AFFORDABLE HOUSING IN THE CITY OF CHARLESTON

HAILED, HYPED AND HOBBLED

We started working on this report about 2 months ago. It was prompted by a number of factors. Firstly, there was the concern of Council member Lewis that the City of Charleston had become very tardy in distributing funds that had been allocated to its Redevelopment and Preservation Commission. As he observed, there were many needy recipients. Fossicking in the data relating to HUD grants led us to Council member Gallant's interest in non-profits -- in particular Elpis Inc and Pastors Inc. We were struck by the seeming favored position of these two non-profits in obtaining HUD funds and the fact that neither was a significant "affordable housing" provider. Our interest rose when we observed the presence of two real estate developers and the Mayor of Charleston on committees at Elpis. One of these developers is the principal of the firm that plans to develop the Neck, an area that Council member Gallant represents.

We have interviewed the senior executives of the four major housing providers and the Director of the City's Department of Housing and Community Development. All the "affordable housing" providers covered were sent a draft of our report and their comments have been incorporated where appropriate. The City was afforded the opportunity to read a draft. Again, its comments were incorporated where appropriate. The Elpis group was provided a draft of Section 3 of the report but has failed to respond to our telephone calls.

The opinions and errors in the reports are ours. But we would note that many of the opinions are shared with the "affordable housing" providers. As for the mistakes, we ask tolerance: HUD's fiscal year ends in August, and the City's, in May. Most of the "affordable housing" providers have a fiscal year that ends in December.

Warwick Jones, Editor

November 24, 2004

OUR CONCLUSIONS

The "affordable housing" program of the City is barely making an impact on satisfying the need for housing. Although we think the City could do more, its inability to provide a greater number of houses is the more the result of a lack of funds than of anything else. *HUD provides an important part of the funds that go toward "affordable housing" each year and these funds are not increasing significantly. Indeed, they have fallen over the last 20 years. Last year, construction of "affordable housing" units, rental units and homes for purchase amounted to about 60 though this total does not include "completions" financed through the Redevelopment and Preservation Commission. We do not know the latter figure but would not expect it to add significantly to the total. But even if the total was say 90 units, the need was a multiple of this amount.*

"**Affordable housing" providers will need to turn more to North Charleston, the County and even Dorchester and Berkeley Counties to meet "affordable housing" needs.** *There is a strong need in the City of Charleston. But the high cost of properties and occupancy is working against "affordable housing" on the Peninsula. As the majority of the poor live in the City, the City of Charleston is a major recipient of HUD money and plays a major role in directing "affordable housing" funds. But HUD monies are limited; a larger number of needy persons could be helped if "affordable housing" units were built outside the City.*

In our view, the City has directed substantial amounts of HUD monies in recent years to projects that would best be left to others, or whose value to the community can be questioned. The funds directed to these other projects leave less for "affordable housing" and indeed, may have been better utilized if granted to "affordable housing" groups. *HUD monies are the seed funds for the "affordable housing" providers – these funds are leveraged into more substantial amounts to finance "affordable housing" projects. We estimate that in 2004, less that 50% of HUD monies were allocated specifically for "affordable housing". But if grants and loans of the RPC, to make repairs and renovations, are included, then the percentage rises to over 80%. HUD monies granted to programs such home ownership education or reading initiatives, do not lend themselves to leveraging, so the impact of the grants, certainly on an economic basis, is limited. And significant questions are raised: Have allocations by the City been influenced by political considerations? Why has Elpis received such large grants over the years to restore a single historic house? We also think that a small group such as Pastors should get out of the housing business and leave it to the more professional organizations, such as the Humanities Foundation and Habitat for Humanity. The latter have the skill and the scale to develop "affordable housing" more efficiently and economically. If small groups were truly motivated in maximizing the provision of "affordable housing", they would recognize this*.

The City needs to focus on the needs of the very low-income families. *Reflecting he high cost of land and construction and consequently the high final costs, many needy folk are shut out of the housing market because of low incomes. Buyers of many "affordable housing" units in the City are earning above the median income. HUD sets an upper* *limit of 120% of the median family income to qualify for "affordable housing". We question why anybody earning the median income or above should be entitled to "affordable housing" when more needy folk go wanting. A bond issue raised $10 million about three years ago for "affordable housing". To use any of its proceeds for the financing of the Longborough project of the Beach Company would be a travesty, in our view. Indeed, we feel that the city should sell its housing entitlement at Longborough and deploy the proceeds on a more economical project.*

More transparency is needed in the distribution of HUD funds. *The multiplicity of City housing and social programs tends to obfuscate. The ultimate recipients of funds are not clearly evident and, although there is no suggestion of wrongdoing, it is difficult or impossible for citizens to determine their ultimate use. A large number of programs have been started by the City over the years to dispose of HUD funds. Many of these programs are small and may involve only a few thousand dollars. But some, like the Redevelopment and Preservation Commission, are large, receiving over $800,000 a year for the last few years.*

The B.A.R. and Historic Charleston Foundation should relax some of their standards. *The standards of these organizations are appropriate to the historic areas downtown but generally not to areas around say Line and Columbus Streets. The BAR and the Historic Charleston Foundation have played important roles in preserving the Historic districts. That role is not questioned but imposing their strict standards on areas such as the East side, where houses are falling down from neglect and are beyond preservation and where there are few houses of architectural interest, is certainly questionable. The imposition of harsh requirements is unrealistic and unrecognizing of the economic and social conditions of the neighborhoods. The extra costs necessary to meet requirements push the cost of housing, already very high, beyond the reach of the needy.*

The City should ease the resale conditions on properties. *There are some properties owned by the City and Charleston Affordable Housing Inc that have been waiting for buyers for some months. Their sale is restrained by the high cost, the denial of any meaningful profit to the buyer on resale, and finding families between 80 and 120% of the median income who want to buy a home with all the restrictions. The City's position is understandable considering the subsidy that buyers receive. But it seems that some relaxation on future profit entitlement, at least to a slight degree, may be necessary.*

In an attempt to give some form to this study, we have broken it into four components

1. THE RECIPIENTS – Many come but few are chosen

What is affordable housing?

Most folk probably have only a broad understanding of "affordable housing". It is the housing provided for the poor and subsidized by the government, right? Well partially! It is subsidized but it nevertheless differs from other public housing programs that focus on the very needy and through which monthly or weekly rents are partly paid by the Federal or state governments. In contrast, the aim of "affordable housing" is to make the renter or buyer independent of government help after commitment to a contract. For a homebuyer, the home cost is reduced or made "affordable" by virtue of a subsidy or grant. But the buyer is responsible for all costs after purchase, including mortgage repayments and interest, taxes and insurance. In the case of the renter, the rents are well below market rates and thereby "affordable" because of the grants or benefits that were available to the "affordable housing" provider. These capital grants and other benefits effectively reduce the cost of land purchase and construction. In consequence, the rents, even well below market enable the "affordable housing" provider to finance the remaining borrowings which were incurred to finance construction.

Given its nature, "affordable housing" is not for everybody. The very needy can't afford it and the affluent are excluded for the obvious reason: they don't, or shouldn't, need it.

