



BRISTOL REDEVELOPMENT & HOUSING AUTHORITY

Facelifts & Mindshifts

2010-2025 MASTER PLAN



Briefing Paper

April 1, 2010

Master Plan

Development Strategy — Executive Summary (*synopsis*¹)

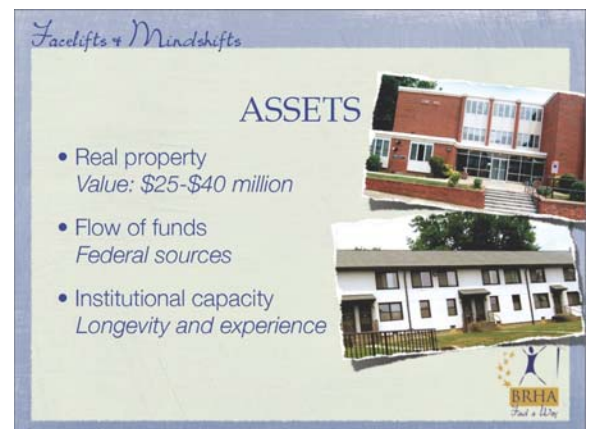
The world of public housing is in transition. The Bristol Redevelopment and Housing Authority (BRHA) is responding by assessing its context, comprehending its assets, and looking at the investment strategies available to it to meet its mission in the Bristol market. Towards this end, BRHA engaged a consulting team² to assist in the development of a Master Plan. This document serves to summarize the findings and recommendations of the master planning process and is organized in four sections: Context Summary, Assets Summary, Strategies and Recommendations. Suffice it to say that BRHA is poised to make dramatic and lasting contributions to the housing and redevelopment needs of Bristol.

Context Summary

Bristol's population, about 17,400, has held steady for many years, and is projected to remain so. However, the population composition is projected to shift, with persons 55 and over becoming an increasing proportion of the total. Median household income within the City is nearly 15% lower than the surrounding county. About 84% of the City's housing units were built in 1979 or earlier, with 28% before 1950. Much of the recent development in Bristol is along and to the north of the I-81 corridor, particularly at Exit 7. BRHA's Sapling Grove development is the most significant new construction in the Virginia Hill neighborhood in decades.

Assets Summary

BRHA assets include real property (residential and non-residential), flows of funds, and institutional capacity. Although BRHA has grouped its residential property into five (5) Asset Management Projects (AMPs) to reflect HUD's new property-based requirements, the master planning process has identified nine (9) residential clusters and 4 nonresidential buildings³. The recommended strategy for each cluster is discussed in more detail in the pages that follow. BRHA's existing multi-family portfolio is old, outdated, expensive to care for, spatially concentrated and somewhat mismatched with housing needs. BRHA receives two types of operating subsidy from HUD (Section 8 and Section 9)⁴, plus both capital and replacement housing factor funds under Section 9. A flow of "program income" useable for affordable housing purposes has begun in the form of repayments of loans made by BRHA in connection with Sapling Grove. An important 21st century dynamic



¹ **Note:** This version of the Executive Summary is a *synopsis* in which the "Context" and "Assets" sections are provided only in summary form while the "Strategies" and "Recommendations" sections are provided with their full original narrative content.

² EMG with Housing-SolutionsSM, Springsted and Value Research Group

³ This is in addition to Sapling Grove, which is owned by a single-purpose legal entity created by BRHA.

⁴ Section 8 refers to the Existing Housing Choice Voucher or "HCV" Program administered by BRHA. Section 9 of the Housing Act of 1937 provides operating and capital subsidies for Low-Rent Public Housing. This document uses the term "Section 9" in lieu of "public housing" operated under the auspices of an Annual Contributions Contract (ACC) between BRHA and HUD.

for larger housing authorities such as BRHA is the move to *asset management*, prompted by HUD and embraced as the sensible means of *leveraging* each of BRHA's assets, beginning with more property-focused budgeting, accounting, and management systems. BRHA's assets also include its institutional capacity, notably its staff, and its status as a public housing agency (PHA). This status enables BRHA to deploy its flows of funds in a variety of innovative ways as is explained further in this document.

STRATEGIES

BRHA's assets — property, funds, institutional capacity — present the keys to opening opportunities. The opportunities sort themselves into three strategy clusters, which are...

