

## Virginia Housing Development Authority Downtown Roanoke Revival Initiative

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*Roanoke's "vitality in downtown will definitely be a big draw for that younger generation of people coming here looking to be involved in the medical and scientific community, and any community, really."*

*-- Matt Joy, Medical Student - Virginia Tech Carilion School of Medicine*

### **Brief Description**

The City of Roanoke, VA is situated at the southern end of the scenic Shenandoah Valley, and has grown into a hub for commerce and business, with a population of more than 100,000. The city also boasts a 65-block downtown district that is evolving into an entertainment focal point where residents can find something to do 24/7. Although revitalization efforts in the city's downtown have been underway for several decades, housing options were significantly limited until 2006 when VHDA, working in conjunction with city officials, began promoting the Authority's mixed-use/mixed-income (MUMI) financing program. Designed to support downtown revitalization while expanding affordable and workforce housing opportunities, this program has financed three adaptive re-use projects in the downtown area totaling 17,500 square feet of commercial space and 90 rental units using approximately \$10 million in VHDA MUMI financing. These projects established the foundation necessary to support the capstone downtown project under the Downtown Roanoke Revival Initiative (DRRI) – The Patrick Henry.

Built in 1912, The Patrick Henry Hotel was once the premiere hotel in downtown Roanoke. Unfortunately, the property was purchased in 1990 by an out of state development group that had grand plans that they were never able to fulfill. A number of potential foreclosures, and the fire marshal's closing of floors four through 10 in 2006, were signals that the property owners were either unable to or not truly interested in revitalizing this wonderful historic structure. The 10-story building presented a significant challenge for any developer, even one with the vision and commitment to take on such a mammoth historic rehabilitation. The total square footage for the entire building is roughly 125,000 square feet.

### **Why/When it was undertaken**

In October 2009, a local Roanoke developer purchased The Patrick Henry Hotel with a vision to convert the property into an impressive mixed-use/mixed-income (MUMI) building that would become a local gathering spot while supporting the housing needs for downtown businesses. With the planned opening of the new Virginia Tech Carilion School of Medicine in Downtown Roanoke, the city was poised to become a regional medical education and research center, but housing options for medical personnel at all income levels was severely limited. Although the City of Roanoke strongly supported the project, the greatest challenges involved identifying the necessary financing sources to support a project with a total development cost of over \$22 million. Ultimately, this project accessed numerous programs, such as federal and state historic tax credits and the federal new markets tax credit program, that encourage redevelopment of older properties. Despite such resources, the project desperately needed permanent mortgage financing in a tight financial market which required the support of the VHDA MUMI Program. This program had already significantly supported the residential transformation of the downtown by introducing new affordable and workforce housing units.

### **What it has accomplished**

VHDA's MUMI financing program enables multifamily developers unique opportunities to bring older historic buildings back to life with vibrant apartments on the upper floors and strategic neighborhood-scaled retail or office space on the first floors. Over 70% of all MUMI deals financed by VHDA involve the use of historic tax credits. The true benefit of this financing program is that it requires half of the apartments to be rented to people making between 80% and 120% percent of the area median income, with the remaining apartments non-income restricted. The Patrick Henry Hotel project includes 133 rental apartments with roughly 25,000 square feet of office and retail space.

This project represents a major redevelopment project for the Jefferson Street corridor, once a primary shopping district in downtown Roanoke. The revitalization of this historic building helps to strengthen the corridor; it is located just a few short blocks from a major expansion project by Carilion Roanoke Memorial Hospital and the Virginia Tech Carilion School of Medicine.

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After purchasing the property in 2009, the developer began having conversations with VHDA. It was clear that a construction lender was needed to provide the short-term construction financing, with VHDA waiting to provide long term permanent financing once the project was completed and leased up. Valley Bank, a local lender that has provided financing for several other downtown Roanoke projects for the developer, agreed to provide construction financing for the project with the stipulation that VHDA issue a permanent forward commitment prior to Valley Bank closing on the construction loan.

The transformation of Downtown Roanoke has been amazing in just a short five-year window. The area is now bustling with activity well beyond normal working hours, a result of the vibrant new VHDA-financed MUMI communities that are making downtown living more appealing.

