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# From Public Housing to Private Enterprise

By John F Sugg

*The emergence of a new flavor of public/private partnership, sponsored by the Atlanta Housing Authority, has propelled the revitalization of dozens of housing project venues. Those partnerships, unprecedented among housing authorities at the time, have evolved into highly effective development enterprises over almost two decades. Read what caused the angst that triggered the transformation.*

**To be successful, the private developer has to maximize its investment, especially in the context of a changing paradigm, from the old model of warehousing the poor to the new concept of creating market-rate, high-quality housing with a seamless affordable component.**

On 28 acres (11.3 ha) just east of Atlanta's Grady Memorial Hospital, construction is underway despite a real estate market with acres of vacant office space, and in a metropolitan area at the epicenter of the foreclosure crisis. Even more significant is that the location for decades housed Grady Homes, a housing project whose entrenched toxicity had devastated surrounding neighborhoods. The area is now named Auburn Pointe, and Atlanta-based Integral Group and Urban Realty, in partnership with the Atlanta Housing Authority (AHA), is building an $86 million, transit-linked green community of 300 mixed-income rental units, 324 residences for seniors, 48 affordable and market-rate ownership homes, and retail and commercial space.

About 3.5 miles (5.6 km) to the north, adjacent to the Georgia Institute of Technology campus, stands another example of urban revitalization. That location once housed the nation's oldest housing project, Techwood/Clark

Howell Homes, a late 1930s experiment in slum eradication that did eliminate much Depression-era squalor in Atlanta. But the policies that governed public housing changed radically during the middle of the 20th century, and housing projects morphed from being temporary homes for families moving on and up to being prisons of despair-places where the norm was low standards, few expectations, broken families, and little chance of escape.

But something unusual happened on Techwood/Clark Howell's 60 acres (24 ha). It began with a civic mega-event: Atlanta in 1990 was tapped as the 1996 host of the Centennial Olympic Games, and city elders were loath to display to the world the awful conditions at Techwood/Clark Howell, which was adjacent to the site of the planned Olympic Village.

That angst resulted in both the wholesale transformation of Atlanta and the emergence of a new flavor of public/private partnership (PPP), sponsored by the AHA, that propelled the revitalization of dozens of housing project venues. Those partnerships, unprecedented among housing authorities at the time, have evolved into highly effective development enterprises over almost two decades-enterprises that offer models for other cities and developers across the nation.

In the mid-1990s, however, the PPPs began as tentative and novel experiments in which roles were unclear and outcomes uncertain. "We made things up as we went along," recalls Egbert Perry, chief executive of the Integral Group, which along with St. Louis–based McCormack Baron, in partnership with AHA, developed Centennial Place, a new mixed-use, mixed-income community on the site of the former Techwood/Clark Howell Homes. "We were two or three revitalization projects into the game before we understood some of the essential elements, such as what mixed income really meant."

Whereas Techwood/Clark Howell once stood as a monument to government failure, the vibrant $160 million Centennial Place now boasts 738 market-rate and affordable rental homes, 45 ownership townhouses, a high-achieving elementary school, and a wide range of other amenities. Centennial Place has garnered national recognition, including a citation by the U.S. Department of Housing and Urban Development (HUD) as a model for revitalizing former housing project sites.

The AHA-sponsored revitalizations through PPPs have created 16 new mixed-use, mixed-income communities in Atlanta. Other partnerships have enabled the development of several thousand additional affordable housing units in mixed-income settings through such innovative approaches as entering into long-term renewable agreements that guarantee revenue streams to private real estate developers/owners linked to specific developments. Early on, AHA and its partners learned that moving public housing residents to better homes was only part of the job. Now AHA's partners have entered into new relationships with the agency, including providing family-based human development counseling to those leaving the housing projects, as well as supportive services to seniors and disabled residents.

"We began by trying to get the environment right, changing the sociological environment, and building quality housing," says Renee Lewis Glover, chief executive of AHA since 1994; her vision and determination are credited by people as diverse as former HUD secretary Henry Cisneros, city officials, business leaders, and families assisted by AHA with the transformation of Atlanta's housing programs.

"We knew that concentrated poverty would cause the same horrible conditions to reappear, so introducing and integrating the full spectrum of incomes into the plan was essential to its long-term success," she says. "We also realized that to become a healthy community, we needed a full range of amenities such as good schools, retail, and recreation, so the concept of mixed use became an essential ingredient. And, since the financing for mixed-income revitalization-which at the time had no track record-was both scarce and very complex, funds from multiple sources must be tapped. That included AHA's HUD funds, private debt, equity from the sale of low-income housing tax credits, and others.

"None of this could have happened without private partners," Glover adds. "Government could not have built or marketed communities that appealed to all income groups. Without the dramatic change in the income mix and private sector involvement, retailers that shunned being near the old projects would not have set up shop. And, private lenders wouldn't have talked to us without the expertise and balance sheets our private partners brought to the table."

