HUD FY 15 Budget

Secretary Castro sent the following budget message to HUD staff on December 17, 2014:

“Last night, the President signed the Consolidated and Further Continuing Appropriations Act of 2015. This bill outlines HUD’s $45 billion budget through the next year and provides the framework to continue making strategic investments in housing and inclusive communities. As the Dept. of Opportunity, HUD firmly committed to expanding access to credit, linking housing to educational and economic opportunities, ending homelessness, leveling the playing field for all Americans, and strengthening communities.

However, as needs for our services have gone up, HUD’s resources have gone down. As we have time and again, we’ll find creative ways to have the greatest impact with the resources we have available so that we can continue to expand opportunity for all.

HUD’s budget will permit for the continuation of key administration priorities including:

- Expanding access to HUD-VASH for veterans experiencing homelessness in tribal communities.

Our budget allows HUD to support the individuals and organizations that we currently serve, but gives the agency very limited flexibility in helping many new families reach the middle class or pursue their dream of homeownership. The Department did not receive the full request of funding to end chronic homelessness in 2016 and the pilot housing counseling program for new homebuyers, Homeowners Armed with Knowledge (HAWK), is now delayed for at least a year.

While our funding does not fully represent the magnitude of our mission, we still have a remarkable capacity to improve the fortune of millions of folks. I’m proud of our work, the progress you’ve made so far, and the opportunities a new year holds.”

New Deputy Secretary

Nani Coloretti was sworn-in as Deputy Secretary of HUD on December 8, 2014. As the second most senior official at HUD, Ms. Coloretti will manage the Department’s day-to-day operations, including a $45 billion annual budget and approximately 8,500 employees.

Prior to joining HUD, Ms. Coloretti served as an Assistant Secretary at the U.S. Department of the Treasury where she advised the Secretary on the development and execution of the Department’s budget, strategic plans, and the internal management of the agency and...
appointed her as a member of the Government Accountability and Transparency Board. Following the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010, Ms. Coloretti helped establish the new Consumer Financial Protection Bureau (CFPB), serving as its Acting Chief Operating Officer.

She served as a policy advisor and budget director in San Francisco where she led the development and implementation of the city's $6.2 billion annual budget. Ms. Coloretti also spent six years in San Francisco as the policy and budget director at an agency that worked to improve the lives of children, youth and families by investing in cross-cutting, evidence-based initiatives. In years prior, she served as a consultant at the Law and Economics Consulting Group, a health finance and budget analyst in the Clinton Administration's Office of Management and Budget and a budget analyst for the State of Hawaii.

She is a recipient of the UC Berkeley Goldman School Award for Policy Innovation, the National Public Service Award, and the Fed 100 Award. She holds a B.A. in Economics and Communications from the University of Pennsylvania and a Master's in Public Policy from University of California at Berkeley.

**Housing Forecast**

In 2014, housing units in buildings with five or more housing units comprised about 35% of all housing units.

Two reasons for multifamily housing’s popularity is demographics and the real estate collapse of a few years ago.

The number of young adults (ages 20-34) is rising, as the children of baby boomers come of age. Also, the real estate collapse of a few years ago devastated the idea that home ownership is a sure-fire, no-risk way to riches.

*Forbes*, however, has predicted that sometime, between 2020-2030, a major shift will occur away from multifamily and back into single-family homes, where virtually no growth is predicted for young adults. Time will tell.

**Single Underwriter Model**

Multifamily Housing is well into the process of replacing the lineal process for processing multifamily production into a single underwriter model. The upcoming MAP Guide revisions will memorialize the new process and in the meantime HUD Program Centers will process waivers of technical review requirements where appropriate.

In the past each discipline reviewed the transactions sequentially which did not align with current mortgage industry practices. In adopting the new business model, HUD is consolidating key decisions. The expectation is that underwriting will interact regularly with the other mortgage disciplines in reviewing applications. As conflicts emerge the underwriter and other disciplines will resolve them or refer them to the next level.

**Minimum Vacancy Rates in Underwriting**

Except for commercial space and co-operative refi’s, the MAP Guide (Valuation Chapter 7.7.F) does not address minimum vacancy rates in underwriting. Actual market conditions at the time of the loan application should be applied.

Generally speaking, the underwriter should use a minimum vacancy rate of 7% (including bad debt and collection loss) for market rate projects, and tax credit deals without a rent advantage and without a project-based Section 8 subsidy. Projects with tax credits and a rent advantage should use a minimum of 5%. Projects with a project-based Section 8 contract for all/most units, and in a historically tight market, should use a minimum of 3%.