### Why it is Meritorious and Meets NCSHA Award Judging Criteria

#### Innovative

The DRRI builds on the strengths of the various stakeholders/partners and funding resources which is critical during these challenging economic times. Furthermore, the initiative employs a building block approach where subsequent projects build on the success of previous projects to address identified affordable and workforce housing needs in support of downtown revitalization. In particular, the Patrick Henry Hotel is an iconic building that was neglected for more than 20 years. Not only is the project revitalizing one of downtown Roanoke's historic landmarks, but it will also be the largest mixed-use development in the city's downtown, with 133 apartments and 25,000 square feet of commercial space. Prior to the June 23, 2011 grand opening, all of the Patrick Henry's commercial spaces were leased and only eight apartments remained available.

#### Replicable

Any HFA providing long-term, permanent financing for mixed-use/mixed-income housing developments can replicate an initiative similar to the DRRI. In addition to financing, it is important to establish a strong working relationship with the locality, which typically evolves over time as additional and larger projects are undertaken by local developers. VHDA's DRRI program represents a model which can be replicated to serve other communities in Virginia and adopted by other HFAs to serve their communities undergoing revitalization and economic transformation.

#### Responds to an important state housing need

There is a substantial need for affordable housing in Virginia. The concept of mixed-use/mixed-income developments is a key ingredient in helping to meet this need, as they guarantee that a certain portion of the units remain affordable for the life of the loan, while also providing market rate apartments in the same development. No longer does affordable housing have to be in undesired areas of town – with this financing program, developers have the opportunity to offer affordable apartments in more desirable locations. Furthermore, this initiative enables localities to provide housing which responds to the economic transformation occurring in many communities where medical centers, higher education, and/or tourism are replacing traditional economic generators.

The guidelines for this financing program require that 30 percent of the units be set aside for affordable housing and 20 percent for workforce housing, with the remaining units non-income restricted. This initiative 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.

#### Demonstrates measurable benefits to HFA targeted customers

VHDA invested a total of \$9.5 million in revitalizing The Patrick Henry Hotel. As a result, 50 percent of the apartments will remain affordable for those earning between 80% and 120% of the area median income for the entire life of the loan. In addition, the project's developers benefited from the program's flexible underwriting standards and residents have the benefits of living in an affordable, pedestrian-friendly development. Such benefits are in addition to those generated by existing affordable units created by prior VHDA-financed projects.

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### Proven track record of success in the marketplace

With the completion of the Patrick Henry project, VHDA has now financed 223 total rental apartments in downtown Roanoke. Apartment vacancies are the exception with waiting lists being the rule. With this demonstrated demand for downtown rental housing, the partnership between VHDA, the city of Roanoke, and local developers continues to show that attractive financing packages from VHDA, combined with the successful knowledge of redeveloping historic buildings into great MUMI developments, is providing a great partnership for downtown Roanoke.

### Benefits that outweigh the costs

In addition to helping revitalize historic buildings with adaptive reuse that brings downtown neighborhoods back to life, VHDA's DRRI program provides a model to increase the support of localities for affordable housing and encourages their willingness to look at other affordable housing partnerships with VHDA.

### Demonstrates effective use of resources

VHDA provides special low-interest financing through its mixed-use/mixed-income loan program to foster developments in strategic revitalization areas. In addition, VHDA's special outreach team to forge partnerships with localities was already in place, so no additional staff needs to be hired. A total of \$2 million in special financing – with a low 4.25% interest rate – was used in the Patrick Henry's financing; the remaining loan balance was at VHDA's prevailing taxable bond rate.

### 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. It is amazing to see the revitalization that has taken place in downtown Roanoke over the past five years. The Jefferson Street corridor is an area of downtown that needed a major revitalization project. Redeveloping the most iconic building on Jefferson Street will certainly provide a significant boost to the urban renewal of downtown Roanoke.

### Achieves 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, and
- 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 the Downtown Roanoke Revival Initiative, VHDA was able to provide the technical assistance and financing that locality and developers needed to create more quality, affordable housing through desirable MUMI revitalization. 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 while revitalizing communities across the Commonwealth.

### **Conclusion**

Today, many localities are moving toward creating "walk-able" communities, where home, work and play are all within a short distance. 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 Downtown Roanoke Revival Initiative (DRRI) provides a model to support local governments and developers with creative MUMI financing that helps build the long-term viability of communities, particularly those undergoing revitalization. Since its inception, this initiative has successfully financed 223 total rental apartments to help revitalize downtown Roanoke, including 133 units in the Patrick Henry Hotel.



