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GOVERNMENT LEASING NEWS

A QUARTERLY NEWSLETTER FOR OWNERS, MANAGERS AND DEVELOPERS OF GOVERNMENT-LEASED PROPERTY

Challenges in Public Housing: The Lakeland Florida Story

by Dr. Stephen P. Boyer and Peter Shanley

The City of Lakeland, Florida, is located midway between Tampa and Orlando and has been a significant presence in the area ever since the completion of the railway terminal at the end of the nineteenth century. The major industry from that time until well after the Second World War had been citrus farming and production which was intensely labor intensive and paid rather poorly.

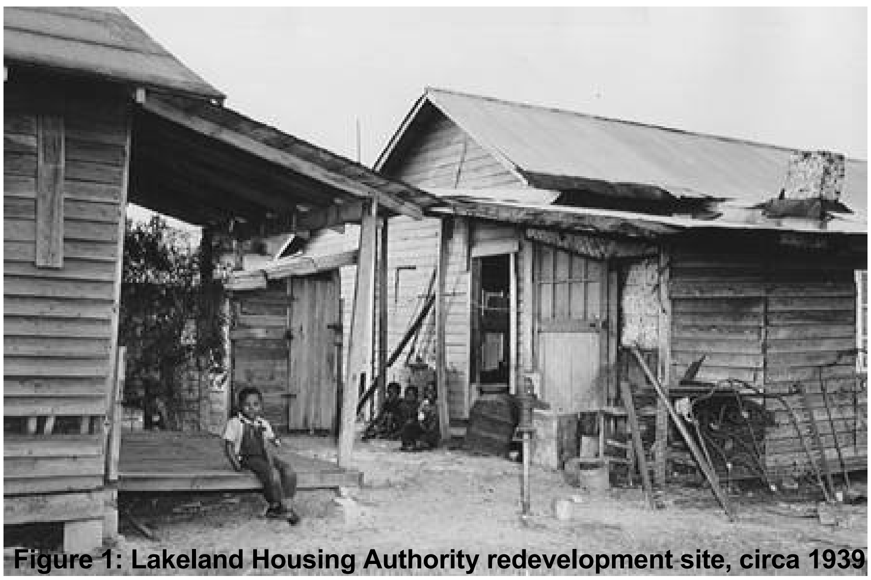

Figure 1: Lakeland Housing Authority redevelopment site, circa 1939

This required a large labor force which lived in substandard conditions exacerbated by the Depression and unrelieved by the lack of opportunity for other types of work, as the area was a sole industry county.

Even during the war, the newly formed Lakeland Housing Authority (LHA)—as did many others—began to engage in slum clearance and to provide new housing for the primarily citrus workers and other residents of the community. It finished this task utilizing the second phase of the 1937 Federal Housing Act public housing funding which was now no longer diverted to military purposes.

The financing mechanism was very simple. The local Housing Authority was granted funding to purchase land and construct housing for eligible residents with a 20-year mortgage which would be regularly decreased over a twenty-year period, provided that the authorized population was served over a period of forty years. At the end of the period the Authority owned the land and the structures.

Figure 2: West Lake Homes, c. 1945

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The first of the apartment units produced were built from 1942 to 1945 and occupied very soon thereafter. They were small duplex row houses set in predictable manner in a compact and distinctive neighborhood. The accommodations were Spartan, the landscaping nonexistent, but the homes were clean and modern and a vast improvement over the derelict and dilapidated tarpaper shacks that they had replaced. Reliable electricity and indoor plumbing with hot water must have seemed as luxuries to the new tenants compared to their previous accommodations.

Figure 3: Washington Park, c. 1952

The LHA was not quite through with their activities during this period. After clearing a several block area of ramshackle structures in another location in the city, the Authority built two-story brick walkup apartments which were very densely configured and comprised an entire neighborhood of its own.

The density of the development was unusual for as rural a location as Lakeland in the early 1950's but the site was centrally located near highways and transit systems and was generally successful until the 1970's. Then it began to swiftly decline.

There were two reasons for this, one local and one national. Locally, the neighborhood ceased to be as isolated as previous, additional development appeared in the area and crime and other disorder began to spread as local suburban housing development drew more affluent families from the site, steadily increasing the number of poorer families in the two adjacent public housing projects.

