



## Renovation of Public Housing Apartments Boosts Neighborhood in Salisbury, Md.

**BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC & COMPANY LLP**

**T**he Booth Street Apartments, located just outside Salisbury, Md., had decades of negative history. But a bold plan involving the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD) program, Maryland Department of Housing and Community Development, Wicomico County Housing Authority (WCHA) and creative planning by Pennrose Properties LLC presented a rebirth for the public housing development.

"It had a bad reputation for crime," said Ivy Dench-Carter, regional vice president of development for Pennrose. "The housing authority is very small and did the best it could to keep up the property, considering the limited funds. We were received by the city and county with open arms. WCHA had been trying for a very long time to redevelop and they couldn't get it done."

Now they have. The newly named Stone Grove Crossing held a grand opening Jan. 31 for 84 apartments—50 of them Section 8 housing, the other 34 low-income housing tax credit (LIHTC) homes—spread over nine buildings. The cost was \$17 million, with a second phase coming.

"People will be moving into a smoke-free campus and they'll be moving into something they can have pride in and not pay any more than when they were public housing residents," said Don Bibb, executive director of WCHA, which was in charge of the public housing until partnering with Pennrose. "There are a lot of programs from Pennrose. This won't be the last place people will live. This is a step, hopefully, to a better life."

It certainly is for the property, which was built in the 1960s, but suffered years of struggle.

### Dreary History of Property

The Booth Street Apartments suffered from years of deferred maintenance and at one point, more than half of the apartments were boarded up. "These properties have been terribly neglected," Bibb said. "They've been an eyesore and a detriment to the neighborhood. [The new property] has people in awe."

Problems are long-standing. "This housing authority has been troubled for better than 30 years," Bibb said. "I took over in March 2015 and for seven years before that, there was a horrible vacancy rate [at the Booth Street Apartments]. It's such a glaring site—it's

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on the highway into Salisbury. HUD said you've got to do something."

The housing agency looked for creative ways to redevelop it, including the use of tax credits. It was very difficult ... until RAD launched.

### **RAD Provides Hurdles**

"It's a salvation for the agency," Bibb said of HUD's demonstration program that allows public housing agencies to convert apartments from the original sources of HUD funding to project-based Section 8 contracts. "Out of 277 units, 38 percent were vacant and boarded up for eight years. It was an excellent opportunity. We've worked with Pennrose before and we got a beautiful project."

Dench-Carter said Pennrose was approached about redeveloping the apartments several years before the

RAD program started. Another developer took the job and then dropped out for unrelated reasons. When the new opportunity presented itself after the RAD program launched, Pennrose came in. WCHA was the first housing authority in Maryland to receive a RAD allocation.

The developers applied for 9 percent LIHTCs and received them in 2014 ... and then HUD issued its affirmatively furthering fair housing ruling, which promoted HUD development in areas of "high opportunity." The Booth Street Apartments neighborhood didn't meet that standard.

"When we first submitted it, [the property] failed the test," Dench-Carter said. "It took months of working with HUD to approve the project. It was very disconcerting, because the clock was ticking on the 9 percent credits.

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*Image: Courtesy of Pennrose*

**Dignitaries gathered to celebrate the opening of Stone Grove Crossing on Jan. 31 near Salisbury, Md.**





*Image: Courtesy of Pennrose*

**Stone Grove Crossing involves 50 apartments of Section 8 housing financed by the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD) program and 34 low-income housing tax credit (LIHTC) homes.**

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We needed to get construction started. Fortunately, we were able to get approval.”

Bibb said that is part of the RAD reality. “We all knew RAD is an ongoing program that is changing almost monthly,” Bibb said. “To me, [the fair housing ruling] was a little bit of a crawl back that had to be addressed. The fair housing review made sense—you want to make sure you mix up the demographics.”

The solution came with strings attached. The original plan called for two phases of demolishing 50 public housing units and building 84 apartments—with 50 in each phase through the RAD program. To move forward, Pennrose and the PHA had to limit the RAD property to 50 apartments on the Booth Street site and promise to build 50 more in a neighborhood of higher opportunity. Dench-Carter said Pennrose and the PHA

have acquired another site and submitted requests for 9 percent LIHTCs.

