Cambridge Housing Authority Converts Enhanced Vouchers to Project-Based Vouchers to Preserve Inman Square Apartments

Bill Brauner
Housing Preservation Program Manger
Community Economic Development Assistance Corporation[1]

In early April 2011, Homeowners Rehab Inc. closed on the acquisition of Inman Square Apartments, a 116 unit uninsured Section 236 property, located in Cambridge roughly halfway between Harvard University and MIT. The Cambridge Housing Authority (CHA) debuted a creative new housing preservation tool by converting the Enhanced Vouchers to Project-Based Vouchers using its Moving to Work authority. Homeowner's Rehab, Inc. is a highly experienced community development corporation with an existing rental portfolio of 983 units.

Enhanced Vouchers

Beginning in 1996, Congress authorized HUD to provide tenant-based vouchers to residents of projects where the owner prepaid the HUD mortgage or opted out of the Section 8 contract. These "Enhanced Vouchers" (EV's) have been an important tenant protection allowing tenants to continue to reside in projects after the building was converted to market rate housing. EV's are also generated when a preservation purchaser prepays a HUD insured mortgage or decouples a Section 236 property, but since the vouchers are tenant-based, they generally provide little benefit in the underwriting of the preservation deal.

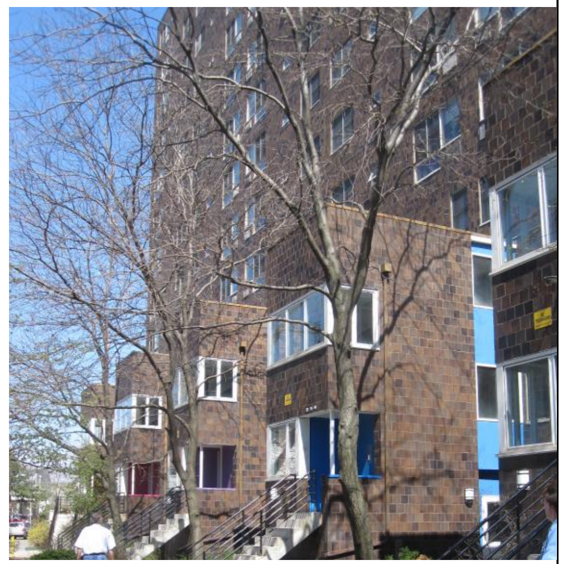
Moving To Work

CHA is one of 33 housing authorities throughout the country that have a special designation as "Moving To Work" (MTW) authorities which gives them greater flexibility in how they comply with HUD regulations. There are three statutory objectives in MTW housing programs, which can be summarized as: 1) Improve cost effectiveness; 2) Promote employment and self sufficiency; 3) Increase housing choice. In its FY 2011 MTW Annual Plan, the Cambridge Housing Authority received HUD approval for an "Expiring Use Preservation Program" that allows for EV's to be converted to Section 8 project-based

[1] CEDAC is a public-private, community development finance institution that provides technical assistance, pre-development lending, and consulting services to non-profit organizations involved in housing development, workforce development, neighborhood economic development, and capital improvements to child care facilities. CEDAC works with its partner agencies at the state level - the Department of Housing and Community Development, MassHousing, the Massachusetts Housing Partnership, and MassDevelopment - to focus resources in support of the non-profit development agenda as an important element of Massachusetts' system for production of affordable housing. CEDAC is also active in national housing preservation policy research and development and is recognized as a leader in the non-profit community development industry.

vouchers.[2] CHA identified 10 privately-owned properties with 590 affordable units as a preservation priority for this program.

Inman Square Apartments



Inman Square is a high rise complex that was built in the mid 1970's through the HUD Section 236 program. Unlike the majority of Sec. 236 projects, Inman Square's debt was held by the state housing finance agency and was not HUD insured. The development had no project-based Section 8, though it did have 36 units of Rent Supplement operating assistance. At mortgage maturity in 2017, the project would be able to convert to market at the dramatically higher rents in this neighborhood of Cambridge. However, since the project restrictions still have 6 years to run, Homeowners Rehab, Inc. (HRI)[3] was able to purchase Inman Square for much less than the unrestricted market value.

EV's to PBV's

A key component of this successful preservation transaction was CHA's willingness to convert the Enhanced Vouchers (EV's) to Project-Based Vouchers (PBV's). The Sec. 236 decoupling was the trigger for EV's, but being tenant-based, they did not help HRI in its underwriting. However, CHA's willingness to convert these EV's to PBV's (at a payment standard of 120% of FMR) meant that HRI could significantly increase the amount of amortizing debt at the property. 120% of FMR ($1,335/mo for a 1 bedroom apartment) is less than the EV rents but is nevertheless $302 higher than the 1 bedroom LIHTC rent level, which would be the maximum rent level without PBV's. So the increase in net operating income from the MTW PBV's corresponds to an increase in supportable debt of approximately $5 million. To put it another way, without the MTW PBV's HRI would have needed additional public funding of roughly $5 million to preserve the property.

Tenant Issues

Congress created EV's to protect tenants, and there was significant concern by HUD and tenant advocates that all tenants receive enough information to decide whether it was in their best interest to accept a PBV. Each tenant had to sign a document agreeing to accept a PBV after learning about the options. This was a challenge for HRI due to the large number of tenants, the complex regulatory issues, and the individual situations of each tenant. The CHA made this process easier by setting aside

[2] A HUD web page showing all the approved MTW housing authorities can be found here: http://goo.gl/dLLRB The CHA FY 2011 Moving to Work Annual Plan can be found here: http://goo.gl/UH12y (URL's shortened using Google shortener)

[3] HRI website: www.homeownersrehab.org

approximately 37 vouchers for any tenants that wish to leave the property in the next several years. The set-aside was based on the number of existing vouchers at the project prior to the transaction, as these vouchers were returned to the authority under the conversion to PBVs.

Conclusion

Absent a federal statutory change that would permit project-basing of all EV's, the CHA's "Expiring Use Preservation Program" provides at least a partial solution for the projects located in the 33 MTW housing authorities across the country.

Principal Financial Actors

Preservation purchaser:	Homeowners Rehab, Inc.
Development consultant:	Emily Achtenberg
MTW Housing Authority:	Cambridge Housing Authority
Lender:	MassHousing (HFA)
4% LIHTC Investor:	WNC