The PPPs have enabled Atlanta once again to live up to its motto, "Resurgens," eliminating much of the blight that for decades crippled the city. The impact has been much greater than the spurring of development. Vast sections of the city have been redeemed, crime has been diminished, schools have improved, and, for the first time in decades, the population of the city of Atlanta is growing-all attributable, at least in part, to the programs of AHA and its private partners.

Atlanta, the first U.S. city to build public housing during the Great Depression, in 2010 became the first major city to have razed all its large family projects-and it accomplished that while providing housing assistance to thousands more families than when all the projects were in use. How? No longer are AHA's funds dedicated to repairing obsolete housing that, in truth, would never be fit for habitation. Now the funds are combined with private investment to replace the projects with healthy new neighborhoods. Since the mid-1990s, AHA has deployed about $300 million in HUD funds that have attracted more than $3 billion in private investment.

AHA itself has been transformed since the mid-1990s. Once a poorly managed public agency near receivership and lurching from crisis to crisis, AHA now has positioned itself as a diversified real estate company with a public mission and purpose, and as a paragon of innovation and efficiency, while still adhering to its public purpose of providing decent housing for low-income families, the elderly, and the disabled.

Almost every major U.S. city faces a dilemma similar to that of Atlanta-what to do with obsolete public housing projects. As much as $50 billion, and maybe much more, is needed to repair America's 1.175 million public housing units. Yet, the amount of federal funds available is rapidly declining. The *New York Times* reported in October that New York state needs $7.5 billion to repair its public housing, but has only $1.5 billion to do the job. Similar disparities exist in every city as federal funds for HUD programs continue to diminish. Meanwhile, the number of low-income American families qualifying for full housing assistance-those below 30 percent of the area median income (AMI)-has soared to 6 million, the largest number since 1990. At the same time, housing authorities have demolished about 100,000 public housing units in the past decade.

Thus, Atlanta serves as an example of how a city and its housing authority can do the following:

- eliminate blight that stems from concentrations of poverty, as well as obsolete and beyond-repair public housing, while creating a substantial amount of new affordable housing in healthier mixed-use, mixed-income communities;
- provide opportunities for low-income families to achieve economic independence, benefit from high-quality education, and have the opportunities that are the right of all Americans; and
- create relationships with private sector developers, lenders, and service providers that are true partnerships and not just vendor arrangements-meanwhile, leveraging government funds with private capital.

*Egbert Perry, chief executive of the Integral Group*

What is clear from the Atlanta experience is that the first two of those achievements would not have happened without the third-the PPPs. Such partnerships are not new. They have been around since at least 1299 when the English Crown partnered with a Florentine company to explore for silver. Nor are PPPs novel in terms of real estate development in American cities. Most such partnerships are not really that, however. Generally, they are contractual vendor deals in which a government agency hires a firm to perform some job, perhaps privatizing a public function or outsourcing some task.

But what AHA and a number of private companies created is a partnership style of a different stripe. More than anything, partnership members grew in their understanding of each other, according to both Perry and Glover.

"In the beginning, creating a mixed-income community was just an idea," Perry says. "Both partners knew at a conceptual level that the key to the long-term success of the partnership was to create a shared vision and align both partners' interests consistent with the vision. That is more easily said than done. Neither side realized how much front-end investment would be needed to change the paradigm, especially one that had been hard-wired into society's view of poverty."

To be successful, the private developer had to maximize its investment, especially in the context of a changing paradigm, from the old model of warehousing the poor to the new concept of creating high-quality, market-rate housing with a seamless affordable component. The new concept had to be a high-value proposition for everyone, and there was no room for errors. Mistakes and the resulting bad publicity would have eroded public and political support for AHA's programs. "We worked very hard to make sure that didn't happen," Glover says.

*Former HUD secretary Henry Cisneros and Renee Lewis Glover, chief executive of AHA.*

Today, AHA and its partners are partners in more than just the real estate; they are partners in retail, education, and public infrastructure. "Where AHA has done the best is in its willingness and ability to understand, support, and help solve the challenges and problems resulting from delay and/or protracted decision making by other public players," Perry says.

AHA comprehends the importance of the private developer being positioned to manage and mitigate its risks, Glover and Perry agree. Just as important, AHA supports opportunities for the private sector to participate in the value that has been created through the efforts of both parties.

The development partners faced a number of hurdles, such as the fact that traditional revenue streams were largely missing or constricted. Development fees, for example, are a traditional source of revenue. But, as the developers found out, a lot of what they had to do-build new schools, early development centers, and YMCAs-did not have much of a fee payoff.

Similarly, cash flow is limited. Because these are mixed-income properties, typically only a minority-say 40 percent-are leased at market rates. Developers are not allowed to generate cash flow from housing authority–assisted tenants, and cash flow is diminished in tax credit units.

Finally, developers typically make the most income by eventually selling properties and monetizing future revenue. But because the housing authority only leases the land to the developers, there is no back-end value from the rental phases for the developer. In these instances, the appreciation belongs to AHA.