**Energy Fact**

About 1/3 of the U.S. population live in 500,000 multifamily buildings. Their residents spend about $22 billion on energy every year. Current estimates show that these properties can become 30% more efficient and save 49 billion by 2020 and avert 35 million tons of greenhouse gases per year. (Source: *MultiHousing Pro*, November/December 2014).
Leadership Conference

On January 21-23, 40 members of the Multifamily Leadership Team and staff from the Jacksonville Hub Office met in Jacksonville, FL. The packed agenda included meetings of the Multifamily Housing Transformation Steering Committee, a state of the office presentation by DAS Ben Metcalf that highlighted achievements from FY14 and an vision statement for 2015, as well as an entire day devoted to practical lessons learned from the first two waves of the transformation.

Trade Shortage

According to the National Multi Housing Council, more than 400,000 new units must be delivered annually to satisfy pent-up needs of a growing rental population. An impediment to this construction is a labor crunch that is rooted in the recession, where workers were forced to find work outside of the construction business.

Of the builders reporting labor shortages, 63% identified carpenters (rough), 60%-framing crews, 58%-carpenters (finishing), 49%-bricklayers/masons, 38%-plumbers and 37%-roofers. (Source: MultiHousing Pro, November/December 2014).

Limited Housing Choices

The latest issue of Cityscape: A Journal of Policy Development and Research features a research symposium held to examine forces that limit inclusion in American neighborhoods. The researchers found that after six decades of focused policy and legislation, blatant discrimination in the housing market has given way to more subtle forms that limit housing choices for minority renters and homebuyers.

Although diversity in neighborhoods has grown, broad segregation patterns persist—often based on economic and social realities that block access to opportunity. As HUD looks to the future, the article discusses the Department's plans to increasingly promote diverse inclusive communities.

The article can be found at: www.huduser.org/portal/periodicals/cityscape/vol16num3/index.html

Office Conversions

Due to the shrinking amount of urban land available for the construction of new apartment buildings, office conversions are becoming a viable option. Repurposing an existing building preserves and recycles materials, labor, capital and energy invested in a building when it was constructed and subsequently during its useful life.

For an aging or obsolete office building to be a candidate for residential conversion depends on several factors: the building’s location, size of the building, physical form and structural condition. Transforming aging office buildings will always depend on variable economic and technical circumstances. But, a surplus of office buildings may be the answer to address the lack of affordable housing.

Top Housing Markets

Two-thirds of the sales of apartment projects, through the 3rd quarter of 2014, occurred in only 10 multifamily markets. Leading the list was New York—$10.4 billion. Number 8 on the list was Washington, DC with $2.9 billion. (Source: Multi-Housing Pro, November/December 2014).

Outstanding Projects

The following management agents had a project that received a superior management and occupancy review in 2014. They should have been recognized, along with their counterparts, in last month’s newsletter: UAW East Orange Associates, Community Realty Management, B & F Management and Hillcrest Management.

Spotlight on Your Project

If you have an interesting story about one of your projects and would like to have it featured in a future issue of Northeast Multifamily Regional Housing News, please send a brief write-up (in Word format) to: thomas.langston@hud.gov
“Around the Hubs”

PHILADELPHIA

DEC Recovery

The New York Departmental Enforcement Center (DEC) has recovered $1,991,631 in unauthorized FY 13 distributions from the owner of Willow Tree Manor, a 104-unit nursing home facility located in Charles Town, WV. The unauthorized distributions were taken while the project was in violation of its Regulatory Agreement due to its poor physical condition.

Groundbreaking

A New Jersey developer and a senior assisted living provider broke ground, in mid-November, on 62 units of in-demand independent-living apartments.

The Geriatric Services Group and the developer, The Alpert Group LLC, were joined by local politicians, federal housing officials and the project’s financial partners in heralding the Bergen Avenue facility as a breakthrough for North Jersey’s aging, low-income population.

HUD is providing more than $9.7 million to subsidize rents. The project is expected to open in December 2015 and will begin taking applications through the HUD program three months before the building is ready for tenants to move in.

Revitalization of Rolling Woods

Residents of Rolling Woods Estates will soon benefit from over $7.2 million in rehabilitation funding that will cover a new roof, windows, kitchens, bathrooms and HVAC units for the 70 two-bedroom walk-up apartments, 14 three-bedroom townhouses and community space. Common area improvements will also include new corridor lighting and flooring as well as new playground equipment.