HUD makes the rules

As it is the distributor of most of the funds on which "affordable housing" is based, the Federal Department of Housing and Urban Development (HUD) makes the rules. The funds that it provides can go to housing or social programs. But having said that, HUD is guided by the cities and counties to which it makes annual grants. Much is left to their discretion in the disposition of the funds they receive from HUD. So the proportion of the funds allocated to social programs, "affordable housing", or those individuals with qualifying income levels is largely the call of the City of Charleston.

Here's the first problem

Here's the first problem: HUD has allocated to the City of Charleston funds amounting to about $2.2 million each year over the last few years. Out of this total, "affordable housing" is allocated much less than $1 million. Some may dispute this figure because some programs we exclude are housing-related, such as educating homebuyers. With these federal funds as seed money, the "affordable housing" providers and the City have constructed probably some 60 to 80 new units a year for rent or purchase over the last 5 years. We don't know how many families are in need of "affordable housing" but we are told by the providers that the supply of units is a fraction of what is needed. And indeed, with a population of over 100,000 in the City of Charleston and say an average of 2.5 persons per family, probably more than 20,000 families qualify for "affordable housing."

Our study focuses on the City and "affordable housing" providers. We have spent little time discussing those folk needing "affordable housing". This is not indifference. The *Post and Courier (P&C)* recently published a series on "affordable housing". It was a good series and we refer readers to it. It can be accessed through the *P&C's* web side.

You can access it at www.charleston.net but you will have to register. The process is easy and costs nothing. Just for the record the P&C series and our report overlap to only some extent. The *P&C* made little reference to the City's other programs, nor did it discuss in detail the housing providers. It concentrated on the top end of the range of "affordable housing". The first of the series occurred on October 23.

So who qualifies?

Who qualifies for affordable housing? It depends on the specific project, the social groups targeted by the City and the housing provider, and the number of members in a family. An affordable rental project may target the elderly and be limited to incomes equal to or below half of the median income. Most of the "affordable housing" that is sold under the City's Home Ownership Initiative has a simple income qualification of less than 120% of the median! But the median varies with the number of members in a family. The median income of a four-person family in Charleston in 2004 is $55,900 according to HUD; families of four with incomes of less than $67,080 (120% of the median) therefore qualify. The median income for smaller families is lower: $50,310 for three persons, $44,720 for two persons and only $39,130 for a single household. Correspondingly, the financing opportunity diminishes as family size drops.

A trip through the classifieds of the *P&C* will show the levels of wages and salaries in Charleston. Wages for unskilled workers, or assistants in retailing could be less than $20,000 a year. Schoolteachers, skilled workers, nurses, technicians and others could earn approximately $30,000. Persons with special skills can earn $40,000 or more. In very general terms, wages and salaries are too low for many of these individuals to buy even "affordable housing" without the assistance of a working spouse, or possibly even a second job

The following table shows the relationship between maximum loans and income for a family of four.

Qualifying for a loan (reproduced from Post and Courier)

For a family of 4	**Make this much?**	**You can afford this much**
Median inc less 30%	$39,130	$110,000
Median inc less 20%	$44,720	$134,900
Median inc less 10%	$50,310	$161,400
Median inc	$55,900	$188,000
Median inc plus 10%	$61,490	$215,000
Median inc plus 20%	$67,080	$243,000
Median inc plus 30%	$72,670	$269,000

ASSUMPTIONS: 30 year fixed mortgage at 5.75% and 10% deposit
$250 a month car payments and $250 a month other debt payments
Insurance and taxes as per average for Charleston Metro area
Source: Bankrate and HUD.

Why do above median income earners qualify?

We can understand why the low wage earners need assistance but why the need to help the above-median earners? The answer usually given is that house and apartment prices have risen at a faster rate than wages and salaries. Even families earning above the median income are finding it hard to finance the purchase of dwellings. The P&C showed that the median house price in Charleston had risen 37% over the last 5 years, whereas the median income for a 4 person family had risen only 25%. We don't have the figures for the last 10 years but we suspect the gap would be even wider.

Conventional wisdom explains the disparity between wage and house-price increases in Charleston by attributing it to the large influx of people from the North. They have been attracted to Charleston for a number of reasons, one of which was the lower cost of local housing. A house in the suburbs of New York, Washington or Boston might easily cost two to three times the equivalent in Charleston. Many northerners have come south to retire, or just have purchased a second home. But it is their purchases that have driven up the cost of housing in Charleston generally. One must also add the impact of the expansion the College of Charleston, MUSC and Trident Tech. The influx of more students has also driven up housing costs.

Rising house prices not confined to Charleston
The phenomenon of rising house prices is not confined to Charleston. It has occurred just about everywhere in the US in recent years with the fall in interest rates and the consequent greater ease of financing. But the homebuyer now coming to the market for the first time may have an income identical to a buyer of 3 years ago. Both have or had the advantage of low interest rates but the present buyer faces a housing market that is much higher.

The table following shows changes in median income and median home prices in Charleston,

Median Income for a family of 4, and home price for Tri County
(reproduced from Post and Courier)

Year	*Median Family Inc.	Change from 2000	#Median home price	Change from 2000
2000	$44,600		$140,000	
2001	$46,300	3.8%	$150,800	7.7%
2002	$49,200	10.3%	$159,400	13.9%
2003	$55,900	25.3%	$168,900	20.6%
2004 (to August)	$55,900	25.3%	$191,900	37.1%
	*HUD		# Charleston Trident Association of Realtors	

Notwithstanding the different rates of appreciation, a four-member family with the present median income of $55,900 still comes close to qualifying for a conventional mortgage to purchase a house near the present median value. Indeed, if the family can put down more than a 10% deposit, or has little credit card debt, a house above the median value possibly could be financed through a bank. And because of this, we still ask why, with so many people needing help at the low end of the income spectrum, do above-median income families qualify for “affordable housing”? Helping these families deprives the more needy of funds. And after all, there is no abundance of funds.

Some programs allied to “affordable housing”

It is worth referring to some of the available programs that are allied to “affordable housing” - specifically special loans offered by some banks and by the Charleston Bank Consortium. These loans are available to families who fall into the income category broadly defined for “affordable housing”. Eligibility will also depend on family size, the amount of deposit and credit history. The last of these is the most important criterion, since a bad credit record most likely will close the door. The major benefit of special loans offered by banks and the Bank Consortium, which are generally for a maximum term of 30 years and bear a slightly better than market rate of interest, is help in meeting closing costs. These costs can often amount to 5% of loan value if a mortgage is secured from a mortgage broker. Typically they are much less when a conventional mortgage is negotiated with a bank. But with a “special loan”, the closing costs could be negligible. The closing costs are paid with a second mortgage but that mortgage is forgivable over a period of time if the conditions of the first mortgage are met and the buyer remains in the home for a specified period.

2. HUD AND THE CITY - The provision and allocation of finance

- In our view, the City of Charleston has directed substantial amounts of HUD monies in recent years to projects that would best be left to others, or whose value to the community can be questioned.

- The "affordable housing" program of the City is not working well. Some objectives have not been met and may be unrealistic with present funding. As well;

  - Conditions on properties for sale as "affordable housing" should be eased, at least slightly.

  - More focus should be made on the truly needy and not on families whose incomes exceed the region's median.

  - The B.A.R., Historic Charleston Foundation and Preservation Societies should relax some of their standards.