- #1 — Transform and Reposition**
- #2 — Diversify**
- #3 — Collaborate**

The elements that contribute to making the most of each strategy are set forth below.

#1 — Transform and Reposition

It is abundantly evident that BRHA's existing multi-family portfolio is old, outdated, expensive to care for, spatially concentrated and is somewhat mismatched with housing needs. In this sense BRHA is not very different from most other PHAs in Virginia and throughout the US. In order for BRHA to meet its mission in the Bristol market, it must maximize any and all leveraging opportunities.

The brutal reality is that the flow of HUD capital funds as currently projected is just plain insufficient (in amount and timing) to meet the capital needs of BRHA's existing stock. But what appears as a huge problem is in fact a very significant opportunity, namely opening the door to using HUD dollars—plus any and all other financing mechanisms— to transform and reposition BRHA's portfolio. Here are specific BRHA investment strategies that form the underpinning of the specific recommendations summarized in the conclusion of this document:

1.1 Use Other People's Money — BRHA has already embraced this strategy in the Sapling Grove development. The essential strategy going forward is a business plan that times the transformation/repositioning approach such that BRHA uses its investment dollars in any given year in a manner than maximizes financing potential. The financing possibilities include private conventional and/or FHA-guaranteed debt, Low-Income Housing Tax Credit (LIHTC) investments (both 4% and 9% credits), purchase money notes from sellers (including BRHA as the seller—see 1.2 below), special gap and/or energy-saving financing, resident diversification to meet broad-range of income objectives, and creative subsidy structuring. A particular constraint in maximizing LIHTC yield is that none of Bristol's census tracts meets the program's Qualified Census Tract (QCT) or Difficult to Develop Area (DDA) criteria for a 30% bonus in tax credit yield⁵. However, the Sapling Grove development

⁵ IRS regulations that govern the LIHTC program nationally require each state's housing finance agency to maintain a Qualified Allocation Plan (QAP) that fosters particular public policies. For years, most states' QAPs have provided a 30% bonus to successful applications located in areas of high poverty or relatively lower development activity. These latter are deemed QCTs and DDAs, respectively.

provides BRHA competitive experience points that facilitate its future pursuit of the more lucrative 9% credits vs. 4% credits in tandem with tax-exempt debt.

1.2 Realize Underlying Value of Existing Assets — Each BRHA property has an underlying value, if only by virtue of being real estate. This is abundantly evident by the success of the Sapling Grove development in transforming a large parcel into an attractive, highly-marketable property. It is broadly recognized that the new Sapling Grove development will be a huge factor in transforming the surrounding neighborhood. The value of the Sapling property was in large part its visibility. The underlying value of the other existing BRHA properties will be in location, viability in current or modified form in the rental market and/or potential as owner-occupied properties. As each property is assessed for best repositioning, attention to the underlying value is a critical variable. As examples, consider the following:

- The Mosby single-family and duplex structures (collectively, SF) are up on a hill in an area of owner-occupied homes.
- The Mosby townhouse (TH) structures at the 5-point intersection are similar to condominium developments in the Bristol area.
- Stant and Jones have unit configurations and land availability that are readily transformed to meet needs of the one clearly expanding market niche in Bristol, namely seniors.
- Johnson Court is at a highly visible neighborhood gateway location at a main intersection from the northeast.
- Bonham 400s are attractively sited, which cannot be said of the Bonham 100s that are nestled into the Rice Terrace apartments on Mary Street.

1.3 Ensure Financial Stability — The rationale behind HUD's new asset management requirements carry with them several key concepts, the most central of which is — each ship (property) must float (or sink) on its own! The reality of providing affordable housing in the 21st century is that it must operate on the standards of "real" real estate. Each property needs to have a financial structure that is sound, with Income/Expense ("I/E") projections always yielding a profit, inclusive of all subsidy sources. Further, just as each affiliated real estate entity needs to be financially sound, so also must each organizational component of the parent organization.

#2 — Diversify

Two findings of the market study commissioned by BRHA are especially relevant. First, the community is essentially stable in population and economic attributes. Given the relatively high proportion of the population below the Area Median Income ("AMI") benchmark, understanding housing needs in the context of fundamental market dynamics is important. Diversification is a fundamental strategy for BRHA, in meeting its mission and in ensuring financial stability.