Nationally, there were two trends. The first was that new public housing construction was continuing at a rapid rate; nevertheless, the first stock of housing was reaching the point where major repairs were necessary, there was no federal funding for these matters, the rents were inadequate to support the repairs, and the housing was unable to be mortgaged because of the covenants in the original deeds—and there are no ribbon cuttings for keeping a development repaired. The second trend was that Congress had decided that this particular type of housing must be affordable for very low-income families and thus that the rent could not exceed a percentage of the family's income—later tabulated at 30% of adjusted income. Since these actions would leave enormous gaps in the op-

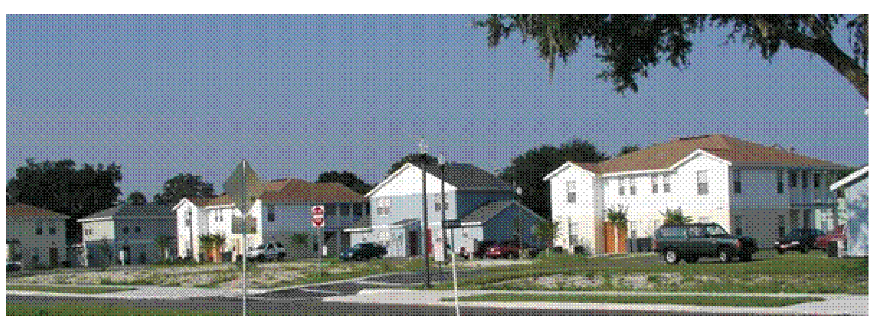

Figure 4: Washington Oaks, 2005

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erating budgets of housing agencies, Congress likewise provided a subsidy per unit to make up the shortfall between the rent and the cost of operations. This was the first of a string of makeshift financing devices which complicated both the management and administration of public housing Nevertheless, this did nothing to remedy the increasing physical deterioration of the Washington Park complex and its neighboring communities.

Figure 5: Lake Ridge Townhomes, 2006

Another of the improvised financing mechanisms involved the various funding streams utilizing competitive grants, loans and eventually programmatic funding which became the Capital Fund Program. This was an effort to shore up the physical conditions of the aging public housing inventory as all of this housing had been built without the customary replacement reserve and the previous "reform" had guaranteed that rents would be kept so low that there would be no surplus revenue to attend to an aging physical plant. However these subsidies were insufficient in almost all cases to rectify years of physical abuse and neglect. They tended to be utilized simply to patch and service and keep the units in the inventory.

This was a nationwide phenomenon, but the paltry yearly capital contribution made certain that the Washington Park neighborhood was unable to be improved and in fact was failing rapidly.

Things began to change in the early 1990's, when the local police department won a substantial federal grant for rigorous law enforcement proceedings targeted to the neighborhoods surrounding Washington Park. This permitted the hiring of extra officers, more patrol cars and equipment and provided much stiffer penalties for federal crimes committed (especially gun and drug offenses) in these areas. After a period of time the neighborhood proved as dangerous for the criminal class as it had previously been for the civilian.

With a change in the administration at the Lakeland Housing Authority combined with a new HUD policy called HOPE VI, which gave competitive grants for the demolition of dangerous or obsolete housing and the construction of new mixed income housing—a new strategy was devised for not only this neighborhood but for all the Authority's real estate inventory.

Figure 6: Magnolia Pointe, 2005

The LHA embarked on an aggressive approach to capture grant funding, but also to dispose of these properties to other and multiple limited liability entities which might thereafter employ Low-Income Housing Tax Credits (LIHTC), other bond financing, temporary bridge loans and private fi-

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nancing to simultaneously engage in several development projects in different parts of the city.

The program was ambitious, as it would require the demolition of over half of the LHA's inventory and the subsequent redevelopment of the sites with new infrastructure, redesigned streets and sidewalks, parks and amenities, and community center, etc. The mix of housing would also change with a three story elderly only designated building on the site, a quantity of town homes, a number of two-story LIHTC rentals mixed with conventional public housing units and other for-sale units for the purpose of homeownership. The site itself would be much less dense and much more amenable for families.

Figure 7: The Manor at West Bartow, 2009

So as to correct for other inventory that was lost, the LHA acquired a run-down two-story apartment building with forty units and thoroughly renovated it. It also applied for and received hundreds of Housing Choice Vouchers (HCV or Section 8) for the resettlement of the existing residents.

Concomitantly, a condominium development of forty-four units that was constructed in the 1970's and named Lakeview Gardens was purchased and totally renovated for those families who might qualify for public housing, but who were employed and wished to purchase a starter home that would require minimal upkeep and would still be affordable. All of the units have since been sold and the proceeds of these sales recycled into the development of additional housing. The development was named Magnolia Pointe and the result of this phase was an unqualified success.