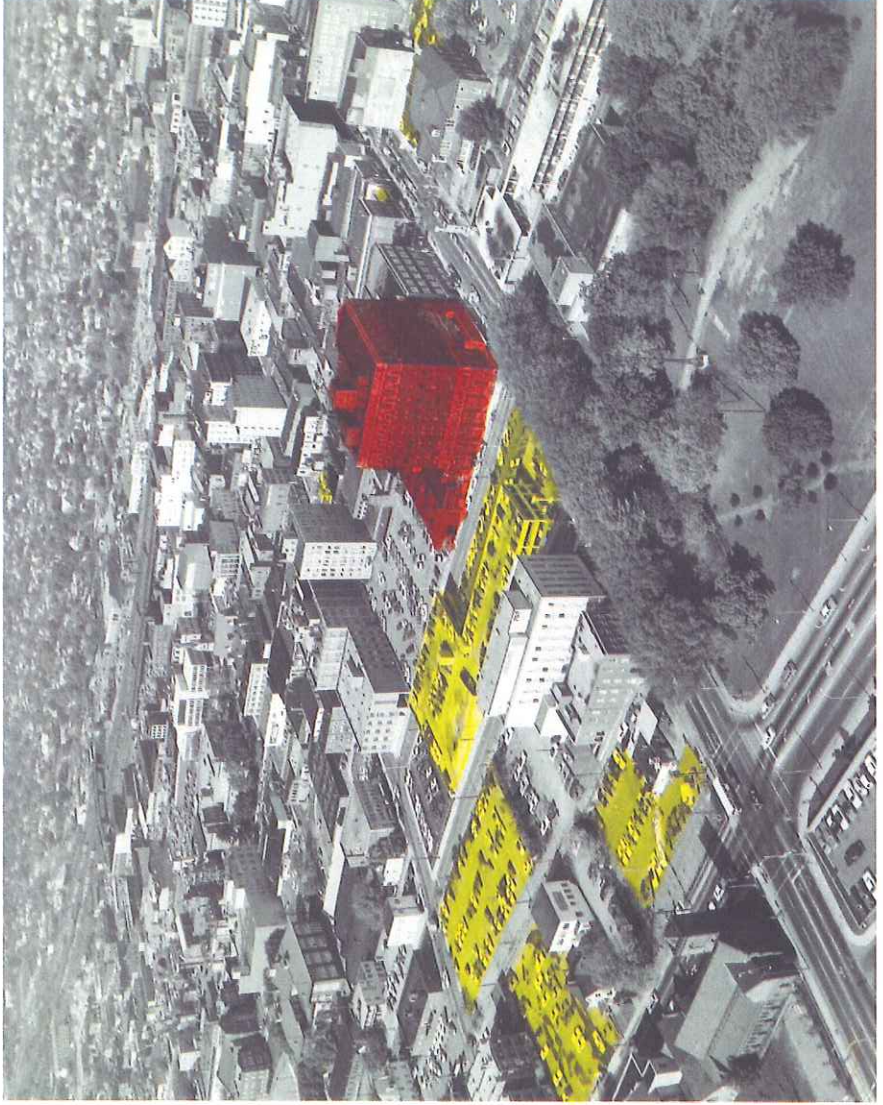
# VHDA Board of Commissioners Virtual Tour