2.1 Diversify Tenure Options — The mission statement of BRHA speaks to the provision of affordable housing. It is not limited to rental housing. It is generally recognized that a healthy neighborhood has a mix of owner occupants and renter residents. Some of BRHA's existing properties in the Oakview Avenue corridor are potentially marketable for homeownership⁶. BRHA has already undertaken such an initiative, building a new single-family dwelling (SFD) on West Mary Street. Doing so in the immediate neighborhood, and

⁶ Selling units is advisable only if and when adequate homebuyer training and robust City housing code enforcement is in the offing. Also, if LIHTC is used to finance rehab costs, no such unit could be sold until after the 15-year LIHTC compliance period.

facilitating similar ownership opportunities in other Bristol neighborhoods (possibly including use of Section 8 HCVs in a homeownership program) is a sound diversification strategy⁷.

2.2 Identify Market Niches — The market study which is an element of BRHA's master planning process has identified at least one change in market composition worthy of note. Bristol, like many markets, is experiencing an increase in persons aged 55 and over. At the same time, there has been a decrease in family households, those in the age 25>44 range. This alone suggests a sensible diversification strategy. The challenge for BRHA is that 60% of its existing Section 9 portfolio is units of 2 to 5 bedrooms, much more appropriate to the demands of the past. *None of BRHA's existing portfolio properties are targeted exclusively for seniors.* As seniors in Bristol live longer, various aging-in-place and assisted living options make sense. BRHA can sensibly investigate expanding its offerings and participation in affordable housing resources targeted to an ever-aging population.

2.3 Diversify Locations — At present, the Authority's existing Section 9 portfolio is totally concentrated within the Virginia Hill neighborhood. BRHA will be well served by a strategy of geographic diversification, which meets both public policy (de-concentration of poverty) and real estate considerations (potential acquisitions of existing properties, and/or construction of new housing, for mixed-income housing as opportunities present themselves from time to time throughout Bristol).

#3 — Collaborate

Realizing the best future for Bristol is a community undertaking. BRHA can play a significant role, wearing both its housing and its redevelopment hats. However, the best outcome for each of the critical participants and for the community generally is by **collaboration**.

3.1 Public Sector — The City, the State (including such quasi-public agencies as VHDA), various Federal agencies and BRHA can effectively collaborate to generate good, enduring outcomes for Bristol. The Sapling Grove development is one very specific example. However, new housing initiatives (such as the Thomas Jefferson Senior Apartments, a converted former school, and the single-family home developed by BRHA, both on West Mary Street) are at competitive disadvantage when essentially abandoned properties are permitted to remain in poor condition in their midst. A **key collaboration** in the traditional redevelopment vein is coordinated planning, housing code enforcement and targeted public investment.

One possible outcome of BRHA's master planning process is a closer working relationship between BRHA and the City of Bristol, and one of the master planning products, a *Neighborhood Revitalization Initiative*, is intended to facilitate such a process. Other key collaborations would be larger-scale redevelopment efforts, where City capital investments (water, sewer, road and so on) need to be linked with investments made by other public, quasi-public, non-profit and/or private entities. Finally, effective policing enhances a sense of neighborhood safety.

⁷ The Section 8 Existing Housing Choice Voucher Program provides the option of using HCVs to help subsidize home purchases by those with incomes at or below 50% of AMI. Essentially, the vouchers used under this option subsidize the difference between 30% of the households adjusted income (their share of the shelter) and the monthly cost of mortgage principal and interest, taxes, insurance, and even an allowance for maintenance and a set-aside for capital replacement.

3.2 Private Sector — Most public redevelopment investment is of the “pump priming” variety. The intent is to create a positive environment for the private sector to make its very large margin. In Bristol it is important to recognize that a significant portion of the private sector consists of individual property owners, many being homeowners and small rental-property owners who properly maintain their properties. On the other hand, areas of disinvestment and deterioration really stand out in neighborhoods and smaller communities such as Bristol. It is better for the public sector to be aggressive up-front than to have to spend large amounts of time and money to reclaim once attractive, desirable neighborhoods. It is also in the best interest of a community to keep neighborhoods strong and healthy, which ensures good property values, and thus a stable, growing flow of public income via real estate taxation. A hoped-for outcome of BRHA’s master planning process is an expansion of the Authority’s ability, in tandem with others, to use the full range of its assets and tools to bolster private sector investments in affordable housing in Bristol, both existing and new. These assets and tools include BRHA’s ability to “project base” a portion of its Section 8 HCVs for a period of years⁸, as well as to work below the radar through one or more instrumentalities of its creation to make judicious real estate investments that improve housing conditions and make money for the organization at the same time.

