Station, the first Southwest Virginia mixed-use project we financed, included a VHDA permanent loan for \$870,000; \$540,000 from REACH *Virginia* subsidy funds and features a 3 percent interest rate. The loan balance is at VHDA's prevailing taxable bond rate. Other funding—which VHDA helped bring to the table—included a \$120,000 Department of Housing and Community Development loan and \$302,950 from the 9th Congressional District Loan Fund, grants, and owner equity. Virginia Community Capital provided the construction financing for the project, and People, Inc. provided a small permanent loan to fill in a gap in the project.

"One of the best things about working with VHDA was the tremendous amount of support we received," Hodges said.

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"They held our hand every step of the way, answered all our questions and clearly outlined our challenges, so the town could make informed decisions. Without them, our limited staff would never have been able to successfully tackle a project of this scope."

For projects such as The Station, financing is just the final step in adaptive re-use. An important first step is free training sessions designed to increase the knowledge of community planners and local officials concerning the vital role of mixed-use/mixed-income development as a component of sustainable revitalization.

"Many of Virginia's small towns and cities have neighborhoods where market forces aren't working to sustain the community. Also, the physical infrastructure – including the housing stock – is deteriorating or obsolete. The planning necessary to revitalize such communities requires an understanding of the neighborhood economy and the array of potential resources which, when effectively coordinated, can dramatically improve local conditions," said Mike Hawkins, VHDA Director of Community Housing.

In 2009, VHDA began offering two free courses: "Revitalizing Neighborhoods through Housing and Economic Development" and "Planning for Sustainable Affordable Housing," each of which is approved for 14 American Institute of Certified Planners certification maintenance credits. Both courses cover a variety of topics necessary for the creation of a neighborhood revitalization plan including the identification of key players and their roles, conducting an inventory of neighborhood conditions, developing visioning strategies, understanding how mixed-use deals are put together and underwritten, and the sources of financing that make these deals "work."

In addition, VHDA's Community Transformation Initiative includes planning grants that provide funding to offset costs for localities striving to revitalize their communities and promote mixed-use/mixed-income development opportunities. Typically, the \$10,000 grant is seed money that can get full-scale planning off to a good start, especially when it's leveraged with assistance from other housing development groups and/or the community's local resources. VHDA's planning grant track record was acknowledged earlier this year, with a Planning Innovation Award from the Virginia Chapter of the American Planning Association. To date, VHDA has awarded 22 planning grants.

Why it is Meritorious and Meets NCSHA Award Judging Criteria

Innovative

VHDA's Community Transformation Initiative is innovative because it provides turnkey assistance—from development training and planning grants to consulting and MUMI financing—to help localities make their revitalization projects a success. It also promotes diversity by providing housing for a mix of income groups. And, the mixed-use element blends business and community in unique combinations that make neighborhood revitalization an achievable goal for any locality in Virginia.

Replicable

Any HFA providing long-term, permanent financing for mixed-use/mixed-income housing developments can replicate this Community Transformation Initiative.

Responds to an important state housing need

There is a substantial need for affordable housing in Virginia. The guidelines for the MUMI Community Transformation Initiative financing require that 20 percent of the units be set aside for affordable housing and 20 percent for workforce housing, with the remaining units non-income restricted. The initiative's financing addresses a vital state housing need in underserved locations across the Commonwealth, especially when combined with training and planning support for under-funded localities, and increases local government support for affordable housing.

Demonstrate measurable benefits to HFA targeted customers

VHDA's Community Transformation Initiative invested a total of \$45.6 million in seven MUMI deals during the last fiscal year, resulting in 191 new affordable units for Virginia citizens. And, VHDA's Board recently approved financing

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for new MUMI developments for the current fiscal year. In addition, developers benefit from the program's flexible underwriting standards and residents receive the benefits of living in affordable, pedestrian-friendly developments.

Proven track record of success in the marketplace

Since 2004, the Community Transformation Initiative loan program has successfully financed 1,212 units, of which 273 are affordable apartments in 20 developments across Virginia. In addition, the high level of interest the program generates from real estate professionals and local jurisdictions—from high-cost Northern Virginia to the state's rural Southwest region—has resulted in several more deals currently under development.

Benefits that outweigh the costs

In addition to helping revitalize historic buildings and bringing downtown neighborhoods back to life, VHDA's Community Transformation Initiative increases the support of localities for affordable housing and their willingness to look at other affordable housing partnerships with VHDA.

Demonstrate effective use of resources

VHDA provides special low-interest financing through its Community Transformation Initiative loan program to foster MUMI developments. And with the REACH *Virginia* team already in place, no additional staff needed to be hired.

Effectively employs partnerships

In most instances, it would be impossible to make these deals a reality without the commitment of local jurisdictions and developers who have a strong commitment to affordable housing. VHDA's stakeholder support, voiced through the authority's Local Governments, Realtor® and Multifamily Developers Advisory Boards, have contributed substantially to bringing MUMI revitalization to Virginia.

Achieve strategic objectives

VHDA's primary strategic objectives are addressing the housing needs of Virginia communities and underserved households. Our goals for meeting these objectives include:

- Ensuring an ongoing inventory of affordable housing that supports strong, viable communities.
- Increasing affordable housing opportunities for low- and moderate-income households, minority populations, people with disabilities and the frail elderly by increasing local government support for affordable housing.

With the creation of our Community Transformation Initiative program, VHDA is able to provide the training, planning grants, and financing that localities and developers need to provide more opportunities for quality affordable housing in desirable MUMI developments. Prior to this initiative, these types of projects would become mixed-use developments without the affordable mixed-income housing component that helps put underserved populations into homes and revitalizes communities across the Commonwealth.

Conclusion

Today many localities are moving toward "walk-able" communities, where home, work and play are all within a short distance. And, MUMI developments bring other positive impacts to communities, including increased safety, de-concentration of poverty, proximity to transportation and long-term sustainability. In the coming years, the growth of mixed-use developments—and the diverse rental and homeownership opportunities that they create—is expected to soar. VHDA's innovative Community Transformation Initiative provides local governments and developers with creative MUMI financing that helps build the long-term viability of communities, particularly those undergoing revitalization. And the program has been very well received by local governments—since its inception, this initiative has successfully financed 1,212 units, of which 273 are affordable apartments in 20 developments across Virginia.

Attachments: VML magazine featuring VHDA's Community Transformation Initiative, Small Town Case Study, Sustainability Training invitation, Mixed-use / Mixed-income print ads.