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Photo by Gary Gold

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Van Rensselaer Village Village, Watervliet, N.Y.
Photos by Gary Gold

The Turnaround

Housing Authority, Developer Team Up to Revitalize Troubled Property

It doesn't happen often. But sometimes you develop a housing project that makes an entire community whole again – totally healthy.

That's what has happened in Watervliet, a blue-collar city of about 9,000 people in Upstate New York, just outside Albany.

In June, the local housing authority and a for-profit developer held a ribbon-cutting for Van Rensselaer Village, an 81-unit affordable garden apartment community for families that they renovated and revitalized using federal low-income housing tax credits, other funds – and a lot of grit and determination.

"The primary goal of this was to secure the integrity of the neighborhood and for the city," Charles Patricelli, executive director of the Watervliet Housing Authority, explains matter of factly. "This was the only choice we had."

Developer Duncan Barrett, chief operating officer of Albany-based Omni Housing Development LLC, the housing authority's joint venture partner in the transaction, described the $17 million project as "truly transformational."

Van Rensselaer Village Apartments was originally constructed in 1972, regulated by New York State under the Mitchell-Lama program and financed with a federal Section 236 mortgage capitalized with the proceeds of tax-exempt bonds issued by the state housing finance agency. The development contained 12 long, low-rise barracks-type buildings.

By 1998, the project was in shambles – physically and financially. The buildings and units were dilapidated, the property management company had more than $100,000 in unpaid bills, a full mortgage payment hadn't been made in years, and the private owners were in

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default under the bond issue.

"It was in a state of disrepair," says Patricelli. "It had 100 apartments, but only 38 were rentable." T-111 siding was in poor condition and concealed water leaks, much of the insulation was gone, and many other problems existed. In addition, low-level crime was an issue. In short, the development had become an eyesore and blight on the community. "It really was drawing down that neighborhood," says Patricelli.

Charles Patricelli

At the request of the mayor, and after getting various consents, the Watervliet Housing Authority took over management. Over the next several years, it cleaned up the crime problem, paid off the outstanding bills, and slowly began to make repairs and limited physical improvements to the apartments, one unit at a time.

The authority realized, however, that it needed to do something bigger to fully renovate and recapitalize the development – something impossible with its limited funds. Ultimately, it decided to pursue a low-income housing tax credit transaction, and issued an RFP and selected Omni Housing Development LLC as its joint venture partner to redevelop the property. The housing authority and developer had worked together in the past.

The project received an award of 9% low-income housing tax credits in 2009 from the New York State Division of Housing and Community Renewal.

The transaction closed in January 2010, and work began soon thereafter and was completed in the spring of 2011. Nineteen existing units were demolished and the remaining long buildings split into a greater number of structures of shorter length to give the development a residential feel and create more family-friendly open space. The flat roofs were replaced with pitched roofs; the buildings re-sided; mechanical systems and windows replaced; and kitchens and bathrooms renovated.

The remaining tenants at the time were relocated during the renovations. Many returned after the project was finished, though some kept their vouchers and did not. The housing authority filled the remaining vacant units from its Section 8 waiting list and other channels.

Barrett says there were a number of challenges that had to be overcome to do the deal.

One was getting the U.S. Department of Housing and Urban Development to go along with fewer housing units. "HUD had a hard time with this notion that we were going to reduce the number of dwelling units, because their policy is to preserve affordable housing, and they didn't want to lose any regulated units," says Barrett. "But we talked them through the notion that it was going to be self-sustaining when it was done, whereas the prior 100-unit project was clearly not self-sustaining. It had regulatory and physical and financial failures that were ongoing for a decade."

Photo by Gary Gold

Duncan Barrett

Another challenge was acquiring the property itself. The three individual owners had died, so the property was in an estate and had to be purchased out of it.

A final obstacle was trying to line up the funding for the project – during the LIHTC equity market downturn. "We got our tax credit allocation in the middle of 2009, and there was virtually no tax credit market in Upstate New York, virtually none," says Barrett.

Still, the sponsors persevered, and eventually sold the tax credits – for 72 cents per dollar of credit – to

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syndicator Raymond James for ultimate investor Verizon.

Other funding included federal Tax Credit Assistance Program (TCAP) dollars from the state; a small loan created by decoupling the Interest Reduction Payment (IRP) subsidy stream from the Section 236 mortgage; a new 30-year permanent mortgage from the Community Preservation Corporation; a state energy-efficiency loan; existing project reserves; and a deferred developer fee. M&T Bank provided the construction financing.

The sponsors assumed the existing Section 236 mortgage, and paid it off. The state agency helped by forgiving a portion of the accrued and unpaid interest.

The completed development includes 80 LIHTC units and one market-rate apartment in 17 low-rise buildings. The affordable units are restricted to households making 50% or less of the area median income, and are subsidized by federal project-based Section 8 vouchers. Monthly gross rents are: one-bedroom apartments, $647; two bedroom, $771; three-bedroom, $877; and four-bedroom, $953. The average out of pocket monthly rent for residents is $332. TCA

Source and Uses Summary

SOURCES

9% Low-Income Housing Tax Credit Equity (Raymond James – Verizon)	$9,439,065
Permanent Mortgage (30 years) (Community Preservation Corporation)	$2,675,000
TCAP Loan	$3,780,907
Interest Reduction Payment (IRP) Loan	$337,500
Loan (NYS Energy Research and Development Authority)	$107,200
Existing Project Reserves	$300,000
Deferred Developer Fee	$484,384
Total Sources	**$17,124,056**

USES

Acquisition Costs	$1,000,000
Construction Costs	$11,398,297
Soft Costs	$2,016,512
Developer Fee	$2,196,833
Reserves & Working Capital	$512,414
Total Development Cost	**$17,124,056**