3.3 Neighborhood Partners — A particular focus for Bristol is the neighborhood in which BRHA housing and offices are clustered, known as *Virginia Hill*. This area stretches roughly from the Lee Highway/Euclid Avenue/Moore Street intersection at the north to Scott Street at the south. Virginia Intermont College (“VIC”) and BRHA are the largest property owners. However, there are several other large properties, such as the two senior apartment buildings in former schools. VIC, the City and BRHA should explore ways to collaborate such that the objectives of each can be met. This could ostensibly range from acquisition and rehab of housing by BRHA (or its affiliates) for use as dormitories, to neighborhood investments in streetscape and traffic patterns that facilitate the operation of a vibrant institution of higher learning in a quiet up-and-coming residential neighborhood just north of downtown Bristol.

Of particular interest for BRHA, VIC, the City and others is the area now occupied by Johnson Court. This large parcel is located at what amounts to a “gateway” to the *Oakview* and *Moore Street Corridors*, along which are most of BRHA’s current holdings and virtually all of the existing VIC campus. All surrounding uses (single family dwellings to the east, senior housing and VIC to the south, housing and institutional uses to the west, and commercial and residential property to the north) will benefit from sound, collaborative planning and implementation of redevelopment of this site. BRHA’s master planning process has tentatively concluded the eventual highest and best use of the Johnson Court site is homeownership, of a design and density befitting the parcel’s “gateway” status.

These and other recommendations emerging from the **master planning** process are discussed in the concluding section of this document.

⁸ Another programmatic option offered under the Section 8 Existing Housing Choice Voucher (HCV) Program is the ability of BRHA to allocate vouchers to specific units in specific properties for a period of up to fifteen (15) years. This is known as Project Based Vouchers (PBV). Using PBV can serve to bolster the vitality and physical condition of properties owned by others and/or those owned or controlled by BRHA or entities of its creation. This can even apply to units once under the Section 9 portfolio but removed via HUD disposition approval and refinanced as, say, LIHTC units with a Section 8 (PBV) subsidy instead of the former Section 9.

Master Plan DEVELOPMENT STRATEGIES

Transform and Reposition

- Leverage
- Realize underlying value of existing assets
- Ensure financial stability

Diversify

- Diversify occupancy types
- Identify market niches
- Diversify locations

Collaborate

- Public sector
- Private sector
- Neighborhood partners



RECOMMENDATIONS

The three strategies — *Transform and Reposition*, *Diversify and Collaborate* — can be put into practice to good effect. Implementing the “transfer and reposition” strategy can be initiated quickly. The actions associated with that strategy incorporate elements of diversification and collaboration. Actions involving a BRHA affiliate in a developer role serve also to improve and stabilize the organization’s financial position, including income from services, developer fees and management fees.

#1 — Mosby and Bonham 400s

The Sapling Grove development initiated the process of transforming BRHA’s holdings in the *Oakview Corridor*. The next step is to package the Mosby and Bonham 400s into two single developments, significantly rehabilitating the Mosby buildings, followed by the demolition of the Bonham units and replacement with new affordable rental housing. Particular attention to aesthetics and “fit” to the appearance standard set by Sapling Grove will serve to continue the important upgrade of the neighborhood. The effort can be undertaken quickly, with a single-purpose owner entity affiliate of BRHA, as with Sapling Grove. The 40 units at Mosby and the 39 units at Bonham 400s would remain in current distribution by BR size. Financing would include 9% LIHTC, a *Purchase Money Note (PMN)* from BRHA equal to the appraised value of the property, and a 1st conventional mortgage. Bonham 400s requires some deferred developer fee. Operating subsidy would be provided via S9 and PBV means. Use of PBV generates the cash flow sufficient to repay both 1st mortgage and PMN debt on an annual basis.

