

CASE STUDY:

Norris Homes Uses the Whole Menu

Public, Private, Federal, City, Tenant Partnership

By Mark Fogarty

Norris Homes project, Philadelphia, PA



Right of Return

Philadelphia Housing Authority President and CEO Kelvin A. Jeremiah says, "When Philadelphia Housing Authority first began the renewal of this community with the city, we promised to replace all existing rental units with residents having the right to return. Norris Phase V is the final piece of the pie in the replacement of the old rental units."

The original Norris Homes was just what you don't want public housing to be. It was "isolated from the community," according to Erin Galligan, senior vice president at Bank of America, which provided debt and equity financing for the project. It was "obsolete," according to Philadelphia Housing Authority. It was old, dating back to 1959.

The replacement "is a high-quality program," Galligan told a meeting of the National Housing & Rehabilitation Association, of Norris Apartments Phase V. "It will improve the neighborhood." Developers are Jonathan Rose Companies, Philadelphia Housing Authority and the Philadelphia Rehabilitation Authority (PRA).

The project will have, "retail, social services and what sounds like market-rate amenities," says Galligan, crediting developer Rose.

"Jonathan (Rose) had a huge say in the design and it looks like a state-of-the-art building," she says. When completed, the apartments will take up a city block.

The amenities include "a social service office, community room, fitness center, bike storage and package rooms, computer center, community garden, public green space and outdoor terrace with activity areas," according to Philadelphia Housing Authority.

A Switch in Lenders

Rose managed a deadline of closing the deal to the construction finance table by the end of December 2019, Galligan says, and he also managed a deft switch in the permanent financing, she adds. Originally, the lender was going to be the Federal Housing Administration, but Rose instead negotiated a Tax-Exempt Loan (TEL) financing from Freddie Mac.

The Norris Homes project in Philadelphia has a little bit of everything. It is a Department of Housing and Urban Development Rental Assistance Demonstration (RAD) project. It is a Choice Neighborhoods Initiative. It uses Low Income Housing Tax Credits. It is a transit-oriented development (TOD). It is a green project. It even has a lender that provided both debt and equity for the financing.

Mostly, Norris Homes is a five-phase transformation of a North Central Philadelphia neighborhood enabled by a 2014 \$30 million Choice Neighborhoods grant that has since leveraged an additional \$125 million in funding, according to the Philadelphia Housing Authority.

The fifth and final phase, construction of 133 apartments, broke ground in January. When completed, 267 apartments and 30 homeowner units will have replaced 147 ramshackle low-rise public housing units.

Like all RAD projects, Norris Phase V aims to provide substantial rehabs (in this case quite substantial, involving demolition and rebuilding) without displacing residents.

RAD Progress Report

Bank of America provided a \$22.2 million construction loan, including a \$12.6 million Freddie permanent loan. It also provided \$13.4 million in LIHTC equity. Philadelphia Housing Authority put up a second mortgage of \$9.6 million and PRA a third mortgage of \$14.2 million, which included some of the original Choice Neighborhoods grant. The total financing came to \$51 million.

The project gets its TOD credentials from a nearby SEPTA transit station and a bus line and a green certification as an Enterprise Green Community.

"Jonathan Rose is extremely committed to the community," Galligan says. "When the bank looks at these types of transactions, it is very important to work with very sophisticated developers able to understand the needs of the community. Jonathan had already built a project on the other side of the rail train. I think understanding both the developer's ability to get something closed by the deadline, but also to improve the quality of the community, is vital to the way Bank of America thinks of these projects," she says.

Galligan told the NH&RA meeting Phase V, at West Berks and North 10th St., will be made up of 133 studio, one-, two- and three-bedroom units. When completed there will be 111 affordable units at 20 to 50 percent of area median income (including 45 public housing units for returning previous occupants) and 22 workforce housing units.

As far as the LIHTC part went, "We had to make sure the equity worked and the tenants coming back were at the appropriate rent levels. And the workforce housing had to be at significant discounts to market so people would move in."

Started by Choice

Transformation of the North Central Philly neighborhood near Temple University began in 2014 with the \$30 million grant from Choice Neighborhoods, a signature Obama Administration program. The idea was to build or rehab neighborhoods that residents would actually choose to live in.

To obtain the Choice Neighborhoods grant, the City of Philadelphia worked with more than 40 partners, including Temple University, the Philadelphia Police Department, local leaders and community stakeholders through the Division of Housing and Community Development to create a plan to transform the neighborhood.

Other phases have included construction of home-ownership units and additional affordable rentals.

SOURCES OF FUNDS

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| Bank of America construction loan: | \$ 22.2 million* |
| Philadelphia Housing Authority 2nd: | \$ 9.6 million |
| Philadelphia Redevelopment Authority (PRA) 3rd: | \$14.2 million |
| Developer equity: | \$100,000 |
| Bank of America federal LIHTC equity: | \$13.4 million |

*Includes \$12.6 million Freddie Mac TEL permanent loan. \$26 million in Philadelphia Housing Finance Agency bonds, cash collateralized during construction.

Rose was also instrumental in helping to obtain the Choice grant, Galligan said.

She notes Norris Phase V is her first RAD project. "Key takeaways for me in going to the groundbreaking are the number of parties involved. Also the political aspect, the securing of the Choice grants, the bank's involvement and getting the permanent loan lined up by the time December rolled around.

"It is such a great cooperation of public, private, federal, city, tenants and I really think they had to have buy-in from the neighborhood. It was very noticeable to me that the head of the tenant association spoke, that the residents trusted the developer, that they trusted the city. The mayor was out there frequently to make sure this all went smoothly so people were not scared they would not be able to move back in to their homes."

"We are extremely vested in improving the lives of our residents and we implement that vision through our Communities of Opportunity initiatives," says Jonathan F.P. Rose, president and CEO of Jonathan Rose Companies, whose previous North Philadelphia project, Paseo Verde, just a block east of the Norris site, provided an economic catalyst for neighborhood investment, according to Philadelphia Housing Authority. "Our vision is to empower residents through the co-creation of programs to improve their health and wellbeing, resulting in better life outcomes using great housing as the platform." **TCA**

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