

CHARLESTON, SOUTH CAROLINA: DEVELOPING RENTAL HOUSING WITH HOME FUNDS

In Charleston, South Carolina, HOME funds are used to finance the new construction and rehabilitation of rental housing for the city's very low-income residents. The HOME Rental Housing Program is administered through the City's Department of Housing and Community Development.

Background

Over the last fifteen years, the City of Charleston has faced rapid gentrification and appreciating housing costs. In addition, the historic housing stock in some low- and moderate-income neighborhoods is in a state of deterioration. Every property over 75 years old falls under the regulatory review powers of the Board of Architectural Review and the South Carolina State Archives and History Division with a Section 106 Review. The Board of Architectural Review assesses most development projects to confirm that they are historically sensitive. All demolition requests must be accompanied by a structural engineer's report that supports the demolition request. Nonetheless, Charleston's Board of Architectural Review rarely approves demolition, even when the property is severely dilapidated. In addition, development that is historically sensitive often requires expensive changes to project design and materials. This process makes the rehabilitation of affordable housing in Charleston an often lengthy, expensive, and thereby challenging proposition.

In addition to challenges that result from the emphasis on preserving the historic integrity of the development in the city, the city is suffering an acute need for affordable housing. In 1989, Hurricane Hugo destroyed 530 housing units and the homeless population of Charleston jumped by more than 40 percent. This placed additional pressure on the City to maintain and develop affordable housing.

The City has a number of affordable housing programs designed to address the demand, including the Homeownership Initiative, funded with CDBG, Economic Development Initiative (EDI) funds and a Section 108 loan; an Employer-Assisted Housing program funded with private sector financing and a myriad of other sources. The City uses its HOME funds to provide funding for its rental and owner-occupied housing programs.

Program Design

Charleston's HOME Rental Program became operational in 1992, the HOME Program's first year of funding. The program was designed to complement the City's existing CDBG rental rehabilitation program and to replace funding that was no longer available through the Rental Rehabilitation Program (RRP). The original CDBG and RRP focused only on the rehabilitation of existing housing units. By using HOME funds to finance the rental housing program, the City was able to expand its program to fund nonprofit and for-profit developers to construct new affordable rental units.

The City solicits rental development projects as part of a yearly funding application process. The application process is open to anyone willing to apply, and awards are made to eligible projects on a first-come, first-served basis. Because there is a great demand for HOME funds, and there is a lot of need, applications are awarded to specific target neighborhoods with the greatest need. Most of the need is for the development of new rental housing. In addition to the applications that are accepted during the open period for HOME and CDBG funds (for nonprofit housing developers, such as CHDOs), the City also provides "soft second" loans to developers who create affordable rental housing units. The units must be occupied by households whose annual income falls below 60 percent of the area median income. These funds are made available through the Redevelopment and Preservation Commission. These awards are capped at \$10,000 per unit, or 50 percent of the construction cost per unit, whichever is less. In order to receive these funds, at a minimum, the owner of the property must provide match funds that are equal to or greater than the City's subsidy. Typically, owners provide additional funding that easily outmatches the HOME fund allocation. These loans take the form of 30-year deferred loans that are forgivable. The loan must be repaid if the house is sold within the 30-year timeframe or if the owners do not comply with the terms and conditions of the loan. These requirements are as follows: the property must be leased to households whose income is 60 percent of area median or less (as noted above) and the property owners must maintain the property pursuant to the City's minimum property standards. In addition, the City secures the HOME funding with a promissory note, mortgage and deed restrictions. The City conducts annual inspections of properties to confirm that the units remain in compliance with applicable property standards. The units are also monitored on a yearly basis during the period of affordability for continued affordability and income-eligibility of the occupants.

THE HOME PROGRAM

Because many of the city's neighborhoods have been experiencing gentrification, the City recently took measures to ensure the long-term affordability of the units. Units produced with the City's HOME rental funding are subject to a 30-year period of affordability, regardless of the amount of the HOME investment. Given the extended affordability period, the City has found that it finances an increasing proportion of nonprofit developers. Staff speculates that this is due to the nonprofit developers' shared commitment to the provision of affordable housing in the neighborhood for a long period of time.

Financing

The City and its nonprofit developers leverage HOME funds with other funding sources in its rental housing projects. The City undertakes a layering review of these projects, as required by the HOME Program, to ensure that no project receives more funds than necessary to make it feasible. The City looks at all of the proposed funding sources and uses of funds for a potential project. It examines the development budget, prepares a 10- to 20-year pro forma analysis, and looks at potential cash flow to determine the return on investment. The City conducts two layering reviews. The first layering review is conducted before construction commences, based upon proposed funding. The second review is conducted after the project is complete in order to review the final sources and uses. The City's allocations are most commonly in the form of land acquisition and gap financing for nonprofit housing development projects. As noted above, the City also provides per unit subsidies to private developers who meet certain conditions.

The City may combine HOME funds with HUD lead funds for pre-1978 projects that require rehabilitation depending on the amount of subsidy needed for the project. Projects typically also use Low Income Housing Tax Credits and funds from the State of South Carolina Housing Trust Fund.

In terms of the additional funding sources developers use, the City has no formal agreements with any private lenders. The City does not permit its partners to use predatory lenders; otherwise, developers are free to choose their lenders. A limited number of banks tend to work regularly with the City in housing development financing, and these lenders have become familiar with the City's programs and requirements over the past several years.

Production

Since 1993, over 650 units of affordable rental housing have been financed through Charleston's HOME rental program, an average of about 65 per year. City staff estimate that more than half of the assisted households include special need populations, such as unwed mothers and the elderly, with most of these units being for the elderly. The majority of the units developed have been new construction (roughly two-thirds), because the City finds that this is a more efficient way to allocate limited HOME funds. Each year, the City invests about \$850,000 in HOME funds in housing projects.

A Case Study: The Nunan Street Project

The City of Charleston's HOME Rental Program provided funding for the Nunan Street Apartments, a 20-unit apartment complex owned and managed by Volunteers of America and developed by The Humanities Foundation, a City of Charleston CHDO. Ten units are designated for teen mothers and their babies in association with the Florence Crittenton Program, a residential care program providing medical care, professional counseling and peer support to pregnant and parenting teens. Teen mothers were identified in the City's Consolidated Plan as having special unmet housing needs. The remaining 10 units are designated for small families. The buildings currently house 45 people. In addition to using funds from the City's HOME rental program, the project also received funds from the Low Income Housing Tax Credit program and the State Housing Trust Fund.

Keys to Success

The City takes pride in the strides it is making to develop affordable housing, which can be largely attributed to Mayor Riley's passion and vision for affordable housing in Charleston. The staff finds the emphasis on new construction is a valuable strategy for the city. Because there is more flexibility in the use of HOME funds for new construction compared to rehabilitation (where projects can be more complex in order to meet code regulations), it finds this is a better way to increase the pool of affordable housing. In addition, it credits its success to its attention to detail, understanding of a variety of financing mechanisms, and its ability to leverage its HOME funds with other sources.

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