Washington, DC's Portner Place before and after

Pinpointing the Need for Workforce Housing

Different markets, blocks, plots need different approaches

By Mark Olshaker

"In the affordable housing industry, there has long been a recognition that one size doesn't fit all," declares Bill Whitman, owner of New Community Partners and a partner at Somerset Development Company in Washington, DC.

A lot of attention lately is focused on workforce housing and how it has become a major issue as young people and workers with critical job functions have been priced out of major cities. At a presentation at the NH&RA Fall Forum in Boston in November 2016, Whitman graphically demonstrated how that city now ranks among the top cities for income inequality in the U.S., which has profound consequences to the housing market. In many high-cost cities, like Boston, Whitman noted, the workforce band actually ranges far beyond the traditional job list of police, firefighter, teacher and municipal worker. Given the current housing costs in many of our larger, coastal cities, the terms "workforce" and "middle class" have almost become interchangeable. The diversity of "necessary" jobs for a city to function includes low wage-earners, classifying them as part of the workforce. *(See Numbers, p. 40)*

This increase in the need for housing the workforce presents opportunity for developers in certain markets, but also brings its own set of problems to be solved as there are little to no resources for workforce housing in most cities. Whitman has demonstrated with two projects currently under development in the Nation's Capital that, with a commitment to affordability and an approach specifically tailored not only to the larger urban area, but also to the neighborhood, tenant mix and site factors themselves, multiple objectives – low-income, workforce and market-rate housing and investor returns – can be achieved through a single effort.

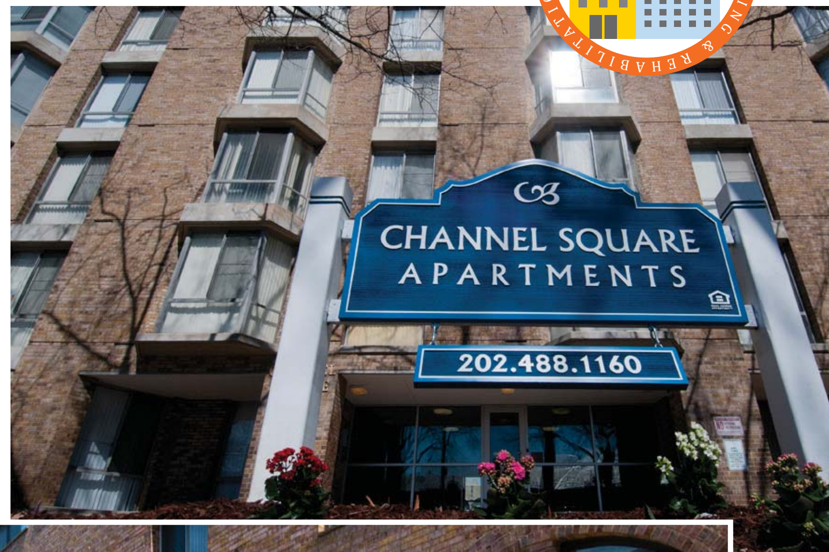
William Whitman

To fully comprehend the scope of the challenge, we have to focus rather than generalize. "You have to start by understanding that the problems are concentrated in about high-cost areas – mainly coastal cities," Whitman says. "There is no crisis in workforce housing in many areas of the country. But in the high cost areas, the pressure is enormous. There is a tier of housing at the bottom of the economic ladder where people have subsidies of one form or another, so, to a certain extent, they're protected. And, at 100 to 120 percent of Area Median Income, people begin to be able to afford their housing, and by that we mean spending no more than 30 percent of their income on housing costs. Between those poles, people are struggling."

Workforce in Washington

Washington, DC is one of those housing-challenged cities. Including the suburbs and exurbs of Maryland, Virginia and West Virginia, it is the nation's sixth largest Metropolitan Statistical Area, encompassing 6,000,000 residents. It has seen a population increase of 685,000 since 2010, and the growth projection by 2030 is 38 percent, which amounts to about 100,000 per year. Sixty-seven percent of households fall below the Area Median Income, which means they struggle with housing costs.

As housing affordability declines, individuals and families are forced further out into the suburbs, increasing commuting time and expense, strains on families, increased financial burden on governments for roads and other facilities, energy depletion and detriment to the environment. "These are not great choices," Whitman comments.



Whitman is an attorney who began his career with the Boston Redevelopment Authority, then practiced real estate law before joining Telesis Corporation, a national development company focused on large public-private community revitalization projects, in 1995. Ten years later he started Telesis' Community Development Entity to manage New Markets Tax Credit allocations. In 2011, he partnered with long-time colleagues James Campbell and Nancy Hooff at Somerset Development to focus on the creation and preservation of affordable, mixed-income and market rate housing in the Washington and Baltimore metropolitan areas.

