

# Low-cost condos miss their target

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As part of a plan to get thousands of people to move downtown over the past decade, the city set aside tax breaks for developers to induce them to build many of the high-rises that now dot Nashville's skyline.

Those tax breaks also came with a condition: Developers had to set aside hundreds of units for affordable housing.

But exactly how affordable is the housing? Critics have said the program is doing little other than providing expensive condos for singles with an active nightlife. Some buyers have used the condos as investments, owning multiple properties at time.

Others have been sold to people who haven't proved they qualify. And prices for the units have been rising above \$150,000, more than what many feel someone with a moderate income can afford.

"This is in no way affordable housing -- these 400- to 500-square-foot lofts and studio apartments where a mother of two can no way raise her family there," said Jerry Maynard, a pastor and Nashville City Council member. "We need work force housing for families, that's what we need affordable housing for."

The affordable housing requirement is part of an overall city strategy that has been more than two decades in the making. The goal was to transform a downtown that had a bad reputation as a place for prostitutes and drug addicts into a vibrant center of commercial and residential life.

Although some projects have been delayed and others are doubtful amid a major economic downturn, there are expected to be about 3,700 residential units downtown by the end of the year. That's about double the rate of four years ago, according to the Nashville Downtown Partnership.

To make sure downtown didn't just become a neighborhood for the rich, the city required that developers who got special tax breaks set aside 20 percent of their units as affordable.

"We want people to be able to live downtown," said Joe Cain, development director for the Metropolitan Development and Housing Agency, which manages and controls the tax breaks and affordable housing program. "It's not just for the lawyer who works downtown. It's for the person who answers the phone for the lawyer. It's for the guy who runs the restaurant where you go and eat your lunch."

## Tax increment financing used

Developers in the downtown core got more than \$30 million in what's known as tax increment financing to construct residential housing downtown. State law gives wide discretion to housing authorities to offer such breaks, which are common throughout the country, to redevelop parts of cities or counties for economic development purposes.

Like other cities, Nashville is taking property taxes from the developments that would otherwise go into the city's coffers and using that money to help pay some costs of the development. Developers

and city officials say those developments would not have been built without the tax breaks, and thus the redirection of taxes from the enhanced properties doesn't cost the city.

The program has created more than 300 units downtown for moderate-income households. Buyers must prove they make 80 percent or less of the median annual income, basically \$36,350 for a single person and \$41,500 for a two-person household last year.

The income deed restrictions stay in place for five to seven years no matter how many times a property is resold. After the initial deed restriction period, a property can be sold to anyone, regardless of income.

However, the redirected taxes can be captured on the property for about eight to 15 years or sometimes longer, meaning the tax break could outlast the deed restriction.

Jay Turner, managing partner of MarketStreet Enterprises, the co-developer of the Icon and Velocity condos in the Gulch, said the buildings would not have been built without the tax breaks.

"We're selling (the affordable condos) for \$50 less per square foot than they cost to build," he said.

Some units have sold for more than \$150,000, raising questions about who can afford the downtown condos, especially on a salary of less than \$40,000 a year.

"My concern is how can someone manage to afford a \$160,000 condo on a \$35,000 income?" said Robert Turner, an attorney and vice president of the Viridian Homeowners Association. "The math doesn't seem to work out. Maybe they have other assets or family who is able to help them."

One condo deemed affordable sold in May of last year in the Viridian for \$170,000 to Angela Peterson, a musician who travels a lot for work.

Peterson was able to prove her income to MDHA, which requires buyers to submit two current pay stubs and the prior year's tax return.

"It is very, very tough on

a 'starving artist' budget," she wrote in an e-mail, but added that she loved coming back to the condo after a hectic traveling schedule.

"If you live on the East or West Coast, you're going to pay double that," she said.

Ryan Heath Carver has bought three condos downtown in the past few years, two of them affordable condos. In all three cases, lenders lent him 100 percent of the purchase price, according to records with the Davidson County Register of Deeds.

"You do whatever you can to invest and make wise decisions," he said. "Anybody who owns real estate right now is suffering."

Carver said he rehabbed a condo at the Lofts at Werthan Mills but didn't make money when he sold it because of the expense of the rehab. He has since sold two of the condos.

"They are not really affordable," he said. "The developers can get around that, like not providing parking. The taxes went up."

Carver was not the only real estate investor buying affordable condos.

Paul Ziady, who works in real estate finance and owns several properties around town with relatives, bought an income-restricted condo in the Viridian in 2007. He sold the condo this year for \$163,000 to another income-qualified buyer.

Ziady said he got married and the 600-square-foot condo became too small.

He said he qualified under the income guidelines when he agreed to buy the Viridian condo a few years ago, because his investments weren't doing well that year.

Prices are not regulated

MDHA's rules don't specifically prohibit people with assets from buying the condos, and the condo prices aren't regulated by the agency.

"The market would dictate that," Cain said. "A mortgage lender is going to lend you what you can afford to purchase. We were not trying to regulate the lending market."

Cain said there are several instances in which people who have low incomes but some assets could qualify, such as retirees who own their homes but want to downsize and move into a downtown condo.

"It has been and continues to be successful in developing a price point for the condos downtown that vary," Cain said. "You can get a condo downtown for under \$150,000. That was the ultimate goal. We did not want to set up subsidized housing into perpetuity. We were not going to be New York with rent-subsidized apartments. What we wanted to do is help stimulate the market and it worked."

Some developers in other parts of town who didn't get the tax breaks have questioned the rules. March Egerton, a developer in East Nashville, said it's unfair for the city to call those condos affordable.

"Your typical owner should not be a 28-year-old white guy with a \$50 haircut," he said. "A lot of these people living in them have a lot of options relative to other people living in this city who do not."

Phil Ryan, the executive director of MDHA, emphasized that the tax increment financing has leveraged \$555 million in residential development downtown. He said the condos are only a sliver of a vast array of affordable housing programs offered by the city, including MDHA-owned housing, rental assistance and new housing for families.

"Nothing is perfect," Ryan said. "You're going to have some people who game the system."

Considering what downtown was like in the 1980s, the tax-increment program has met its goals, he said.

"We had a downtown that at 5 o'clock, it was lights out, a really underutilized resource for the metropolitan area," he said. "Our first goal was to try to begin the revitalization of this valuable, historic, centrally located real estate that was the face of the region."

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