BRAD FENNELL TESTIMONY

SUBCOMMITTEE ON HOUSING AND INSURANCE

"The Future of Housing: Increasing Private Sector Participation in Affordable Housing"

APRIL 16, 2015

Good morning Subcommittee Chair Luetkemeyer, Subcommittee Ranking Member Cleaver, and other members of the Subcommittee. My name is Brad Fennell, and I am a Senior Vice President at WC Smith, a real estate development and property management company based in Washington DC. I run the Development Division of WC Smith, currently overseeing over $350 million in development, including luxury apartments, mixed-use centers and affordable housing. I have managed the development and rehabilitation of several thousand units of affordable housing in my 27 years at WC Smith.

Our most recent affordable housing project is Sheridan Station, a mixed-income, HOPE VI development one block from the Anacostia Metro station in southeast Washington DC, less than 3 miles from the US Capitol. Sheridan Station is in Ward 8, which has the highest poverty rate in the city. According to the Census, 35% of households in Ward 8 live in poverty, including approximately half of the children in the Ward. The unemployment rate is 24%, in contrast to the citywide average of 11%. Twenty percent of the adults do not have a high school diploma.

Against this backdrop, WC Smith, in 2007, partnered with the DC Housing Authority (DCHA) to redevelop the 14-acre site, formerly the site of Sheridan Terrace public housing, demolished because of its dilapidated condition. DCHA received a $20 million HOPE VI Grant from HUD for this project

Sheridan Station is being constructed in three phases. The first phase, which consists of 114 units was completed in 2011. Phase 2 is the homeownership portion of the project. It includes 80 homeownership units. The first 60 have been finished and sold. The last twenty are still under construction but we already have a long list of people interested in those units. The third phase, which consists of 133 rental units, will be finished this summer.

There is clearly a demand for this type of housing. The only marketing for both the multifamily building and the homeownership units has been a sign on the development fronting the Suitland Parkway. Yet all of the completed for sale units sold quickly, and we had a list of 1700 people interested in the rental units when the first building opening.

Sheridan Station is not just an affordable development, it is also environmentally friendly. Sheridan Phase I was the first multifamily building in DC to be awarded LEED platinum by the US Green Building Council. The building features a rooftop solar array that produces enough power to cover 60% of the building's common area electricity needs, as well as a rain garden, energy-star appliances and an underground rainwater cistern that collects storm water run-off.

While Sheridan Station replaces affordable housing, it is not recreating the dilapidated housing of the past. It is set apart by high quality finishes, community amenities and environmental features that make the building more comfortable for residents. More significantly, the development contains a true mix of incomes. The combination of rental and home ownership units also attracts a diversity of residents. Incomes at Sheridan Station run from as low as $5,000 a year in the rental units to $230,000 in the homeownership units. The future of affordable housing is in mixed-income communities like Sheridan.

When complete, Sheridan Station will provide a total 327 housing units, most of which are subsidized by federal resources. All 247 of the rental apartments are Low Income Housing Tax Credit (LIHTC) units. They are for households that make up to 60% of Area Median Income (AMI), with the majority between 30-60%. 110 units are further subsidized with Section 8 Annual Contribution Contracts (ACC). Of the rentals, 45 are replacement units for former Sheridan residents and 65 are replacement units for the city's redevelopment of the Barry Farm community. Of the for sale units, 17 have been sold at market rate, and 53 have been sold to households earning up 80% AMI, under a DC housing authority home ownership plan established for Sheridan Station.

The $20 million federal HOPE IV grant has been key to the success of this project. The HOPE VI funding allowed the development to serve over 100 families who live at or below 30% AMI and still be financially stable. The HOPE VI dollars covered 17% of the total development costs of Phase III, so for every federal dollar invested in this development, the developer leveraged $5.65 in other private and local sources. The HOPE VI funding is structured as a loan, so the federal subsidy is repaid at a low interest rate, benefiting the developer with the lower cost of capital while ultimately repaying the government loan.

By leveraging private investment, the Low-Income Housing Tax Credit was critical to providing affordable homes to many more families than the HOPE VI grant could have provided on its own. The affordable apartments that it financed complemented the deeply targeted HUD-funded apartments and the market-rate homes to make Sheridan Station a truly mixed income community. Without the Housing Credits, it would have been extremely difficult to make this type of development financially feasible.

As the success at Sheridan Station shows, the private sector is equipped to provide affordable housing, and our region and many other areas of the country are in critical need of additional units. Continued public investment, whether it is more ACC, more project-based vouchers, more capital funds, or more HOPE VI-type programs, will help to fill the gap between the market costs and subsidized rent, and will encourage the developers like us to create more housing.

The project is not without challenges. One of the most significant is the strict 60% AMI limit on Housing Credit units. This limits income diversity and community stability, and forced us to turn away some potential renters. A better approach would be to allow a blend incomes, with a cap of 80% AMI as long as the average is below 60%. A blended approach works against concentrated poverty. Affordable housing policy shouldn't just focus on the number of units built, but should look at the question of "how do we uplift the poor by integrating them into more income-diverse, stable communities?" Families do better when they lived in mixed-income communities with greater access to resources.