The problem? “The other half [of the current site] is boarded up. How do we develop that?” Dench-Carter said. “In order to score and be competitive [to get 9 percent LIHTCs], we’re going to need significant soft financing and subsidy.”

Dench-Carter is grateful, though. “At the end of the day, we appreciate the staff at HUD working with us to make this happen,” Dench-Carter said. “They could have not approved it. The financial closing was delayed until approval was finally received and we appreciate them working with us.”

### **A New Look**

The 84 new apartments are spread over nine three-story buildings with individual entrances in a community with

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ample open space. The project will receive certification under the National Green Building Standard program.

The apartments have washers and dryers, while residents previously had to go off-site to do laundry. There are laminate hardwood floors, appliances with smart burners and coordinated countertops, sprinkler systems and air conditioning.

Dench-Carter said the architecture is markedly different, calling it “fabulous.”

The new development also includes the rehabilitation of the nearly 5,000-square-foot community building, allowing it to accommodate resident activities, a fitness room, computer room, renovated kitchen and space for both Pennrose management and WCHA.

The property took about 14 months to build.

### The Transition

Bibb said there were about 17 families still in the building that was later demolished. “It had a huge vacancy rate,” Dench-Carter said. Those residents were relocated into scattered sites or the second phase and now have the option to move into the new phase.

While the specific plan for Phase II isn’t clear, the next step is. “We definitely know we have to demolition it to satisfy the insurance company, the community, the elected officials,” Bibb said. “They’re not going to let it stand. Our plan is to rebuild it and we’re open to interest from the community. Obviously, a lot of people will make recommendations. It could be for seniors, for veterans, there are a lot of options.”

### Financing

The property included \$12.8 million in LIHTC equity, as well as a loan from Chase. The Maryland Department of Housing and Community Development (DHCD) added a \$2 million loan and additional financing from its programs.

“First and foremost, Pennrose is a top-tier client of ours,” said Brett Macleod, executive director at Chase Community Development Banking. “We have a broad and deep relationship with Pennrose and want to partner with them whenever possible.”

Macleod said the complexity of the transaction affects the investors. “But we shine on complex transactions,” he said. “None are easy, but some are more complicated than others. This was definitely complicated.”

“We have deep experience in RAD and did the largest RAD transaction [in El Paso, Texas],” said Dana Mayo, executive vice president of Alden Capital Partners, which syndicated the tax credits. “That’s one of the reasons Pennrose reached out. One of the big challenges was having the closing delayed while waiting for HUD approval. You have to give huge credit to Pennrose because it took a long time to get approval.”

The result is positive.

“This is nice new construction,” Mayo said. “The 9 percent allocation allowed that to occur. Typically, in RAD transactions, you see the housing authority putting in additional soft money, but this authority is small and didn’t have the money, so the 9 percent was mandatory. There was a lot of soft funding from the state, but this could not happen without the 9 percent [LIHTC].”

### Building on Success

While there are still questions—the downtown replacement for the public housing apartments isn’t completed and there’s no final plan on the second phase adjacent to Stone Grove Crossing—the success of the first phase will also boost the reputation of the housing agency.

“I’ve had a lot of rebuilding to do,” said Bibb. “RAD is an excellent opportunity to improve the neighborhood’s housing stock.”

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Macleod likes the extended affect. “What attracted us was the impact it’s going to have on the community,” he said. “The housing was built in the 1960s and there were years of deferred maintenance that needed to be addressed. I think this shows the commitment the development team had in addressing those needs. Pennrose goes above and beyond in providing high-quality affordable housing to do right by the community. It’s really a high-quality project they delivered.” ◆

### Stone Grove Crossing

#### FINANCING

- ◆ \$12.8 million in low-income housing tax credit equity syndicated by Alden Capital Partners, with Chase as the end investor
- ◆ \$8 million construction loan from Chase
- ◆ \$2 million Rental Housing Program loan from the Maryland Department of Housing and Community Development (DHCD)
- ◆ \$1.3 million permanent loan from Chase
- ◆ \$825,000 in Partnership Rental Housing Program funds from Maryland DHCD

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