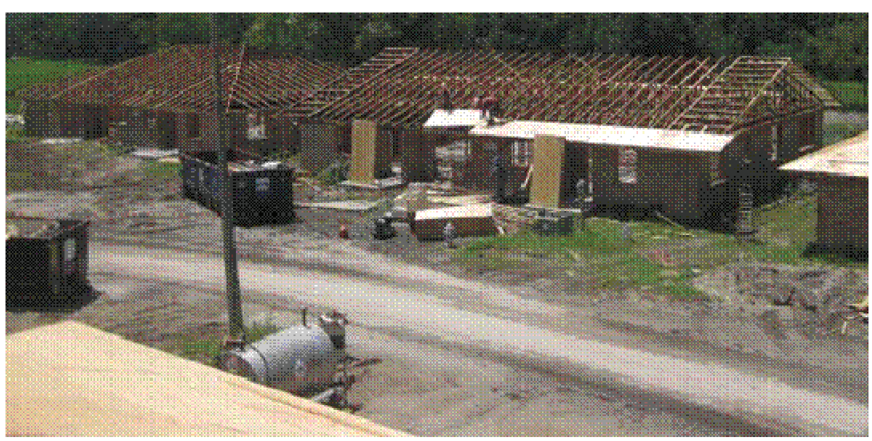

Figure 8: Paul Colton Villas and Bonnet Shores, 2010

The results of the first six phases of the HOPE VI redevelopment in Lakeland were substantially successful. A large part of the construction was completed without substantial delay and within the contingency allowance. The complexity of the differing financing mechanisms created some snags. But for each of the construction and occupancy stages, the elderly building was and remains completely rented; like-

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wise, the mixed-income units that replaced Washington Park; the adjacent Lake Ridge development has all rental units occupied; and the constructed single-family homeownership units have in the main been sold. There are a number of these units that have not been constructed. Certain lots have the infrastructure in place and others are simply subdivided with architectural plans and building permits, but construction ceased to continue when the Florida housing real estate market deteriorated with the national mortgage crisis. The administration decided that it was imprudent to build further until the supply of vacant units in the area improves or the mortgage industry becomes healthier. However, eleven of the lots have been sold to Habitat for Humanities, which will build single-family homes using its unique process.

At this time, the LHA was operating certain of these new units, some as public housing and others as low-income tax credit units, each with differing rules, qualifications for residents, and inspection and audit. The LHA was also collecting management fees and payments on previously postponed developer fees, thus freeing the administration from a total dependence on HUD subsidies. It was managing this profitably. So when two of its developments built in 1980—composing of approximately 150 units—that had had little rehabilitation and were scheduled for repair, rather than rely on an insufficient capital subsidy, the Authority decided to do an abbreviated version of its previous financing method, without the grant funding.

In large part, this was the result of the actions that the LHA had taken in purchasing a large parcel of land in a community several miles away where it planned to create new elderly housing using 9% Low-Income Housing Tax Credits. The Authority had applied for and received the credits, the land had been purchased, the architectural drawings been completed and the permits and zoning issued concluded. If other competitive tax credits could be acquired for these developments then the same process might be used; namely, the sale of the developments to individual limited liability corporations, the leveraging of additional financial resources and the Authority taking on the role as both the developer and the managing entity.

With the exception that the building of the elderly housing required no HUD approval, this was the model that was used for the 100 unit, three-story one- and two-bedroom complex that the LHA constructed and totally occupied in December of 2009. The construction was completed early and well within the contingency allowance, leaving money for additional amenities and replacement reserve funding. This additional development activity—outside the scope of most Public Housing Authorities—will provide the LHA with development and management fees and will revert to the sole custody of the Authority when the financial debt has been fulfilled. A new source of funding independent of HUD was thus realized. The project was named The Manor At West Bartow.

Using this model the LHA applied for and was granted 9% LIHTC for both of the two developments that they planned to renovate. Given that, the Authority applied to HUD to vacate the units, sell them to the third-party entity and relocate the residents. The reason for this was that rather than simply remodel the interiors, the units were to be reconfigured, creating greater market appeal and more open space, providing small additions, adding additional amenities and depending on the number of bedrooms, adding extra bathrooms. The site will also be totally remodeled for handicapped accessibility, added parking, and the re-grading and landscaping of all exteriors at each site. Consequently, only the shells would remain during the construction process. And the work would take nearly as long as constructing the site from scratch.

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The project completed the financing phase, the planning approvals, the permits, all contingency and project scheduling; likewise, bidding of the construction supervision and the general contractor and construction is underway.

This project will provide the LHA with developer and management fees while providing affordable housing for both public housing residents and other assisted residents through a variety of subsidies. But most importantly, it will free the LHA from a plethora of onerous HUD regulations and restrictions which hamper the reasonable management and administration of its housing complexes which is an alternative to answer to the command and control model of organization by which HUD is required to operate. This should make the management of the properties, the needs of the tenants and the return on investment to the Authority and its investors the primary aim of the management, just as other multifamily housing real estate is administered. The LHA has managed to accomplish this with 80% of its previous public housing inventory, and is pursuing other possibilities both within and outside of the county.

Consequently, the Lakeland Housing Authority, which began its life as a slum clearance agency, then became a public housing developer, and following that a deteriorated property owner, has managed, through the creative use of finance, development, administration and the use of in-house and other talent, to emerge in the last 15 years as a multifaceted corporation with numerous income streams and lines of business, and is not simply reliant on federal subsidies as are so many public authorities. The chronicle of the Lakeland Housing Authority indicates that even in the operation of public agencies there is no reason that guidance, initiative, hard work, improvisation, strategy and good judgment may not profit all of the partners that are supposed to be served in the community.

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