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3 Properties, 2 Counties, 1 Pandemic: How Delaware Public Housing Properties Converted Through RAD

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Three public housing properties in two Delaware counties are transitioning through the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD) program during a pandemic.

"The housing agency works relentlessly," said Tanya Dempsey, principal at CSG Advisors, which worked with the Delaware State Housing Authority (DSHA) to oversee the transaction. "They were so diligent, even with all the uncertainty. They put together a whole host of protocols. It was pretty remarkable."

The three properties–Holly Square in Middletown, McLane Gardens and Peach Circle in Smyrna–are undergoing a $24.4 million transformation that will include substantial upgrades.

"The biggest thing for our residents is that they're going to get a brand-new apartment on the inside," said Chris Whaley, the DSHA director of housing management.

This is the second stage of a multiphase transition of all 600 units in DSHA's public housing portfolio.

'Biggest Bang for our Dollar'

DSHA is the public housing authority (PHA) for two of the three counties in Delaware. DSHA is also the state housing finance agency, overseeing virtually all housing programs in the state, including the Section 8 and Section 9 programs, the issuance of tax credits, the state's housing development fund and more.

But when it came time to consider using RAD to help finance upgrades to public housing, DSHA looked for help.

"We hired CSG Advisors to review our public housing stock and to see the viability of coming up with a plan to convert all public housing to RAD," Whaley said. "Funding for RAD is more stable than public housing."

On CSG's recommendation, DSHA stepped into RAD in 2017, tearing down the Liberty Court housing complex in Dover and rebuilding 100 affordable units. The three-property transaction involving Holly Square, McLane Gardens and Peach Circle soon followed.

"We wanted to see what gave us the biggest bang for our dollar," Whaley said. "We wanted to make these properties work in a RAD conversion. Based on CSG's recommendations, we took the three sites and put them into one RAD application."

It's unusual, since the properties are not only in two cities, but two counties. But Whaley explained that it made sense: because of their size, Peach Circle and Holly Square had been managed and maintained out of the management at McLane Gardens.

Dempsey added that while the Peach Circle-Holly Square-McLane Gardens grouping made sense, it wasn't simple.

"It's scattered site," she said. "It's three buildings in two counties that they were trying to redevelop. That meant three surveys, three appraisals, three of everything. We definitely knew it was going to be challenging to do those three. We had issue with the equity provider, with HUD, with everything. But the reason people were able to get on board was that they were already being managed as one project. How could you tell someone that these have worked for 20 years but now, with different financing, it doesn't work?"

Dempsey said Peach and Holly's size–both were small–meant it didn't make sense to do them as standalones. "We knew we needed to bundle the properties to make them more desirable for investors and lenders," Dempsey said.

Josh Reiss, director at Lument, an organization that's a combination of legacy affordable housing experts Hunt Real Estate Capital, Lancaster Pollard and RED Capital Group, said the properties being in different counties created some complications.

"Generally, you see transactions in the same town," Reiss said. "This was across two towns, two counties about 40 miles or so. It really comes down to how we approach the business and how we underwrite the operations. "

Aging Properties Renovated

All three properties are aging.

Holly Square has 24 units of senior housing and was built in 1972. Peach Circle has 32 units of disabled and senior housing and was built in 1976. McLane Gardens and its annex have 50 units of mixed-income housing. The main building was built in 1976 and the annex in 1984.

The upgrades to the buildings will primarily be on the interior.

"On the outside, they're going to look pretty much the same," Whaley said. "Most of the concrete sidewalks will be redone, parking lots and lighting will be improved. The big improvement will be inside."

DSHA did not have a third-party developer for this development and is responsible for the work.

The apartments will undergo dramatic renovations, with new electrical systems, flooring, kitchen cabinets, heating, hot water, sprinkler systems and more. The look will be similar to how the first RAD property looks now.

"We saw the Liberty Court units and they're similar to what McLane, Peach and Holly are doing," Dempsey said. "The reason we're doing this is that [the properties] need it."

Construction began Sept. 1, 2020, and is expected to take two years. The timing means COVID-19 is an issue.

Working Through COVID-19

With COVID-19 hitting its fall 2020 peak as construction began, DSHA was cautious.

"[Financers] RBC and Wells Fargo wanted us to lay out our protocols before we even went to settlement," Whaley said. "The biggest question was about how we would handle delays. We started talking in March or April of last year, so we had to plan for it."

DSHA moved residents out of their properties during construction. That meant moving families to vacant on-site units, private off-site apartments or scattered-side developments run by the PHA.

"The planning process began early," Whaley said. "You have to go through a lot of hoops to make it happen. We had a lot of meetings. We have a great staff that manages all the properties and they've been very good about moving and dealing with the residents."

Dempsey was impressed.

"They looked for units in the vicinity that were vacant and used them," Dempsey said. "They really looked at proximity. They didn't want to move people outside the initial area and spent a lot of money to do it. They were very committed to not disrupting families more than needed. It's amazing how involved they are in how much care they take. They have a great deal of respect for their residents."

Beyond moving residents, other logistics caused issues.

"The biggest issue that popped up was COVID and the biggest issue we ran into was the state agency having a tough time tracking down the right people for approval of zoning or building permits with everyone working remotely," said Reiss. Lument provided an $8 million Freddie Mac unfunded forward commitment loan to pay off construction and renovation debt for the three properties.

Financing

DSHA financed the property with RAD vouchers, permanent debt, seller carry-back note and tax-exempt that go with the 4% LIHTCs.

That meant that DSHA had to apply for LIHTCs from DSHA. Susan Eliason, DSHA's housing development director, emphasized that DSHA sought 4% LIHTCs, which are noncompetitive in Delaware, so there weren't conflicts of interest over a 9% allocation by the state.

"We went through the same process as everyone else," Dempsey said. "The competitive round is in April, so we applied after that, so we weren't competing with everybody else."

RBC Community Investments provided $5.6 million in LIHTC equity.

Future: Full RAD Conversion

Whaley said the DSHA hopes to convert its entire portfolio through RAD within the next five or six years, starting at the north end of the state and gradually moving down.

Dempsey continues to work with DSHA, but realizes the housing authority is gaining expertise.

"We pride ourselves on providing our clients with capacity-building services, which allows them to handle most of the transaction in-house, rather than, outsourcing," said Dempsey. "We essentially train ourselves out of a job."

She said it's not always simple.

"In theory, it should get easier, but the reality is every deal is a little bit different," Dempsey said. "We're actually starting the next round now and the question is whether or not it will get easier. It's like a puzzle and they [DSHA] are really good at construction, so the transaction should be easier."

Reiss, who has worked on RAD transactions since the program launched, said all the work is worth it.

"What we have found is that in all the projects for public housing, we collectively spend a year working getting to closing, but that effort allows the property to extend its useful life for 30, 40 or 50 years," Reiss said. "They're effectively federal assets and we need to preserve that. There's not much if any new public housing and it's in demand. If we don't preserve the assets we have today, we're going to lose them." ❖

DELAWARE PUBLIC HOUSING FINANCING

- $8 million mortgage from Lument
- $5.7 million seller note
- $5.7 million low-income housing tax credit equity from RBC Community Investments
- $3 million from Delaware Housing Development Fund
- $1 million federal HOME financing
- $500,000 interim income
- $500,000 deferred developer fee

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