Channel Square and Portner Place were buildings from other eras running out of their usefulness in different parts of Washington. But while these buildings were aging, their neighborhoods were going through significant improvement. Whitman and his partners' transformation of both projects shows how a range of affordable and workforce housing can be maintained or created in increasingly desirable neighborhoods. "We think they can be models in neighborhoods where the economy is strong, rents are strong, and you can acquire land at a reasonable price or enhance project economic through up-zoning and commitments to affordability," says Whitman. Achieving that model, as his companies have shown, requires a combination of creative financinges, tenant organization and involvement, and municipal support.

New Ballpark and Waterfront Neighborhood

Channel Square is a five-building complex built in 1967 under the HUD 236 interest subsidy program, as part of DC's massive Southwest Urban Renewal effort. It was designed by Harry Weese, the nationally prominent Chicago architect who also designed the nearby Arena Stage, as well as the interiors for Washington's Metrorail stations. The 231 units range from efficiencies to three-bedroom apartments and two-bedroom and four-bedroom townhomes. Over time, it had evolved into a true mixed-income community, including about one-third voucher holders, one-third rent control workforce, and one-third rent control market. Tenant annual incomes range from $10,000 to $400,000, creating a truly diverse resident population, and underscoring a new urban reality: that "workforce" housing can run the gamut from employed Section 8 residents all the way up through greater-than-AMI earners.

"It was owned by a Dutch pension fund," says Whitman," and no one was really tending the store. It had some good units, some crappy units, and a significant number of legacy tenants who had been there since the beginning. You also

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had a growing Millenial contingent, because redevelopment plans begun under Mayor Tony Williams began to bloom and it had evolved into a fabulous location with convenient transportation, situated between the new waterfront wharf area development and all of the building around new Nationals Park baseball stadium.

"The previous owner was going to split most of the units in half on the advice of brokers who said, 'Here's your value-add strategy for a sale,' as the market trended toward smaller and micro units. The tenants, of course, were terrified, particularly the ones with larger families who knew they wouldn't be able to find the same space in the City at anywhere near the rents they could afford to pay."

The solution came with TOPA – DC's Tenant Opportunity to Purchase Act. "In 1995, I started doing a lot of work in the HOPE VI program at Telesis, where 'mixed-income' was a mantra" Whitman explains. "Meanwhile, Somerset had become a go-to company for TOPA deals in DC because of its commitment to affordability. So when the TOPA notice of sale went out to the tenant association, they were referred to us. We met and agreed to preserve the mixed-income character of the property."

In 2013, the tenants assigned their right to buy the property to general partners Somerset, New Community Partners and the National Housing Trust, with the Jonathan Rose Companies providing the limited partner equity through its Rose Green Cities Fund. *(See Financing Sidebar.)* Citibank provided a short term balance sheet acquisition loan, supplemented by a District of Columbia Housing Production Trust Fund $7.4 acquisition loan. The strategy from the beginning was to take out the acquisition debt and bring in new longer-term debt to fund $12 million in renovations focused on energy efficiency and sustainability, new roofing, kitchens, lighting, common area upgrades and landscaping.

In return, the developers entered into a regulatory agreement that encumbered the property with a set of obligations that essentially translated into continuing to operate the property as if it were still under rent control and preserving its mixed-income character and affordability.

"We were able to do all this and still hit the financial target for the investors," Whitman notes, giving high praise to the Jonathan Rose Companies for its commitment to the reinvestment in and greening of the project and dedication to affordable housing.

Channel Square Financing

$35.2 million Acquisition - $159,000 per unit

- $24.64 million Citibank balance sheet acquisition bridge loan (70% LTV)
- $12 million equity
  - LP – Citibank CRA fund managed by Jonathan Rose Companies – 92% of equity
  - GP – Somerset / New Community Partners / National Housing Trust
    - [Citibank Fund to be taken out in 2019]

$32.5 million Freddie Mac 12-year, fixed-rate perm (70% LTV) through Citi Community Capital

- $12 million renovation budget

Millenial Nightlife Neighborhood

Portner Place, at 14th and U Streets, NW, presented a completely different challenge, but with the hope of a similar outcome. The 14th Street corridor was a low-income, underserved and mainly African American area that had been devastated by the riots following Martin Luther King's assassination in 1968. Decades later, it had still not come back. The 14th and U block had become particularly notorious as a high-crime area, and many were afraid even to venture into the neighborhood.

Portner Place was built during that time, in 1980, on 1.1 acres in a reverse-L-shaped site. It consisted of 48 Section 8 townhome units: 36 two-bedrooms and 12 three-bedrooms. The average tenure was 18 years and the average income was less than 30 percent of AMI. Some tenants had lived there since it was built. It was their home. "But it was at the end of its useful life," says Whitman. "It was indefensible space, a real crime problem. Everyone wanted to get rid of it including the tenants."