- More transparency is needed in the distribution of HUD funds

HUD position is paramount

The starting point for any analysis of "affordable housing" is the Department of Housing and Urban Development (HUD). The Federal body makes grants each year to the county and cities within the county. The City of Charleston receives the largest grants because it contains the greatest number of needy. In 2004, the grants under the headings of Community Development Block Grants (CDGB) and Home grants totaled $2.2 million. There are sometimes other HUD funds that are distributed by the City, for example, the $524,000 in 2003 to provide Housing for AIDS-infected persons. There is sometimes special funding from the State, as in this year when $1 million was given to the newly formed Charleston Housing Trust. There are also special Federal programs, but these are generally sporadic and not of the scale of HUD funding.

Based on its own statistics relating to poverty, population and income, HUD makes an allocation to the City. Whatever the make-up of the determinants, they have changed little over the years because the grants have held relatively steady above $2 million. Usually CDBG's exceed Home grants and are available for a wide number of uses, not only for construction but for social purposes as well, assisting families below the 80% of the median income. The latter may be for the improvement of education facilities or funding "soup kitchens". Home grants on the other hand are largely for housing.

For HUD grants over the last 5 years, see table on the following page

Allocation of CDBG and Home Funds, City of Charleston			$			
	2000	**2001**	**2002**	**2003**	**2004**	**2005**
Charleston Trident Community Housing		15,000		10,000		
Charleston Baptist Association			40,000	40,000	40,000	40,000
Trident Urban League	25,000	30,000	15,000	15,000	20,000	35,000
Charleston Bank Consortium	195,000		25,000	25,000		
Crisis Ministries	25,000		10,000	10,000	10,000	10,000
Charleston Home Ownership Center	125,000		85,000	225,000		
Elpis Inc - JMT House	100,000	150,000	150,000	150,000	150,000	150,000
Elpis - Carpenters House		50,000	50,000	50,000	50,000	45,000
Elpis - Innovative Alternative for Education Inc			15,000	15,000	20,000	20,000
Episcopal Diocese CHDO		50,000	50,000	50,000		
City of Charleston - CDBG Admin			80,000	80,000	53,000	60,000
City of Charleston – RPC	880,000	890,000	850,000	850,000	850,000	850,000
City of Charleston -Affordable Housing			75,485	75,458	52,000	41,170
City of Charleston - Emergency Rehabilitation		35,000	50,000	50,000	23,500	35,000
City of Charleston - Daniel Island Affordable Housing			50,000	50,000		
City of Charleston - Greater Charleston Emp. Corp			50,000	50,000	50,000	20,000
City of Charleston – Modular Housing Peecken's Court			39,000	39,000		
City of Charleston - Rental Rehabilitation	60,000	36,000			23,500	
City of Charleston - Acquisition of property	90,000	115,750				
City of Charleston - Youth Net	106,000	60,000				
City of Charleston - Wings Adult	10,000	10,000				
City of Charleston -Enterprise Com Ec Dev Incentives	65,000	40,000				
City of Charleston -Code Enforcement	50,000					
City of Charleston -Child Development Center	30,000					
City of Charleston -108 Loan repayment						50,000
City of Charleston -Council on Homeless						20,000
City of Charleston - CHDO allocation	37,000	104,250	115,800	115,800	130,200	137,700
City of Charleston - Fire Dept.		50,000				
City of Charleston - Employer Assisted housing					50,000	
Charleston Citywide Local Dev. Corp.		25,000				
Lead Based Pain reduction		50,000				
Old Garage Feasibility Study		5,000				
Charleston Affordable Housing Inc	45,000	60,000	100,000	100,000	96,186	90,000
Humanities Foundation Inc - 1054 King Street			50,000	50,000		
Humanities Foundation Inc - Maybank Hwy			50,000	50,000		
Humanities Foundation Inc – General						
Humanities Foundation Inc - Rutledge Place	200,000	50,000				
Humanities Foundation Inc -Shady Grove						150,000
Humanities Foundation Inc - Grand Oak Apartments		50,000				
Humanities Foundation Inc -Home Ownership Initiative					100,000	120,000
Mercy Housing South East			50,000	50,000		
PASTORS inc	126,000	75,000	80,000	80,000	100,000	45,000
Charleston Habitat for Humanity Inc		50,000	50,000	50,000	129,000	74,130
Charleston Area Community Dev Corp		50,000			50,000	
Reid House						13,000
Fairhousing Hotline	15,000		10,000			
YMCA - Cannon Street	40,000					
YWCA	15,000					
Advocacy for a Better Community Program	104,100					
TC Drayton Palmetto Project	10,000					
North Central Apartments	25,000					
Jeffrey Smith Coys (Radcliff Manor)					250,000	200,000
	2,378,100	**2,051,000**	**2,140,285**	**2,280,258**	**2,247,386**	**2,206,000**
Home Funds	694,000	595,000	772,000	771,000	859,200	**918,000**
CBDG	1,684,000	1,356,000	1,381,000	1,369,000	1,388,186	**1,288,000**
Total	**2,378,000**	**1,951,000**	**2,153,000**	**2,140,000**	**2,247,386**	**2,206,000**

City plays major role in allocation of HUD funds

The first quarter of the City’s fiscal year is important for the non-profits and the City. The City determines its own requirements for the following year and hears the requests from the non–profits. Obviously there is a lot of form filling that goes along with all of this, but after the amount is determined, the City submits it to HUD for approval. HUD considers the list and presumably based on the merit of the submissions, grants are determined.

The City of Charleston receives the grant monies from HUD and is responsible for their distribution and the record keeping. All of this is handled by the City’s Department of

Housing and Community Development. It implements the housing policy of the City and manages a number of initiatives, not only in relation to housing, but social issues as well. The Mayor and Council determine general policy.

City reports long on hype

The Department issues two major reports a year, the Consolidated Annual Performance and Evaluation Report, and the following year's Annual Action Plan. We have drawn on these for some of the information in this report. It seems to us that these reports are written more to the view of impressing HUD rather than providing an accounting or description of achievement. The City defends its reports saying that indeed the reports are written largely for HUD and in a format that it proscribes.

Focus on Enterprise Community – mainly the Neck and Eastside

The major part of the City's programs is focused on the Enterprise Community, an area defined by HUD that stretches from Calhoun Street on the Peninsula to the boundary with North Charleston. This is a depressed community, predominantly African-American. To the south, it encompasses the residential areas of the East and West sides of the City and to the north, the Neck. The latter area is mainly industrial but also contains small residential communities and some brown-field sites. Investors and developers in the Enterprise Community receive special income tax breaks. This is partly a reason why there has been much interest in its development. But the main spur has been the rising land values in the City and the tremendous opportunity for developing such a large parcel of essentially raw land.

Homeownership Initiative- Unrealistic objective?

In 1999, the City began its Homeownership Initiative, a plan to provide 150 affordable units for first time buyers. The Initiative would involve both the City and "affordable housing" providers. In most cases, the City would condemn, purchase and sell on the land to the "affordable housing" groups. The latter would construct a house. The subsequent sale would be arranged and subsidized by the City.

The Home Initiative has fallen way short of its goal and was probably unrealistic at its inception. The Episcopal Diocese CHDO was the only builder when the Initiative began and its output was 2 or 3 houses a year. All other providers were building for rentals. In the five years from 1999 to 2004, we believe 87 properties have been acquired, 8 have been renovated and sold, while 44 are completed or near completion that should be sold over the next 12 months.