#2 — Stant/Jones

The Stant/Jones complex is also a prime candidate for transformation and repositioning, targeting the growing senior population. It may be possible to expand the property, adding facilities sufficient to make it *both Independent and Assisted Living*. A key element of this transformation is the ability to cover operating costs for Assisted Living. It will be important to understand Virginia’s Medicaid waiver approach, as those funds will be a key source given the target low-income senior population. Again, the venture would be initiated by a single-purpose owner entity affiliate of BRHA. A key consideration will be the means and methods of providing the services associated with Assisted Living (medical and social services, meals, housekeeping and personal assistance). The configuration of the 100 units (50 0BR and 50 1BR) needs to be studied relative to any change, from both a market and a technical perspective. Financing could include 9% LIHTC, a *Purchase Money Note* from BRHA equal to the appraised value of the property, a *Mixed-Finance* mortgage from BRHA and possibly conventional debt. Operating subsidy would be provided via S9 and PBV means. Use of PBV should generate the cash flow sufficient to repay the conventional mortgage and PMN debt on an annual basis, and some pay-down of the M-F loan.

Mosby

- *Rehabilitate to standard of Sapling Grove*

Bonham

- *Demolish & redevelop*
- *New affordable rental housing*

Stant/Jones

- *Reposition to target seniors*
- *Possible assisted living component*

Rice Terrace

- *Demolish & redevelop*
- *New housing options*

Johnson Court

- *Demolish & redevelop*
- *Gateway location*
- *Mix of housing*

#3 — Rice Terrace/Bonham 100s

From a physical condition and location perspective, neither Rice Terrace nor Bonham 100s merit retaining, reconfiguring and transforming. Rather, the first action here is one where a good first outcome is achieved by following the maximum “less is more”. These properties should be demolished. The land associated with them constitutes a significant resource first as enhanced open space, then as locations to meet housing and/or other development objectives in this neighborhood. Continued use as *green space* is certainly among the good outcomes to be considered. It is important to time the demolition in the context of the Federal Fiscal Year, maximizing the outcome in both new Housing Choice Vouchers and flows of Replacement Housing Factor⁹ funds. New HCVs constitute an important asset in diversifying, both type and location of affordable housing opportunities. Future use of the Rice/Bonham 100 sites opens collaboration opportunities, including the transformation of the southwest portion of the neighborhood.

#4 — Johnson Court

The high visibility location of the Johnson Court property presents a significant opportunity for diversification and collaboration. The future for this site is sensibly market-driven, finding, then implementing its “highest and best use”. At a minimum, VIC and the City will be important in the process to assist BRHA as it determines the “what and when” for this site. The “what and when” will in turn determine roles, financing and future. Preliminary considerations include possible homeownership development among a mix of housing opportunities at this location.

#5 — Neighborhood Revitalization Initiative

The four preceding recommendations identify the key role that BRHA can play as it invests its time, money and property assets in the transformation of the larger neighborhood. Any of the recommended actions will have a very significant impact on the neighborhood. However the four recommendations highlight only those actions that BRHA can initiate and in many ways implement on its own. BRHA owns the properties, has means and methods for financing and operating, and the ability to undertake and complete the actions contemplated. That cannot be said for the balance of the neighborhood. There are many who have a stake in the future of Virginia Hill, including property owners (both residential and other, with VIC a key institutional presence), residents, and those who come to the neighborhood to play, learn, work, shop, worship or simply visit. It is in the best interests of the City and BRHA (the two public entities with most at stake in the neighborhood’s future) to create a process that generates enthusiasm and commitment leading to good outcomes.

⁹ **Replacement Housing Factor** funds are capital funds provided by HUD in connection with the demolition of existing public housing (PH). They can be used for “replacement” of PH in a traditional sense as well as used as part of Mixed Finance and/or Mixed Use development that includes a PH component.

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Transform, Diversify, Collaborate

Mosby (1966) and Bonham (1955-1996)



- Mosby: Rehabilitate to standard of Sapling Grove
- Bonham: Demolish and redevelop

Stant (1969) and Jones (1974)



- Transform/reposition
- Target senior population
- Possible expansion to include assisted living
- Considerations: medical/social services, meals, housekeeping, personal assistance

Rice Terrace (1941)



- Demolish and redevelop
- Green space for a time?
- New housing options

Johnson (1941)



- Demolish
- Gateway location
- Lower density
- Mix of housing
- Interim Modest Facelift