Beginning around the turn of the 21st century, the area began to change as gentrification swept previously forsaken urban areas of eastern cities, such as the South End in Boston, Harlem in Manhattan, Bedford-Stuyvesant in Brooklyn and Center City West in Philadelphia. Within a few years, 14th and U became one of the hottest neighborhoods in Washington, its renovated townhouses, theaters, trendy shops and food stores, even trendier restaurants and ease of transportation becoming a magnet for young professionals. Everyone still wanted to get rid of Portner Place, but now for different reasons. This wasn't going to be a first class rehabilitation like Channel Square. One way or another, it was going to be a teardown.

As Whitman puts it, "The Portner site plan had been overtaken by time and events. What we did there was respond to the change in the urban fabric and take advantage of the increased property value that the market had brought to us."

Market-rate developers were eager to purchase the building and began a bidding war, offering tenants cash and vouchers to move out. "The trouble was that vouchers don't work well in DC," says Whitman. "They wouldn't be enough for tenants to afford similar sized apartments in decent locations within the city. Individual vouchers work at Channel Square, largely because of rent control, but not in newer buildings or transit-friendly locations."

With support from the local advocacy community, the Portner tenants organized and came to Somerset, based on its track record. With the aid of a $2.4 million acquisition loan from the Department of Housing and Community Development, a 7 year ARM from Freddie MAC and equity again from the Rose Green Cities Fund and the partners, Somerset matched the offered purchase price and acquired the property in September 2013, this time with the Rose Companies as their development partner.

"We sat down with the tenants and asked, 'So what do you want to do here?' We could do two buildings – one affordable and one market rate – or one building with everyone interspersed. They decided on two buildings, figuring the market-rate units would be filled with Millennials, not families."

The team then spent a year securing a Planned Unit Development approval, which classifies the project as its own zoning district with its own special requirements. In this case, it meant that the inclusionary zoning requirements would be satisfied by the affordable building so the market-rate units would not be encumbered. This maximized the value to provide cross subsidy to the affordable building, and the number of affordable units on site would be doubled from the previous number.

The two buildings will be back-to-back on the site. Wing A, called Portner Flats, will front on V Street and consist of 96 100 percent Low Income Housing Tax Credit units, with 48 Section 8 apartments replicating the original unit types and sizes. An equal number of units will be workforce housing, divided nearly equally between efficiencies and one-bedrooms. There are 31 garage spaces. Thirty-seven original tenants elected to return, and are being housed off-site during construction with a pass-through Section 8 contract. They represent a mix of the elderly and disabled and working people whose jobs are mainly nearby.

Cash-collateralized bond financing was provided by the DC Housing Finance Agency, Prudential Mortgage Capital and a significant cross-subsidy from the sale of the Wing B parcel to Trammell Crow. Tax credits were syndicated through Boston Financial to Capital One. Completion is scheduled for March 2018.

Wing B, now called The Sonnet, is 288 market-rate units, 15,000 square feet of retail and 123 garage spaces. Both buildings feature courtyards, rooftop decks, fitness and party rooms. The Sonnet has a rooftop pool, while Portner Flats has a rooftop community garden and playground, as well as a computer lab and community room.

"Portner has had a terrific outcome," he recaps. "A collaborative effort by many smart, dedicated people. We've seen mixed-income housing work all over the country, and within these neighborhoods there is a broad mix of incomes, and other affordable projects are coming on line up and down 14th Street, near Channel Square and across the City thanks to the commitment of the Mayor and the City Council and many others."

Block by Block

For cities with high housing pressure, Whitman's lesson is to study the situation carefully and respond block-by-block. "It takes a mission-driven company," he concedes. "My partners, Jim Campbell and Nancy Hooff, and I come from urban planning and development backgrounds, and we think very hard about urban context when we think about how to preserve and create more and better affordable housing across the income spectrum. Pressures on affordable housing, the LIHTC program and Section 8 are unrelenting in the major cities, so capitalizing on market strength and local opportunities where they existhelps us respond to the demand for more affordable housing. It's another tool in the toolbox. And, there are some fabulous companies all around the country doing the same thing."

As to the future: "I obviously don't know what to think in a Trump world. LIHTCs have been frozen in time since the program was created, and we need some other means of production. Otherwise, we're going to push affordable housing out farther and farther from our city cores – a model that is not sustainable. We need to find more dollars to address the issue. The affordable housing crisis in America is indicative of our larger income inequality problem, which is part of what brought to where we are today politically. I'm hoping there's a bright spot in that part of the soul of Donald Trump that likes to build, and that he'll see the value of what we do and support it." TCA