In 2004, of the total HUD $2.2 million grant for the City, about 50% was earmarked for specific City programs, about 10% of which related to "affordable housing". The balance of the $2.2 million HUD grant went to the non–profits of which about 60% were for providers of "affordable housing". These percentage ratios are similar for previous years. And this raises the question, how was the City planning on financing the Homeownership Initiative? Subsidies of houses sold have run as high as $50,000 a house, though the average is more like $30,000 we understand. With an average of 30 houses a year to be sold under the Initiative, the annual subsidy would be approximately $900,000. There is not enough room in the HUD grants to provide this level of subsidy, particularly with real estate values rising. Maybe the City is planning on tapping other sources such as the $10 million proceeds of a bond issue a few years ago.

RPC gets major part of funds, but 40% goes to administration

The largest part of the HUD funds received by the City is allocated to the Redevelopment and Preservation Commission (RPC). These funds exceeded $800,000 for the each of the last 5 years. They are distributed to the needy, essentially in the Enterprise Zone and for home repairs and rehabilitation. In 2004, about 217 units were rehabilitated in some form and another 24 repainted. The recipients have to meet certain income tests with the Commission making the ultimate decision. The 12 Member commission is appointed by the Mayor and approved by Council. It includes City Council members Gallant and Lewis, and community members.

We know of no public scrutiny of these applications but we are assured by the City and some of the “affordable housing” groups that HUD is diligent in its auditing. However, we did obtain a breakdown of RPC spending for 2001 and note that much of the spending went on administration. Of the total $853,000 available to the RPC, only 60% went on grants and loans for repairs. The balance went on salaries ($223,000), equipment purchases ($106,000) and other expenses. We understand that the percentages are still appropriate.

Host of other programs unrelated to housing

There are a host of other City programs that receive HUD funds and new programs crop up each year with some names dropping off. Most of these relate to social programs or housing related issues. Some of the financing is evident by the names, some are not. Here are some names that have cropped up in the last five years - Innovative Alternatives for Education Inc, Neighborhood Challenge Fund, Small Business Collateral Assistance, Code Enforcement, Advocacy for a better Community Program.

We don’t pretend to know the merit of these programs but we note that there seems little connection between recipients of some grants and the provision of “affordable housing”.

How much education on “affordable housing” do we need?

And then there is the number of grants that are given to bodies to educate the public about “affordable housing”. To the extent that we can tell, funds may have exceeded $100,000 a year in the past but have dropped in recent years. But it will rise next year as the City received a special grant of $625,000 from HUD specifically for home ownership education. Home education programs are presently offered by the Trident Urban League and the Charleston Bank Consortium. They were once offered by Charleston Home Ownership but this group has folded. Some of the “affordable housing” groups also have programs. We would question the need for many providers of education and whether the utility derived comes close to justifying the costs. Given the leveraging that is possible, more housing units could be built if these funds were made available for “affordable housing.”

Allocations seem moved often by political and other considerations
The City in some of its allocations seems moved by political and other considerations. The generous allocation of funds to Pastors Inc and Elpis Inc are examples and will be dealt with more fully in the section dealing with specific non-profits. But notably the funds they received have gone to projects that have little to do with "affordable housing". Elpis has spent over $1 million in HUD money in restoring an historic building. The building is to house social service providers but it has taken more than 10 years for restoration and still is offering little in the way of these services, we believe.

Another example of political considerations that likely affected the allocation of funds was the heavy "persuasion" by the City for Charleston Affordable Housing to sell its properties to the AME Ebenezer Church when the site of the new College of Charleston Basketball arena was being determined. More recently has been the support by the City for the construction of houses in the Silver Hill and Rosemount districts of the Neck. One of these houses is being offered at about $200,000 and remains on the market with no takers. Why does the City require such expensive development and virtually ignore Habitat for Humanity that has, and can build houses in the area for $50,000 or less, prices that are affordable to the members of these depressed communities?

Affordable housing at Longborough?
And one wonders about the development at Longborough. The site originally was occupied by public housing but was acquired by the Beach Company a few years ago and the inhabitants "relocated". The development now underway is "up-market." But the Beach Company has an obligation to the City, because of the assistance the City gave in relocating inhabitants, to provide "affordable housing", amounting to roughly 40 units. The question is: How affordable will they be?

So why not sell the units at market prices and redeploy the funds?
Low-income families cannot afford to finance purchases much above $100,000. Under the arrangement with the City, housing will be made available at a cost of $125 a square foot. This means that a 1000sq ft house will cost $125,000. This will be a bargain price for a property in the development but again how many people in need of "affordable housing" will be able to pay the prices. It seems that none of the original habitants of Longborough (a.k.a. as Shoreview) are planning on returning, simply because they can't afford it. So the likely purchasers are those with incomes above the median level, not the truly needy. Our view is that the City should take what it contractually is owed and sell the units at market price – probably more than $300,000 each. It should then use the funds for developing affordable units off the Peninsula.

How much can the City afford to pay in subsidies?
But the problem is bigger than Longborough. Land generally in the City is at a level that it is near impossible to provide housing for low income families unless subsidies are raised. Subsidies for houses now being offered, amount to 20 to 30% of the sale price, some $20,000 to $50,000 a house. So assuming that all the estimated $2.3 million HUD grant money projected for 2005 went on subsidies, there would nothing left for other

programs – “affordable housing” or social. So can subsidies be raised or should the City encourage low income families to move to the County or to Dorchester and Berkeley Counties? We think it can only be the latter considering that HUD is unlikely to boost funding and there would probably be political hostility to any increase in city taxes to finance the difference.

The Neck – the City’s last chance!

The largest parcels of undeveloped land in the City are in the Neck area. The Neck has an area of about 2000 acres and private groups have already acquired or optioned about 700 acres which they plan to redevelop. Industrial and commercial companies also hold a lot of acreage and this could ultimately be rezoned if development proceeds. The City is encouraging development of the Neck and it is not hard to see housing and commercial development over the next 20 years running into billions of dollars. The area will certainly continue to be the recipient of substantial Federal Funds and for this reason, the question is raised as to whether the developers should be required to provide “affordable housing” or set aside a large block of land for “affordable housing” providers.

And why do families earning 120% of median income qualify?

“Affordable housing” may be defined as that which can be made available for families that earn between 50% and 120% of the median income. But we question why persons or families making above median incomes are entitled to special help? Shouldn’t the focus be on persons at the lower end of the income spectrum? As we noted, these low-income folk certainly will not be the recipients of “affordable housing” at Longborough.

Where is the $10 million raised for affordable housing?

Which brings us to another issue, what happened to the $10 million proceeds of the bond issue of a few years ago to finance “affordable housing”? Councilman James Lewis wonders this too and says he can’t get a straight answer when he asks this question of the City. Will it be made available to help finance “affordable housing” at Longborough? We hope this is not the case. If it is, it shows a disregard for the truly needy in the City

City’s regulations seem too restrictive

The City has also partnered some non-profits in ventures as part of the Home Initiative. But not all ventures are successful. There are a number of houses that Charleston Affordable Housing Inc. has built. These have been available for some months but remain unsold. As is usual, the sale price is well below cost with the City providing the subsidy. We understand that the major stumbling block is the City’s policy in relation to resale. To paraphrase a large document, a buyer must qualify by falling within certain income parameters – generally within 50 to 120% of the area’s median income. There are plenty of people interested in purchasing who fall into this range However, should a buyer wish to sell the house, say in 5 to 10 years, he can only retain a small amount of any financial gain. The proceeds of the sale of the house must go to repaying the City the amount of the subsidy. The gain that the home buyer can keep is only a percentage of the gain, the percentage being determined by the increase in the median wage over the period that the seller has owned the house. Any gain above that amount must also be returned to the city.