Rolling Woods Estates is owned by a limited partnership comprised of Ralph A. Falbo, Inc. as General Partner and a limited partner investor. All of the units will receive Section 8 project-based operating subsidy through an extension of an existing Housing Assistance Payments (HAP) contract. Rents will be governed by HUD and Section 8 Renewal Guidelines for Exempt Properties.

Housing the Homeless Update

In Sept. 2012, Philadelphia was named as one of ten HUD-identified priority cities to qualify for funding for a special initiative—Dedicating Opportunities to End Homelessness. Communities in the initiative used a new “Strategic Planning Guide” analytic tool to estimate housing needs and to develop strategies for increasing access to housing. We have had some real “wins” through this initiative. The Philadelphia Regional Office integrated the U.S. Department of Veterans Affairs’ (VA) questions into the City’s Homeless Management Information System to be able to provide the VA with more valuable referrals. It also utilized existing homeless registries to identify chronic homeless veterans not identified by the VA’s medical center.

In an “out of the box” move, it began working with multifamily property owners to place tenants with the greatest needs in long-term vacant units—both subsidized and unsubsidized. Owners and management companies have signed on to identify vacancies and establish preferences for people experiencing homelessness. Since June 2013, the team from the City, VA, HUD and the Pennsylvania Housing Finance Agency, have helped owners house 29 individuals who had been experiencing homelessness. In addition, eight new multifamily properties have approved preferences for people experiencing homelessness to fill the next vacancy with an applicant referred by the City or VA. Those housed will also have access to supportive services. Public housing authorities, as well as multifamily properties, can choose to prioritize applicants who are homeless.

There are smaller initiatives as well. The Region III Federal Executive Board decided to take action and started a “Homeless to Housed” campaign—recognizing that former homeless individuals are often in need of furnishings and household items. As a result, after the VA Center Director challenged his employees, they donated enough goods to furnish three homes. It’s important to think big and small, because even the little things, like dishes and sheets can make a huge difference to an individual who has just obtained housing.

Best in Apartment Living

Two projects managed by Community Realty Management, Mt. Carmel Gardens and Opportunities Towers I & II, were the recipients of the Pennsylvania Apartment Association East’s Best in Apartment Living Awards.

Congratulations!
PennDel AHMA Food Donation

Kudos to the PennDel AHMA for its community support of the Food Bank of Delaware. A total of 465 pounds of food was donated to assist needy residents of Delaware.

Jersey City Growth

Jersey City currently has 5,000 residential units under construction with another 18,000 planned or approved. As population growth currently stands, it will surpass Newark as NJ’s largest city by 2016.

NEW YORK

Ribbon Cutting

Stacey Schrager, Director of Project Management, joined Cynthia Wainwright, The Bridge Board President, Susan Wiviott, CEO of The Bridge, Brigadier General Loree Sutton of the NYC Mayor’s Office on Veteran Affairs, plus numerous local, state, business and civic leaders at a ribbon cutting to celebrate Bridge Gardens Veterans Residence, a new 17-unit Bronx facility that will provide homeless veterans with permanent housing and support services.

This unique residence was made possible through a successful public-private partnership with federal, state, city and private funding. The facility received capital funding from HUD under the Section 811 program for persons with disabilities, along with project-based Section 8 in rent subsidies. Additional capital funding was provided by NYS Homeless Housing and Assistance Corporation; the Federal Home Loan Bank of New York, sponsored by HSBC; The Home Depot Foundation; Citibank; and the Vincent Mulford Foundation. The New York City Department of Health and Mental Hygiene is providing funding for the on-site services and staffing. Tenants pay 30% of their income as rent. Home Depot, through its national volunteer veterans efforts, landscaped the front and back of the building, and donated picnic tables, benches and barbecues for the tenants.

Each veteran will have his/her own large, fully furnished and equipped studio apartment. A full-time residence manager will provide each veteran with case management, crisis intervention and linkages to community health, mental health, substance abuse services, and cultural/socialization activities. Health and mental health services will be available through the Bronx VA Medical Center, as well as St. Barnabas Medical Center located one block from the residence.

Manchester Place– A Success Story

Sometimes, if you build it, they don’t come. The Residents at Manchester Place, in downtown Manchester, was such a case. It was the largest default ever experienced by the Manchester Program Center. Known locally as Manchester Place, this 204-unit luxury mid-rise apartment project encountered cash flow problems from the outset, and went into default on its Section 220 mortgage within two years from initial occupancy in 2005. By 2009 it was evident that a claim was imminent. The mortgage amount exceeded $28 million.