The floating tax credit rate is a challenge for all Housing Credit projects. This rate is published monthly by the IRS, often changes from month to month, and determines the amount of cash equity from our investor. We can elect to set the rate when we close our financing, or let it float and then fix it when we place the building in service. One consequence of the recent low-interest rate market is that this rate has been drifting down to historic lows (both the 70% present-value credit and the 30% present value credit), starving newer projects of equity financing. Since the development timeline to close financing can run from several months to over a year, the project's equity amount is often not known until the month of closing, which makes it difficult to plan a projects construction scope and amenities. A way to solve this problem would be to set the LIHTC rates at constant rates of 4% and 9%, rather than having them float monthly. This would allow the private sector to have more predictability in financing, and will certainly make more projects workable. I believe Congress is already considering such proposals.

The development community is wary of projects with uncertainty and delays, both of which add significantly to the cost of a project. Streamlining the process, especially for closing and financing and for public agency approvals, will generate greater private sector interest in affordable housing. This is especially true for private-local-federal projects, which have additional layers of approvals required. Recognizing the value of minimum credit rates, Congress has enacted a minimum 9 percent rate in the past, but it is now expired. As a result, developers have had to use the floating rate since the end of 2013. Representatives Pat Tiberi and Richard Neal have introduced legislation to create minimum 9 and 4 percent Housing Credit rates, which I would encourage members of this committee to support.

An additional limiting factor, though not for this development specifically, is the scarcity of Housing Credit resources. While we were able to secure Housing Credits for Sheridan Station, there are many developments each year that cannot get the credits they need. With a greater Housing Credit allocation, we could finance more transformative developments like Sheridan Station.

Another challenge is that the Section 8 ACC rent subsidy from HUD/DCHA doesn't take apartment size into account. The current monthly subsidy is a flat $425, for a studio or a three-bedroom. In the area around Sheridan Station, there are a number of families with children who need a larger apartment, but the subsidy limit creates a disincentive for the developer. The Sheridan Station two bedroom units currently rent for $1295, so the subsidy covers less than half the cost of rent.

Lastly, a portion of this project was covered by the federal Davis-Bacon wage scale and classified as commercial/heavy highway, despite being entirely residential mid-rise. This added a 5% premium equaling $1 million to the $20 million construction costs associated with that phase. Affordable residential projects with wood frame construction (five stories and below) should be classified as residential under the Davis-Bacon wage scale (instead of the current 4 story limitation). This will stretch the overall effectiveness of any public subsidies.

Members of Congress, staff and others here today, thank you for this opportunity to testify at this hearing. We at WC Smith are very proud of the accomplishments at Sheridan Station and hope that we have been able to share some helpful information today.

Sheridan Station Facts

Sheridan Station is a mixed-income, HOPE VI development that replaces a former public housing complex one block from the Anacostia Metro station. The project has a mix of housing types and has both for sale (80 units) and rental units (247) totaling 327 units.

Phase/unit break down:

- Phase 1 - rental - 114 units - complete/occupied (1 current vacant)
- Phase 2 - homeownership -80 units, 60 units complete/sold, 20 units under construction
- Phase 3 - rental - 133 units - 40 units occupied, remaining units under construction

ACC - rental

- Phase 1 - 45 units
- Phase 3 - 65 units
- 110 total ACC units

<u>Financing</u>

- ACC units - average ACC Rent, about $425/unit/month, barely covers operating expenses, hence why HOPE VI/subsidy is critical.

Sustainability

- First multifamily building in DC to be awarded LEED platinum by the US Green Building Council
- 102 kw solar panel system (with 426 panels) that covers 60% of common electric needs. It was predicted to 30%. It will be paid off after approximately 18 months of operations.
- Rain garden, vegetative green roof and underground rainwater cistern that collects storm water run-off.
- Energy star lighting and appliances, low flow plumbing fixtures, high efficiency HVAC systems and windows, and low VOC paint.
- Transit-oriented development focused on the Anacostia Metro Station on the green line.

Health and Community

- A community room, used both by residents and civic groups [check]
- 5,500 square foot health and wellness center that provides health care services to residents
- Fitness center as well as nutrition and fitness classes on site.
- Laminate flooring to keep living space healthy, as 78% children in Ward 8 have allergies or asthma.

Employment

- At Sheridan, 50 District residents were hired in the Phase I construction n Phase 1, and 25 District residents were hired for Phase 3. 65% of the District hires are residents of Wards 7&8.

Market Demand

Before opening the first multifamily building in 2011, we had a list of 1700 interested applicants – all from merely a sign on building fronting Suitland Parkway.

Homeownership Demographics (60 units)

Average Income	$76,906.08
Average Sales Price	$302,338.33
Average Price per sf	$180.73
% Market Rate	28.33%
% Income Restricted	71.67%
Average Age	35
% Male	48.33%
% Female	48.33%
% Male and Female	3.33%
% Single	80.00%
% Married	16.67%
% Divorced	1.67%
% Widow(er)	1.67%
African American	60.00%
Caucasian	23.33%
Hispanic	13.33%
Middle Eastern	1.67%
Asian	1.67%

% DC Residents	53.33%
% Maryland Residents	28.33%
% Virginia Residents	13.33%
% Outside DMV	5.00%

Suggestions for Improvement

- Set LIHTC rates at 4% and 9%
- Streamline agency approval and financing processes
- Change the Davis-Bacon wage scale to classify wood frame residential building in the residential wage scale category.