The other impediment is that the arrangement sought by the City precludes any mortgage from being "conforming" and eligible for sale to Fannie Mae. This latter is important to banks and limits the bank by tying up funds.

Buyers locked out from most capital gains
Potential buyers of city property seem deterred by the limited benefits that they are able to accrue from the appreciation of the price. By being able to keep such a small part of the gains, they are arguably doomed to remain victim to the need for government programs for housing. And again, they are subject to city taxes and an obligation to maintain the house. Expenditures on repairs are easy to justify if you know that you will get back their cost on sale. But if you can't recover them, think twice! We can understand the City's philosophy – retaining profits to be able to help other needy folk. But maybe the line drawing the share of profits should be redrawn slightly more in favor of the buyer.

The B.A.R. and HCF standards too stringent
The Board of Architectural Review (BAR) and the Historic Charleston Foundation (HCF) have helped maintain the historical integrity of the City. Their judgments and easements respectively are applicable to the historic area below Columbus Street but not to much above, in our opinion. Their role is not questioned. But imposing strict standards on areas of the Eastside say, where houses are falling down from neglect and are beyond preservation, and where there are few houses of any architectural interest, seems counter-productive. The imposition of harsh requirements is unrealistic and unrecognizing of the economic and social conditions of the neighborhoods. The extra costs necessary to meet requirements push the cost of housing beyond most of the inhabitants. Meeting some of the requirements of the bodies simply means that structures remain untouched and un-repaired. Ultimately they become derelict. One "affordable housing" group mentions the BAR insistence that a chimney be restored to its original condition. The cost of this repair was over $50,000 and on a house that was barely worth this amount at the time. And the house was being renovated for "affordable housing" and in an area where some houses were derelict.

Part of the problem is meeting FEMA requirements and the ensuing high insurance if buildings don't. With much of the Peninsula in a FEMA designated flood zone, the first floor of any new construction needs to be at an appropriate level to avoid flooding. This makes it hard to construct buildings that conform with BAR and HCF standards. But if the building does not conform with FEMA requirements, the annual flood insurance cost rises dramatically.

The problem of obtaining development approval is now being reviewed and a proposal will be put to City Council shortly for a streamlined process for the "affordable housing" providers.

Aiding gentrification

Maybe the City and the HCF fear a relaxation of standards would restrain renovation. The Eastside in particular borders the Wraggsborough and Harleston Village areas where there are many houses of architectural interest. Over recent years, there has been an influx of new residents to these boroughs, looking for housing cheaper than elsewhere on the Peninsula. They have spent generously on renovation and the boroughs have a brighter shine. An influx of new residents could occur on the East and West sides with the same effect. So the assurance of continued high levels of building standards will be necessary to attract more affluent buyers who are prepared to spend on renovation. A relaxation of standards, although in the interest of present residents, would do little to attract the affluent.

HUD funds may decline in the long term

Gentrification has been a phenomenon in Charleston for more than 30 years now. It seems certain to continue and in the long term, may lead to a diminution in to the amount of HUD grants made to the city. Why so? Because the process is driving the less affluent from the City. Home owners of the East and West Sides, similar to those in Wraggsborough, Ansonborough and other boroughs on the Peninsula some years ago, may decide to sell their properties to avoid high property taxes, take their financial gains and move elsewhere,. Most of these people will be unable to afford a property in the City of Charleston and most likely will move to North Charleston or other parts of the County, or indeed to Berkeley or Dorchester Counties. The pool of the poor will diminish with time and as the pool diminishes, the less reason there will be for HUD to make grants to the City.

The corollary of this is that the City of Charleston in the long run, will probably not need an “affordable housing” program and thereby, help from HUD. But North Charleston and other parts of the County will be bearing a likely increased burden.

3. THE PROVIDERS – An uneven field

- Ability to provide housing that is "affordable" does not guarantee access to more funds

- Only four groups have made a major contribution to "affordable housing". Of the four, The Humanities Foundation and Habitat for Humanity created a considerable financial surplus in operations over recent years. They are efficient operators and are well placed financially to expand. Charleston Affordable Housing and The Episcopal Diocese of Charleston CHDO are smaller providers with weaker financial positions.

- Elpis Inc and Pastors Inc have received significant chunks of HUD money. They are not significant providers of "affordable housing" and some operators question why the City has been so generous.

- Expensive land and limited sources of funding are the two major problems confronting "affordable housing" groups.

- The Neck area maybe the only area on the Peninsula where there is real opportunity to provide "affordable housing."

Federal money is "seed money"

Federal funding is especially important for the non-profits who finance and construct "affordable housing". It provides the "seed" money for development. It is like the deposit needed to seek bank financing for a home purchase. The non-profits use these grants to secure the remaining financing to build housing units. Looking at the achievement of The Humanities Foundation, the largest "affordable housing" provider in Charleston, these funds can be leveraged between 5 and 10 times. In other words, a $100,000 federal grant could allow other funds to be raised to take the total to between $500,000 and $1 million. Leveraging HUD funds is the key to financing "affordable housing".

Affordable Housing Groups in Charleston

There are not many non-profit organizations providing "affordable housing" in Charleston. The most active are The Humanities Foundation and Habitat for Humanity. Charleston Affordable Housing Inc and The Episcopal Diocese of South Carolina CHDO would probably follow. Way back is Pastors Inc and Elpis Inc. The Charleston Bank Consortium, which contains First Federal, other banks and the City of Charleston recently entered the business as a provider. Previously it provided only finance. We have inspected the 990 Forms submitted to the IRS and have created financial summaries for each of the major groups.

All seek profits to expand housing construction

All the "affordable housing" groups, to which we refer, are not-for-profits. This does not mean that the entities cannot earn a profit. It means that any profit, or "surplus" that they generate stays with the entity. They pay no federal or state corporate tax. Profits cannot be distributed except to another registered non-profit group. For the "affordable housing" groups in Charleston, the purpose of the profit is to accumulate funds to finance even more "affordable housing".

Profits limited and accounts scrutinized by HUD

HUD closely scrutinizes the profit generated on any project. If the non-profit received a HUD grant then it must abide by HUD regulations. The profit formula is complex we believe, but the maximum profit on any project probably equates to about 10% of cost. But profits of any amount are not guaranteed - ask Charleston Affordable Housing Inc. which lost heavily on 2 projects (rental and scattered site) on the Eastside.

HUD not only limits profitability but it also scrutinizes the accounts of all of the grant recipients. Salaries cannot be excessive, contracts must be properly awarded, and recipients of "affordable housing" have to be chosen by fair and equitable means. The "affordable housing" groups complain, not about what HUD is trying to do, but the high cost of compliance. There are mountains of paperwork. And not only is compliance costly, it is also time consuming. But what is the alternative? There needs to be a process to ensure that public monies are protected and the process is fair.

Some affordable housing groups are now substantial

All of the "affordable housing" groups started in a small way. But they have grown substantially, particularly the Humanities Foundation and Habitat for Humanity. Both these entities have accumulated a large "surplus" (unrestricted net assets) which is being utilized to enlarge the provision of housing. Charleston Affordable Housing Inc unfortunately suffered a set back a few years ago, losing more than $1 million on a housing project. If it were not for this, it would rank with the Humanities Foundation and Habitat in terms of accumulated "surplus".

We point out that the "surplus" that may be generated is not necessarily cash. It is a book term. On the balance sheet, it represents the difference between the value of all assets and amount of liabilities. In the cash flow statement, it is the difference between revenue (sales and grants) and costs and charges.

The chart following shows the number of "affordable housing" units that were completed and sold or rented in each of the past 5 years by the housing providers, and the projection for 2005. The figures were extracted from the reports of the City's Department of Housing and Community Development. Unfortunately the City was not able to provide the figures for 2002. We are skeptical of the 2005 projection. We suspect it will not be achieved. The projects are real but they are unlikely to be completed in a single year.

The City draws attention to the fact that it builds some "affordable housing" units and also makes grants through the RPC for repairs and construction. It is not possible to seperate repairs, renovation and new construction. Consequently the figures in the table are only an indication of scale.

The table shows that some other entities are planning to become "affordable housing" providers. We have not interviewed representatives from these groups. But in most cases, the entity has been formed to only develop a specific site.

Units completed Yr to May 31	**2000**	**2001**	**2002#**	**2003**	**2004**	**2005 E**
HOUSING						
Humanities Foundation					2	16
Episcopal CHDO	9	8			1	12
CAH		12			5	3
Habitat for Humanity		9		12	10	13
Bank Consortium					0	9
CACDC		2			0	5
Smith Morris						6
Beach Company						42
Pastors		0			1	
TOTAL	**9**	**31**	**0**	**12**	**19**	**106**
RENTALS						
Elpis						2
Humanites Foundation		60	40	0	86	156
Jeffrey Small					0	42
Douglas Company					0	48
Nunan St Development	20					
Charleston County H & R Authority	14					
Episcopal CHDO	46					
Total	**80**	**60**	**NA**	**0**	**86**	**248**
Grand Total	**89**	**91**	**NA**	**12**	**105**	**354**
City Construction Houses	11	7	0	5	NA	NA
***Total City including RPC**	256	72	105	153		
This total includes houses that were renovated and repaired under RPC programs and unspecified new construction						
# The city was not able to provide figures for this year for the housing providers						

Whatever way you look at the above chart, the conclusion seems clear. Not a lot of "affordable housing" has been built in the last 5 years. And considering the life of the non-profits, there was probably little in prior years.

THE HUMANITIES FOUNDATION -the largest by far In terms of assets and activity, The Humanities Foundation (THF) is the biggest "affordable housing" group in Charleston. Both it and CAH had their beginnings in the aftermath of Hurricane Hugo when many people were displaced from their homes and did not have the funds to restore or rebuild. Both corporations were products of the Mayor's Program for the Homeless.

Concentration on large rental projects

The backers of THF were the Doran family, who owed their fortune to real estate. Seeing the desperate need for housing, they provided the seed money for the foundation. Over the years THF has undertaken many projects. They have ranged from housing for both purchase and rent. However, in more recent times, THF has focused on rental housing, for low-income families and different social groups. At the same time it has developed a special expertise.

The reasons for its present philosophy hinge on the fact that providing housing for purchase is complex. It is also costly, particularly in the City. It has concluded that it can provide more “affordable housing” if it concentrates on large rental developments outside the City. Some of its recent projects include Cannon Street Apartments – 50 units for physically and emotionally disabled and Grand Oak Apartments -59 units for the elderly.

Funding through grants, loans and investors seeking tax breaks

THF looks at a lot of land before deciding on a project, says Bonnie Lester, the executive director. After identifying land and a suitable rental project – for the elderly, low income families etc, it moves to funding. In the past, it was very dependent on HUD funding but with the accumulation of funds (the “surplus” derived from previous projects) it is less so. But it is still very dependent on other funds. These come from individuals who make donations or from investors looking for income tax benefits. Some investors are financial institutions that are attempting to fulfill obligations under the Community Reinvestment Act.

Most of THF’s developments are made through partnerships. It has to be this way otherwise the tax benefits would not be available to investors. This may be academic to readers but we note it because a perusal of the accounts of THF does not necessarily indicate the scale of its activities. The accounts show the equity that THF has in a partnership, not the funds that are raised.

Strong demand for apartments

THF states that it rarely has to advertise the availability of apartments. Social and local groups are in contact with the organization and alert people to the availability. The signs on the construction site also usually invite applications. Applications are taken on a first come, first served basis but are vetted to ensure that applicants meet income and other qualifications. It notes that HUD is always looking over its shoulder in this regard and there is no room for favoritism.

On completion of a project it is handed over to Volunteers of America who manages the buildings. Mortgages are still held by THF. Repayments coupled with taxes and utilities are paid out of rents. But typically rents are less than 50% of market rates by virtue of the fact that a large part of the financing was from HUD grants or low cost loans

The largest problem

THF sees a major problem in satisfying the large need for “affordable housing” in the region. The cost of constructing an apartment is about $89 a sq foot, it says. To satisfy the need and provide housing at a reasonable cost, it has to have access to cheap land. Land in the City of Charleston has become expensive and THF no longer looks to build in the City. Strangely, THF sees no problem in raising funds for “affordable housing”. This probably reflects the fact that it has developed a strong financial position and can attract investors who can take advantage of tax breaks.

To access the THF web site, go to www.humanitiesfoundation.org/

Humanities Foundation					$'000		
Cash flow		**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Revenue							
Grants	Public	556.8	19.4	17.6	30.6	196.6	98.5
	Government	126.1	114.9	162.3	190.4	517.7	1013.1
	Total	**682.9**	**134.3**	**179.9**	**221.0**	**714.3**	**1111.6**
Investment Inc		3.7	24.9	24.9	79.3	61.1	101.2
Other inc program service Rev		0.0	284.6	407.8	610.3	39.5	394.1
Total		**686.6**	**443.8**	**612.6**	**910.6**	**814.9**	**1606.9**
Costs							
Salaries and Wages		31.7	82.5	118.0	127.5	116.6	180.5
Admin Fee		0.0	14.0	10.0	30.0	132.8	127.1
Fund raising fees		0.0	39.2	59.6	93.1	2.1	0.0
Interest		0.0			0.0	0.0	7.6
Insurance Cost		6.5	12.0	15.4	19.4	19.8	21.4
Depreciation		1.5	1.9	3.7	11.3	12.6	5.6
Rent		78.4	15.1	17.3	50.0	80.3	47.4
Utilities		37.3		1.3	58.7	55.0	1.0
Contract expense		44.9	0.8	112.8	64.6	78.3	0.0
Other		10.9	143.7	171.2	209.8	168.3	259.3
Total		**211.2**	**309.2**	**509.2**	**664.4**	**665.8**	**649.9**
Surplus/Deficiency		**475.4**	**134.6**	**103.4**	**246.2**	**149.1**	**957.0**
					$000		
Balance Sheet		**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Assets							
Cash		18.0	13.2	31.4	44.4	23.2	28.5
Accounts receivable		3.5	95.1	158.6	257.1	34.2	165.3
Other receivables		23.1	63.6	141.0	317.2	392.4	545.9
Mortgage and other notes		415.0	415.0	775.0	1823.5	2968.7	3760.2
Building		11.7	15.3	24.6	49.6	50.3	50.3
less depreciation		8.8	10.8	14.5	25.8	38.4	44.0
Total		**462.5**	**591.4**	**1116.1**	**2466.0**	**3430.4**	**4506.2**
Liabilities							
Accounts payable		1.8	28.4	83.1	48.5	132.3	298.0
Mortgages		32.3	0.0	360.0	1400.0	1837.0	1659.6
Total		34.1	28.4	443.1	1448.5	1969.3	1957.6
Unrestricted net assets		**428.4**	**563.0**	**673.0**	**1017.5**	**1461.1**	**2548.6**

HABITAT FOR HUMANITY – The lowest cost provider of housing for sale Most people know about Habitat for Humanity and its good works. The national organization is patronized by ex President, Jimmy Carter. The Charleston branch is the most active in the provision of housing "for purchase" in the City.

