



San Bernardino, Calif., Public Housing Property Renovation Overcomes Adversity

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The former Waterman Gardens public housing complex in San Bernardino, Calif., faced plenty of hurdles before starting a multiphase, \$150 million-plus rebuild financed in part by low-income housing tax credits (LIHTCs). The opening of the 76-apartment Valencia Vista Apartments in November 2016 in the newly named Arrowhead Grove complex provided evidence that it was worthwhile.

“When we talk to families who moved into Valencia Vista and they’re in a bit of shock and awe about how different it is from what they’re used to,” said Ana Gamiz, director of policy and community affairs for the Housing Authority for the County of San Bernardino (HACSB). “They’re very pleased.”

The long-range plan calls for building more than 400 senior, affordable and market-rate housing units at the site over six years, with community amenities, upgraded infrastructure and an integrated educational environment. What wasn’t part of the plan—but of reality—was the city declaring bankruptcy, then the developers facing a series of hurdles.

“There was political upheaval and this (property) became part of the political landscape,” said Steve

PonTell, CEO of National Community Renaissance (CORE), Arrowhead Grove’s developer. PonTell cited three major hurdles for the property: San Bernardino’s bankruptcy, the end of redevelopment agencies in California and the development being the first off-site, new construction property under the U.S. Department of Housing and Urban Development’s (HUD’s) Rental Assistance Demonstration (RAD) program.

Then developers had to deal with the changing landscape after HUD’s 2015 affirmatively furthering fair housing regulations required cities to look for racial bias in their housing patterns—encouraging development in areas of “high opportunity.”

“We knew San Bernardino had some issues, but we looked at [the] merits of the project, the demand for new affordable housing in the market area and the strength of the development team and felt comfortable that the project would be successful,” said Paul Buckland, senior vice president and equity deal manager at Wells Fargo, the sole investor in LIHTC equity. “You have to commend National CORE with what they’ve done.”

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The first phase—Valencia Vista, built on an adjacent parcel—is occupied. The second phase—the first on the property—is underway. The goal is not only to renovate the property and nearly double the number of apartments, but to give a boost to a struggling neighborhood in one of America’s hardest-hit cities.

Waterman Gardens

Waterman Gardens was built in 1943 as military housing and then became public housing for decades. “Waterman Gardens was always near and dear to our hearts,” said Gamiz. “It is the second-oldest public housing site in San Bernardino County.”

Over the years, though, the area was more known for its crime. By the 1990s, the surrounding neighborhood was largely associated with gang violence and drug sales. And by the end of the first decade of the 21st

century, HACSB was ready to redevelop Waterman Gardens in an effort to help trigger the renovation of the neighborhood.

A Series of Hurdles

Gamiz said HACSB planned a substantial change at Waterman Gardens long before the RAD program debuted. “We knew it was better to do a total revitalization rather than just a renovation,” said Gamiz. “The update was really needed.”

National CORE was named developer shortly after the city’s bankruptcy in 2012. Also complicating that was the end of California redevelopment agencies the same year, snuffing out a significant funding source for such properties.

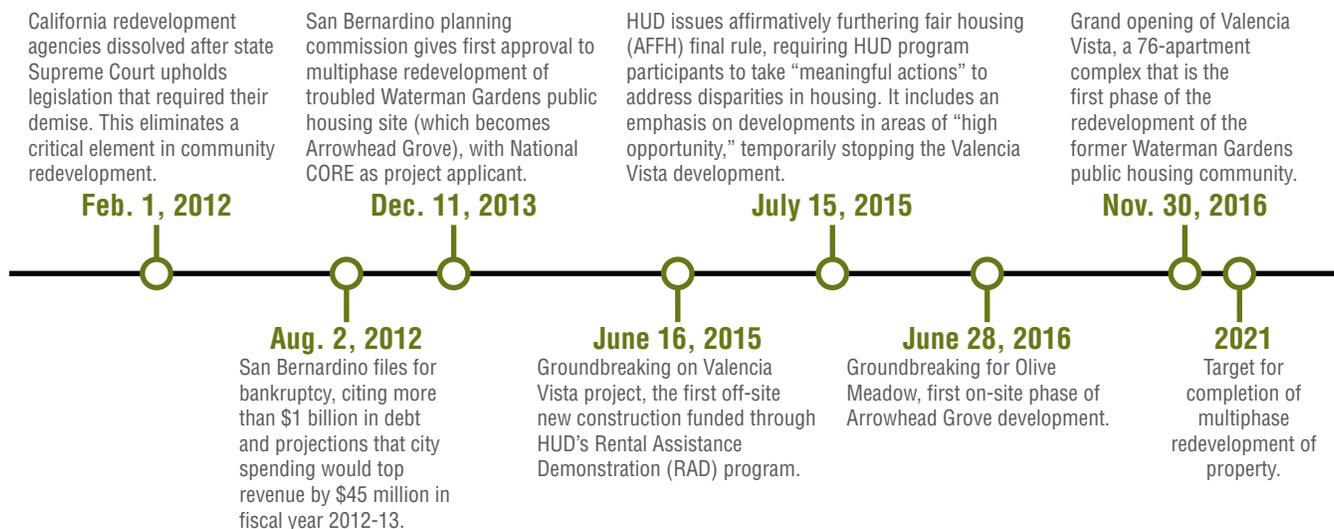
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Image: Courtesy of Bill Hall Photography

The Valencia Vista Apartments were the first phase in a multiphase renovation of the newly named Arrowhead Grove property in San Bernardino, Calif.