"We talk about creating a market-rate community with a seamless affordable component and I think this goes over everyone's head," says Noel Khalil, chairman of Atlanta-based Columbia Residential. "What we are trying to do isn't by the old rules. What that means is that there has to be a great amount of flexibility. We have to answer questions such as, what does the public sector partner have to do so that private lenders will take on the risk? And, if traditional revenue sources aren't available, how are the private partners going to make a profit?"

*Panelists for a discussion of 15 years of progress at AHA.*

It is a conundrum that had to be overcome in Atlanta. The private partners-Integral, McCormack Baron, Columbia Residential, H.J. Russell & Co., East Lake Development, Trammell Crow Residential and Urban Realty Partners, and others-had to rely heavily on fees. Beyond that, they became creative. The revitalization changed the image of vast areas of Atlanta from negative to at least being neutral, and that signaled opportunity. Techwood/Clark Howell was razed, for example, and that property plus surrounding areas increased in potential and value. Thus, at Centennial Place, AHA and Integral have allowed later stages of the project to be developed in such a way as to capture more of the market-driven economics. This led to the development of a townhouse community in which 80 percent of the units are truly market rate, with prices averaging about $500,000, and 20 percent of the units are affordable to households with incomes at or below 80 percent of AMI.

"We don't make much money from much of what we do," Perry says, "so we map out a portion of the site that will be developed late in the revitalization process to help the projects ultimately make business sense to the private developer." He adds that the developers have become savvier in planning their developments. "We try to find what piece is missing from an area, such as retail, and we build that into our plans. That increases the prospects of sustainability of our development efforts and, therefore, our return."

Problems encountered early also led to sweeping changes in the philosophy guiding the redevelopment. In 1995, no one understood the terrible circumstances of the families, especially the children. Embedded in the old housing projects were elementary schools that were among the worst-performing schools in Georgia. No mixed-income community could gain traction with that sort of education legacy. Thus, two of the early AHA-sponsored revitalizations, Centennial Place and Villages of East Lake, had new schools with a mandate of excellence that has been realized over the years. That emphasis on education remains essential to AHA's programs.

Surprisingly, opposition never materialized from three sectors that could have disrupted AHA's plans:

- **Public housing residents.** After initial skepticism, residents have been very supportive, with more than 90 percent voting in recent years to tear down the old projects. AHA has taken steps-raising expectations and standards, providing intense coaching, and implementing a work requirement-to assist the families in moving into the mainstream. Those human service programs have been integrated into the property management efforts of the private sector partners. As an example, Integral has a subsidiary that is specifically focused on coaching and counseling families as they try to make the transition to economic self-sufficiency. Over a tenyear period, AHA has contracted with professional firms, including the Integral affiliate, and invested about $27 million serving several thousand families.

- **HUD.** Rather than allowing the partnerships to be stymied by bureaucratic inertia, Cisneros, HUD secretary under President Bill Clinton, made them possible through such policy changes as enabling entities other than housing authorities to own public housing assisted units. He also facilitated a Federal Housing Administration (FHA)–insured first mortgage at Centennial Place, the first time FHA had insured a mortgage involving public housing units. Subsequent administrations have continued to support these policy changes. In 2003, during the administration of President George W. Bush, HUD signed an agreement with AHA that grants major statutory and regulatory freedom and encourages innovation and problem solving under a program called Moving to Work. This program has enabled AHA to be even more aggressive in its plans and innovative in its partnerships and business process design.
- **Investors and lenders.** The first deals were hard, Glover recalls, but once the first successes were apparent, investors and lenders came on board. The private developers-with their know-how, track records, and balance sheets-were great inducements for the lenders. And, again illustrating a true joint effort, the private partners are the sole signatories on the first mortgage debt and they solely provide the guarantees to the tax credit investors.

The results of 16 years of evolution of AHA-sponsored public/private partnerships are apparent. AHA's development partners are still developing projects while most construction in the city has sputtered to a stop. More important, where once more than 40 public housing projects scarred the city, driving away residents and investment, new AHA-sponsored mixed-use, mixed-income communities have transformed the city.

Academicians from Georgia Tech, Georgia State University, and Emory University have conducted studies showing significant measurable improvements in the lives of former public housing residents after they left the project for new homes, either in the mixed-income communities or in voucher-subsidized housing. A recent study by Georgia State economist Bruce Seaman showed that the 16 communities built by AHA-sponsored partnerships have added $1.7 billion to Atlanta's gross domestic product, have had a positive personal income impact of almost $800 million, and have added an average of 1,347 jobs per year in Atlanta.

"Did we do everything right?" muses Glover. "No, we didn't. We didn't understand at first how much assistance public housing residents would need to function in mainstream society. We are still adjusting the formula to have true mixed use; Centennial Place has yet to attract the volume of retailers we feel the community needs. But even our shortcomings illustrate how far we've come from being a traditional government agency. We keep trying to do a better job-admitting when we fall short, fixing what isn't working right, experimenting, and innovating. We do that because we care passionately about the outcomes and we have learned much from our private partners."