Reliance on volunteers

Habitat differs from other "affordable housing" providers by its reliance on "volunteers" We qualify the word "volunteer" because some are more "conscripts" that otherwise. Another difference is that the group focuses on the truly needy, with incomes less than 50% of the median income. With its unique approach, Habitat can build units at a cost much less than other "affordable housing" providers in the area. Typically, its houses cost about $40,000 to $50,000 to build. They are sold at prices not much above cost, a level that is probably only 40% to 50% of the market value.

Not surprisingly, there are many applicants for Habitat's "affordable housing" units. Some don't make it through the qualification test. Many unfortunately don't get the opportunity because of the shortage of funds.

					6m	
HABITAT				**$'000**	June	June
Cash flow	**Year to Dec**	**1999**	**2000**	**2001**	**2002**	**2003**
Revenue						
Grants	Public	71.7	227.9	137.0	75.8	287.8
	Government	0.7	106.6	57.3	5.2	135.7
	Total	**72.4**	**334.5**	**194.3**	**81.0**	**423.5**
Revenue			**0.0**	**41.2**	**253.8**	**515.2**
Other			7.0	17.2	61.0	28.9
Total		**72.4**	**341.5**	**252.7**	**395.8**	**967.6**
Costs						
Salaries and Wages		20.2	39.9	84.4	53.5	123.1
Fund raising fees				15.4	16.8	
Interest				20.4	12.5	
Insurance Cost						
Depreciation		2.8	1.4	5.2	10.6	11.3
Occupancy			4.1	12.0	4.7	20.8
Cost of homes sold				13.9	305.4	425.5
Other		41.6	28.4	98.5	78.7	126.3
Total		**64.6**	**73.8**	**249.8**	**482.2**	**707.0**
Surplus/Deficiency		**7.8**	**267.7**	**2.9**	**-86.4**	**260.6**
Balance Sheet				**$'000**		
Assets		**1999**	**2000**	**2001**	**2002**	**2003**
Cash		57.7	136.2	7.9		14.6
Accounts receivable			59.9	47.3		
Mortgages receivable		178.6	227.2	180.2	377.1	606.1
Building		14.1	3.9	368.2	342.1	368.8
Less depreciation		11.2		19.0		40.7
WIP			425.9	681.1	477.6	475.1
Other		27.3	74.8	11.1	6.3	42.8
Total		**266.5**	**927.9**	**1276.8**	**1203.1**	**1466.7**
Liabilities						
Accounts payable		1.0	14.8	36.3	69.7	62.5
Mortgages				317.4	314.8	312.2
Other		2.0	44.8	70.6	52.5	63.9
Total		**3.0**	**59.6**	**424.3**	**437.0**	**438.6**
Unrestricted net assets		**263.5**	**868.3**	**852.5**	**766.1**	**1028.1**

Applicants need to show a willingness to work

All applicants have to meet the income and need tests. But they have to also prove that they are willing to work for their house. An applicant, on preliminary approval, must spend 100 hours working to help construct housing units. If they are diligent, then they will be given the opportunity to buy a unit. The cost of the unit will probably be around $50,000 and the applicant will take out a mortgage for this amount. The mortgage will be held by Habitat and will bear no interest. The home purchaser will be required to meet tax and insurance costs and to make principal repayments over a 30 year period. Together these costs should not exceed about $300 a month. However the buyer will have to do more - provide another 400 hours of voluntary labor to assist in the construction of more "affordable housing" units.

Habitat does use contractors as well as volunteer labor. Indeed, it has to for certain functions. It makes the point that the City inspects all houses and it has to meet code standards. But it also notes that its public image helps. Many contractors provide their services at a low rate, while some provide their services free, knowing the good cause to which their effort is directed.

Major problem

Like THF, Habitat sees a problem is satisfying the large demand for "affordable housing". It says that it could build far more units but financing is a problem. Unlike THF, Habitat relies on grants and gifts to build houses. It contrasts its position with that of THF that takes advantage of bank loans and income tax credits. The nature of Habitat precludes such financing presently – it makes loans to buyers and charges no interest. As the cheapest provider of "affordable housing", it wonders why it is not more favored as a recipient of HUD money. However, it is accumulating funds as homebuyers repay mortgages and looks to an accelerating program of home construction.

To access Habitat's web site, go to www.charlestonhabitat.org.

CHARLESTON AFFORDABLE HOUSING INC – Turning away from the City

Charleston Affordable Housing Inc (CAH) began operating in the immediate years after Hurricane Hugo. The organization concentrated on the Eastside and Westside. It provided houses for sale and rent but concentrated on low density scattered site housing for families. Its history progressively has become one of despair, its plans in the City frustrated by the high cost of land and rising insurance and property taxes. Like other groups, it sees a bleak future for "affordable housing" in the City and is looking to other parts of the county.

A simple process

The process at CAH is relatively simple though it is being refined. It has worked close with the City and has bought property from it. After purchasing property, it moves to construct housing units using plans provided by independent architects and contractors. Financing is provided with a mixture of funds – HUD, banks and others. On completion, the units are either sold or rented. In the case of the units to be sold, CAH works close with the City and as part of the Home Initiative. The City provides a subsidy to CAH that enables it to sell the house well below cost. This subsidy could typically be 30 to 40% of the sale prices.

A house model is developed

Initially, CAH's ability to provide "affordable housing" lay with the ability to procure cheap land and the subsidy by the City. Apart from having a smaller profit margin than "for profit" groups, it did not have a special expertise in providing low cost construction. In an attempt to mitigate the rising costs of provision, the company developed a model house that was compatible with the historic architecture of East and Westsides. The model has a basic structure but there are probably about 80 features that can be added or subtracted that can superficially make the house look different. The BAR and City have approved the plans. The house is about 1264 sq ft and with a basically common plan, and using basic "off the shelf" materials, can be constructed economically.

But what is economically? Cost of construction in the City of Charleston is running about $90 a sq foot. But with the cost of land and other soft costs, the final cost could be well over $150,000. With a subsidy from the City, the cost drops to perhaps between $130,000 and $150,000. How affordable is this unit? At present interest rates, the family income would probably need to be above $40,000 a year or close to the median income level for a 2 member family.