Patrick Henry



# Aerial Photo of Patrick Henry

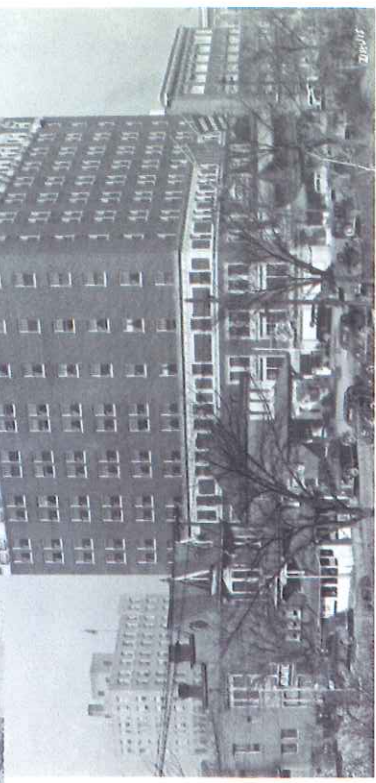
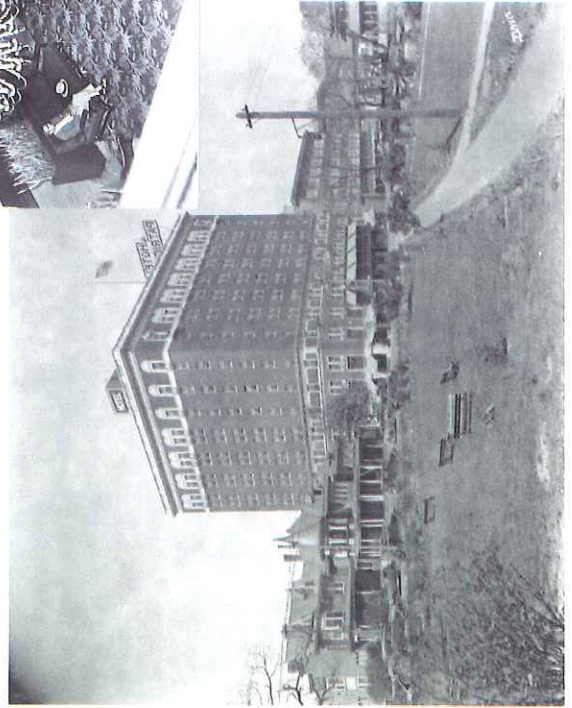


City  
Market

Carilion  
Clinic



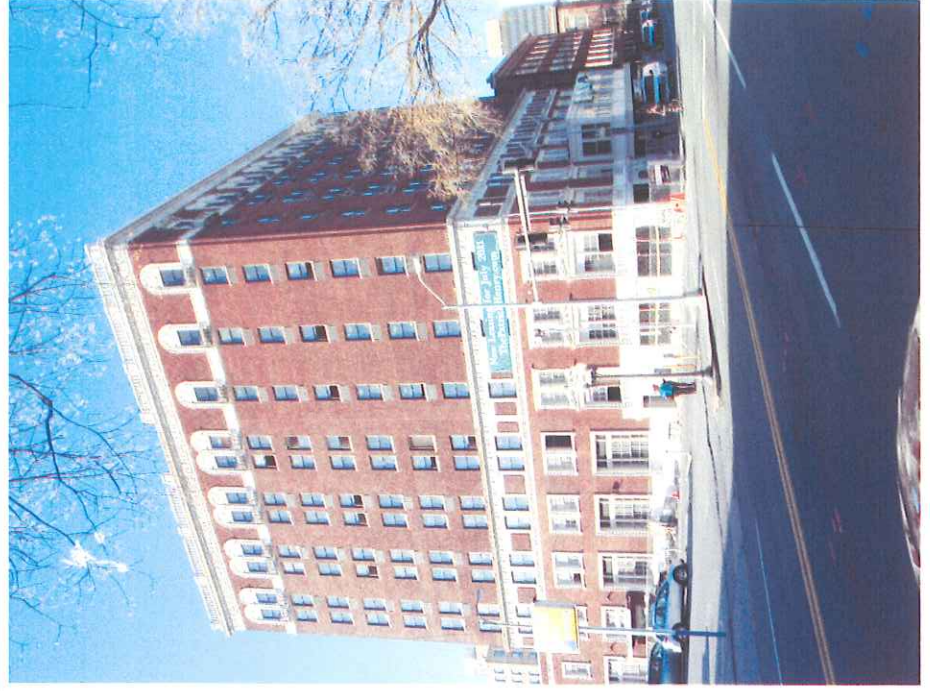
# Historic Photos





# Patrick Henry - Roanoke

Main Lobby



Building  
Exterior



# Patrick Henry - Roanoke



Kitchen layout



Interior hallway to units





## Patrick Henry - Roanoke

- Residential portion of the building is 77,355 s.f.
- 133 total rental apartments
  - 30% of the units @ 80%AMI
  - 20% of the units @ 120%AMI
  - 50% of the units @ market rate
- 24 Studios, 90 1-BR & 19 2-BR
- Roughly 80% of the apartments are currently leased
- Carilion has master lease for 56 apartments for their students



## Patrick Henry - Roanoke

- 25,000 square feet of commercial space
- Commercial uses include restaurant, office spaces, coffee shop and catering company

Total Development Cost	\$22,571,275
VHDA Permanent Loan	\$2,000,000 REACH \$7,500,000 Taxable
Historic Tax Credits	\$9,347,748
New Markets Tax Credits	\$1,991,493
Owner Equity	\$1,732,034