But a buyer emerged at the last minute. A Partial Payment of Claim (PPC) package was rapidly developed and, in April 2010, HUD accepted a PPC note and mortgage for $14,891,044, equivalent to 54% of the then-principal balance. The City of Manchester agreed to subordinate its $500,000 Section 108 loan to the new PPC loan and accept minimal cash flow payments, in hopes the property would someday stabilize.

The PPC worked quite well- even better than expected. The significant debt relief provided by the PPC allowed the project the necessary latitude to adjust its rental expectations downward and stimulated market demand. Within two years, Manchester Place reached 98% occupancy. Today, the property enjoys sustained high occupancy and is positioned as the only luxury downtown apartment building in Manchester, the largest city in New Hampshire. Even U.S. Senator Kelly Ayotte maintains a district office on the ground floor of Manchester Place. On October 30, 2014 the project was refinanced utilizing a Section 223(a)(7) loan equal to the original principal amount and using the same 40-year term of the original insured mortgage. The new loan fully retired the modi-
mortgage and the Section 108 loan, and generated a recovery to HUD of $13,686,835 on the PPC Note. While not a full payoff, over $1.84 million in accrued interest and $11.8 million in principal was repaid, leaving a remaining PPC balance that should be repaid in full from cash flow in 10-15 years, or a full 25 years earlier than under the PPC structure.

As it turned out, going into default actually saved the property from years of financial difficulty, strangling under its debt and falling into disrepair. This is one story that shows how powerful and successful the PPC program can be.

**Bayview Towers Renovation**

Bayview Towers Apartments, located in Stamford, CT, a 200-unit family project consisting of a 21-story high-rise building and an adjoining 9-story building, underwent extensive renovations earlier this year. The renovations included new flooring, kitchen cabinets, counters, fixtures, tubs, showers, vanities, medicine cabinets with energy efficient lighting and appliances. In addition, the rehabilitation included new roofs, windows, plumbing, electrical upgrades and elevator improvements.

HUD has a long history of investment with Bayview Towers, having first financed its construction in 1971 when it was known as New Hope Towers Cooperative Apartments, with initial occupancy achieved in 1973. Cornerstone/Bayview Inc. acquired the project in 1997 in conjunction with a $12.8 million Housing Technical Assistance Grant (HTAG), and the current owner, Bayview Preservation Partners, L,P acquired the project in 2012.

The $13 million total renovation project performed as part of a nearly $18 million refinancing that included funding from a Connecticut Housing Finance Authority (CHFA) mortgage, Low-Income Housing Tax Credit (LIHTC) equity, and funds from Connecticut Light and Power. During the renovation phase, HUD provided project-based Housing Choice Vouchers to income-eligible families and continues to provide rental subsidies to 75 low-income families under a 20-year Housing Assistance Payments Contract.

**BBC Project**

The Boston Multifamily Housing staff visited Powdernill Village, an affordable housing development in Westfield, Massachusetts on December 4th to tour recent energy-related investments in the property and highlight the commitment of Peabody Properties, Inc., owners of Powdernill Village, to sign on to the Better Buildings Challenge (BBC). In the Boston Hub, nine multifamily property owners have already signed on to the Better Buildings Challenge, committing to a 20% portfolio-wide energy reduction over 10 years.

Powdernill Village is undergoing $3 million in energy efficient upgrades which include oil to gas conversion, new high efficiency boilers for heat, and other energy efficient cost saving measures. The community has 250 units of affordable housing.

**Section 202 Project**

HUD Connecticut Field Office Director Suzanne Piacentini recently joined state and local leaders to celebrate the completion of the expansion of Beckley House in Canaan, CT. The new construction and expansion provides for the addition of ten one-bedroom units to the existing twenty-four one-bedroom units for very low income seniors over the age of 62. HUD has contributed $1.7 million to construct this project under a Section 202 capital advance.

**Baltimore**

**ELA Conference**

The Baltimore Hub Office will be hosting the 11th annual Eastern Lenders Association (ELA) Conference on March 9-11, 2015.

The conference brings together over 100 lenders from the east coast, as well as HUD Directors from the Boston, New York, Philadelphia and Baltimore Hubs.

It will take place at the Hyatt Regency Baltimore, Inner Harbor, 300 Light Street, Baltimore, MD.

If you are interested in attending, here is the registration form: