

## Exchange Program Used to Preserve Public Housing in Annapolis

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

When the Housing Authority of the City of Annapolis (HACA) issued a request for proposals for the renovation of Annapolis Gardens and Bowman Court (AGBC) in the spring of 2007, the housing authority had no idea that it would be one of the first developments funded through a new tax credit program.

HACA, in partnership with Landex Development LLC, planned to revitalize the two neighboring public housing properties in Annapolis, Md. using low-income housing tax credit (LIHTC) equity. Yet, when the developers began shopping around their credits, they could not find any buyers willing to pay the price necessary to complete the work. Struggling to find a way to fund the redevelopment, the developers approached the state. The Maryland Department of Housing and Community Development (MDHCD) suggested HACA and Landex return their LIHTCs for a grant through the tax credit exchange program, or 1602 program, created by the American Recovery and Reinvestment Act.

"It was a nightmare trying to find an investor for public housing," said Eric Brown, HACA's executive director. "When the [exchange program] came on we were just jumping for joy."

The best credit price that investors had offered for the LIHTCs was 60 cents on the dollar. With the amount of equity that could be generated by that price, HACA and Landex determined they would not be able to renovate AGBC's units. Plans called for transforming AGBC into a mixed-income development called Annapolis Gardens Village, featuring 75 public housing units and 75 LIHTC



Annapolis Garden Bowman Court  
Architectural Site Plan  
2009-11-02

Rendering Courtesy: Wiencek+Associates Architects+Planners P.C.

**The 150 renovated apartments at Annapolis Gardens Village will include 75 low-income housing tax credit units and 75 public housing units.**

units. Brown said that the developers began to panic, concerned that they would not be able to save the deal. HACA had invested a lot of time in the transaction and really could not afford to abandon the transaction. Then, matters got worse, the developers lost the investor that was offering 60 cents.

"Overnight, the price went from 88 cents to 60 cents to not being able to find anybody," said Peter Siegel, Landex's chief executive officer. The Annapolis market, although it had a severe shortage of affordable housing, was too small for investors in 2008.

Landex and the housing authority approached the MDHCD with their dilemma. "[They] had a remaining finance gap and didn't know how to fix it," said Patricia Sylvester, director of MDHCD's multifamily housing programs.

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Because the developers could not secure a tax credit investor, it made more sense for the properties to receive exchange program funds rather than tax credit assistance program funds, Sylvester said.

MDHCD awarded grants to the properties from its exchange program grants in the summer of 2009. The property met the criteria for exchange program participation because it was financially feasible and ready to proceed, and the developers could demonstrate a good faith effort in their attempt to find an LIHTC investor.

"This was a project that needed the full 85 cents," Sylvester said. MDHCD returned the housing authority's 2008 tax credits to the U.S. Treasury and received approximately \$13.7 million in funding from the exchange program.

In addition to the \$13.7 million in exchange funding, the \$19.5 million conversion of AGBC is being financed by numerous public and private sources. Public sources

include a \$1.7 million MDHCD Rental Housing Production Program loan, a \$500,000 Community Development Block Grant loan from Arundel Community Development Services, a \$93,000 city of Annapolis grant and a \$500,000 HACA seller financed loan. Private financing includes a \$2.3 million TD Bank construction loan and a deferred development fee of \$592,000.

"From the state's point of view, they were very excited about it because it was a deal that would definitely go forward," Siegel said.

In structuring the transaction, the players tried to keep it as close to a traditional LIHTC deal as possible.

"We understood that the rules were being written and were going to change halfway through the process," said Siegel, noting that the transaction was being structured during the summer when Treasury had yet to release final program rules. "[We said] let's try to keep it looking, smelling and tasting like a tax credit deal." By the time the deal closed on September 29, most of the rules, ex-

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cept for the recapture provisions, were unchanged.

MDHCD's main concern for the exchange program transaction was that without an investor in the deal, there was no one to bail out the property if it failed. To address the state's concerns, a large operating reserve was built into the property's budget. This also will help the property stay afloat if HACA receives a decrease in its federal assistance.

"... the state had the money and we were ready to go. [It was] a win for the state and a win for us," Brown said.

With the infusion of exchange program money, HACA and Landex will be able to preserve 150 units of affordable housing. Apartments will feature one to five bedrooms, new Energy Star appliances, energy-efficient dual pane windows with thermal break and Low E glass, water saving devices, individually controlled heating and air conditioning systems, high-speed internet access, washer and dryer hookups, and new flooring, bathroom fixtures and kitchen cabinets.

"The goal is to make sure that we have the same number of affordable housing [units] in the community," Brown said.

The units, built in 1961 and 1974 had deteriorated during the years, becoming an eyesore for the middle class neighborhood.

The developers will install new siding and exterior lighting and improve the building facades. Renovations will also include installation of small playgrounds and tot lots throughout the site, construction of traffic calming features, an expanded community center, a new leasing office, updated laundry facilities and improved landscaping. HACA and Landex will also replace the sewer laterals to eliminate frequent flooding of the site, the result of tree root penetration. Fifty to 100 existing trees will be replaced with hardier, drought-resistant indigenous varieties.



*Photo Courtesy: Wiencek+Associates Architects+Planners P.C.*

**Landex Development and the Housing Authority of the City of Annapolis will replace the existing day-care and Head Start facilities.**

When renovations began in late September, residents occupied 110 of the existing 150 units. HACA will move most residents to other housing authority properties during construction. As construction progresses, the residents remaining at the property will move from old sections of the development to the renovated units. Both new and existing residents will have the opportunity to use U.S. Housing and Urban Development Section 8 tenant-based program vouchers. The developers anticipate that construction will be finished in November 2010. Landex will serve as the property manager.

As of October, MDHCD had awarded exchange program funds to seven additional properties. Construction was expected to start on all of the properties by the end of October.

"The U.S. Treasury program has worked well. It is a life-saver for affordable housing development in Maryland," Sylvester said. "Without this we would not be moving forward." ❖

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