Rough Road to Redevelopment



Source: National Community Renaissance (CORE), Novogradac and Company LLP

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Then the RAD program came along, putting National CORE in the role of pioneer. The deal was ready to close and then ... "the affirmatively furthering fair housing ruling came out and HUD said we can't do this [because the development wasn't in a high-opportunity area]," PonTell said. "They shut it down, so we had to deal with that [until the property got the go-ahead]."

Gamiz said HACSB saw the development as difficult, but added, "we're used to a working environment with limited resources and moving pieces. We're used to dealing with a lot of obstacles."

Neighborhood Work, Too

In struggling San Bernardino, the development wasn't just about renovating public housing. The neighborhood was targeted. "It was a bit of a challenge," Buckland said. "The city wanted public housing, but also wanted it to help the area."

PonTell said National CORE brought extra resources to do so. "We did a specific plan for the neighborhood," PonTell said. "San Bernardino's general plan is probably 20 years old, so it's out of date. In the neighborhood,

nothing can occur without planning, so we did a specific plan and the city adopted it."

That plan included some extra pieces. "We're planning some mixed-uses around the edges," PonTell said. "There will be some commercial and some office."

Gamiz sees the results. "It means a lot to contribute to the revitalization of the neighborhood," she said. "Not just for the city, but for the families that live there. We want to bring a new, fresh image to the community and to the memories of people who live there. ... This is going to make an impact and have a domino effect."

The task is difficult. "Neighborhood transformation is hard," PonTell said. "It was hard during [HUD's] HOPE VI, it was hard in Choice Neighborhood. It's hard."

Arrowhead Grove Overview

When the redevelopment is finished, Arrowhead Grove will see the transformation of the 38-acre site with 232 apartments to more than 400 [including the 75 on adjacent land], with a new amphitheater, play structures, a swimming pool, computer learning centers, a community garden and more. The property

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Image: Courtesy of Bill Hall Photography

The Valencia Vista Apartments in San Bernardino, Calif., were the first of a multiphase rebuild of the newly named Arrowhead Grove complex.

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also includes oversized musical instruments with which children can experiment, a partnership made in conjunction with the local school's emphasis on music.

Valencia Vista includes a community center, afterschool program facilities, computer lab, children's play area, swimming pool and outdoor spaces. "National CORE spent a lot of time on it. They knew there were a lot of children there," Buckland said. "So they put in a lot of play areas and put large musical instruments around. On a wall, for instance, you can go and bang on tubes and make music."

Residents are pleased. "The reaction has been very positive," PonTell said. "They were living in low-density, almost a single-family neighborhood and now its higher density. But the units are better than even any market-rate units in [nearby, higher-income] Santa Barbara."

Gamiz said the momentum helps. "Now that this phase is up and running, people [in existing housing] have very few doubts," she said. "It's not looking at renderings. It's tangible."

Financing, Economic Benefits

The Valencia Vista property cost \$27.3 million of the planned \$150 million-plus planned for the entire development. That included \$12.4 million in LIHTC equity from Wells Fargo, a \$10.7 million HUD 221(d)(4) loan from PNC Bank and other financing.

Those involved look at the long view of the entire development. "A deal like this can take three or four years," Buckland said. "So we feel like some of the RAD deals should be done by bigger developers. We hadn't done a lot of business in San Bernardino and this property has been around since the 1940s. This was a

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way to come into the market and do multiple phases over several years.”

The benefits go beyond housing. A 2014 study by the Center for Economic Research and Forecasting concluded that the construction activities will increase economic output in the county by more than \$80 million, support more than 1,000 jobs and pay more than \$46 million in labor income to county residents. The study said that the project will generate more than \$2.2 million annually in economic activity.

What's Next?

Developers face a new hurdle: dropping prices for LIHTC equity in the face of potential comprehensive tax reform.

“We were planning on going forward in June, but the slight re-pricing of tax credits is blowing huge holes in the next phases,” PonTell said. We’re waiting to see what happens next. There are probably four more phases to go and who knows what will happen? This is 1940s infrastructure ... It’s a pretty big community redevelopment and every step we have to leverage all we can. Fortunately, we have a creative financing team and we’re the construction team.”

PonTell said he expected to meet with all the partners—including the housing authority—early in 2017 to decide what to do next. The second phase is expected to open in late 2017 and PonTell said each phase will take 12-18 months. He is confident it will get done.

“We will figure out how to finish the project,” PonTell said. “But we don’t know how yet. In partnership with the housing authority, we’ll get it done.”

History suggests he’s right. ❖

Valencia Vista

FINANCING

- ◆ \$12.4 million in low-income housing tax credit (LIHTC) equity from Wells Fargo
- ◆ \$10.7 million HUD 221(d)(4) loan through PNC Bank
- ◆ \$1.5 million in HOME funds from city of San Bernardino
- ◆ \$1 million loan from Housing Authority of the County of San Bernardino
- ◆ \$810,000 HOME funds from San Bernardino County
- ◆ \$750,000 Affordable Housing Program grant from Federal Home Loan Bank of San Francisco
- ◆ \$225,000 deferred developer fee

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