A heavy loss sustained on Eastside project

The difference between costs and market price became very apparent to CAH about 3 years ago. For reasons which are not clear and which occurred at the time when the City was negotiating the site of the College of Charleston's new basket ball arena, CAH was forced to sell the units in its America Street Project to The Ebenezer AME Church. It took a loss of over $1 million, a big set back for a corporation of its size,

Charleston Affordable Housing				**$'000**	6m June	June	June
Cash flow	Year to Dec	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Revenue							
Grants	Public	156.0	61.6	28.3	60.8	2.6	28.7
	Government	233.2	345.8	675.0	108.6	160.8	95.0
		389.2	**407.4**	**703.3**	**169.4**	**163.4**	**123.7**
Investment Inc		0.2	0.2	4.0	-40.5	84.8	90.7
Program Service Revenue				0.0	296.4	120.4	210.3
Rents		52.6	89.2	88.6	86.3	62.9	63.2
Other			2.4	-32.3	19.4	560.0	113.6
Total		**442.0**	**499.2**	**763.6**	**531.0**	**991.5**	**601.5**
Costs							
Salaries and Wages		77.7	82.1	140.0	104.8	148.9	182.9
Interest		97.8	0.4	68.0	85.2	60.1	52.9
Insurance Cost			19.5	11.5	11.2	32.5	24.3
Depreciation			0.0	47.8	43.4	47.6	56.3
Rent		16.3			0.0	0.0	
Utilities		3.1	0.0	4.2	0.3	0.3	0.5
Other		161.0	166.7	97.3	186.0	185.6	142.7
Abnormal					1131.4		
Total		**336.5**	**268.7**	**364.6**	**1562.2**	**475.0**	**459.6**
Surplus/Deficiency		**105.5**	**230.5**	**399.0**	**-1031.2**	**516.5**	**141.9**
Balance Sheet					**$000**		
Assets		**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Cash		49.1	55.7	19.1	20.1	54.6	101.9
Accounts receivable#		7.2	4.3	230.3	494.7	487.4	520.2
Other receivables		748.0	764.9	601.6	585.5	845.0	845.0
Investments		216.2	217.3	210.3	142.3	199.5	262.6
Building		1652.8	1934.8	1372.8	1392.7	1390.1	1420.0
less depreciation			154.7	52.1	261.4	305.3	354.2
Inventories		483.2	355.2	1302.0	409.3	499.0	634.1
Total		**3156.5**	**3177.5**	**3684.0**	**2783.2**	**3170.2**	**3429.6**
Liabilities							
Accounts payable		15.1	20.6	545.9	447.5	340.0	378.0
Mortgages		2088.1	2247.3	1768.6	1997.3	1973.2	2046.4
Other		377.8	25.4	29.6	29.7	31.9	33.6
Total		**2481.0**	**2293.3**	**2344.1**	**2474.5**	**2345.1**	**2458.0**
Unrestricted net assets		**675.5**	**884.2**	**1339.9**	**308.7**	**825.1**	**971.6**

And losses growing on some rental units

But this is not the only loss that CAH is confronting. It in the early 1990s, it completed five rental projects around the Peninsula. The rents, like those for all "affordable housing" were low and probably about 50% or less of market rates. And like all projects in which HUD provides finance, rents can be raised only in line with certain parameters, the most important being the rise in median incomes in the area. Sounds fair! But because of this CAH is now incurring losses. It is receiving slightly higher rent each year but real estate taxes and insurance, expenses that it has to bear, have risen at a far more rapid rate. It sought property tax relief from the County but for legal and other reasons, relief was not forthcoming. The burden for CAH, particularly with the in 2002, is heavy.

But CAH is not bowing out. It is looking to doing more outside the City. It has a good reputation with lenders and indeed says that obtaining finance is a lesser problem than obtaining sites. And besides, if experience is the name that is given for past mistakes and misfortune, CAH is a well-experienced provider.

EPISCOPAL DIOCESE OF CHARLESTON CHDO – a long history

Episcopal Diocese of Charleston CHDO (EDC) began many years ago before Hugo and the formation of the other "affordable housing" providers. The key role in its formation was the revered Bishop Salmon who saw the need for "affordable housing" in the area surrounding the Calvary Church on Line Street. Activity continues to be focused on this area.

EPISCOPAL			**$'000**		
flow		**2000**	**2001**	**2002**	**2003**
Revenue		na	na		
Grants	Public				1.4
	Government			58.1	111.5
Total				**58.1**	**112.9**
House sales				269.0	52.0
Other				7.7	0.7
Total				**334.8**	**165.6**
Costs					
Salaries and Wages				34.4	30.9
Fund raising fees					
Interest				11.4	
Insurance Cost				4.3	1.5
Depreciation					
Occupancy					0.9
Contract expense				337.8	71.5
Other				18.4	15.1
Total				**406.3**	**119.9**
Surplus/Deficiency				**-71.5**	**45.7**
Balance Sheet			**$'000**		
Assets		**2000**	**2001**	**2002**	**2003**
Cash		na	Na	22.4	64.1
Other				0.7	106.6
Building less depreciation					
Total				**23.1**	**170.7**
Liabilities					
Accounts payable					
Mortgages and other				60.0	161.7
Total				**60.0**	**161.7**
Unrestricted net assets				**-36.9**	**9.0**

In terms of philosophy and operations, the EDC is similar to CAH. It tends to focus on houses for sale and relies on the City for much of the subsidy. And like, CAH, it questions the future of "affordable housing" in the City for all the same reasons. It is now doing some soul searching as to how it can best serve the community. It notes that it has contributed to raising housing quality on the West Side and opines that community standards are such that the inhabitants themselves will continue to shape a better community and social fabric. What it is really saying is that rising land values generally are bringing in folk who could not afford to live in other parts of the Peninsula. They are buying relatively cheap properties and renovating them. The appropriate word is "gentrification".

However, EDC is not giving up on the Westside. It plans to build another 2 houses at Porters Court and more on Humphreys Court, But it clearly questions its ability to provide more "affordable housing" on the Peninsula.

ELPIS, PASTORS, AGAPE and JDW – on the fringe of "affordable housing"

We have grouped the Elpis, Pastors, Agape and JDW non-profits together. The first two have been the recipients of considerable HUD grants, and all are providers in varying degree of social services. They have something else in common – the presence of City Councilmember Gallant and the Reverend Dallas Wilson on their boards. The families of Messrs Wilson and Gallant dominate the JDW Networks board.

As providers of "affordable housing", the group makes a small contribution to the community. But Elpis and Pastors have received significant amounts of HUD monies over the years, leaving that much less for the major providers of "affordable housing". Indeed, their share of funds in aggregate over the years has exceeded every one of the other "affordable housing" groups. Some of the "affordable housing" providers, as do we, question the contribution of these entities to the community and whether there is political motivation for the large allocations made each year from HUD funds. These misgivings are not lessened by the presence real estate developers Frank Brumley and Robert Clement, as well as the Mayor of Charleston on committees of Elpis. Mr. Brumley, whose company has participated in many local real estate projects is principal of the company developing Daniel Island. Robert Clement is a principal of a group planning to redevelop the Neck.

Councilmember Gallant, sits on the board of Elpis. His City Council district includes the major part of the Neck area.

Then there is role of the Reverend Dallas Wilson. According to the *P&C* (October 21, 1985) Mr Wilson was employed by the Waccamaw Equal Opportunity Council. The board of directors of that non-profit placed him on administrative leave after an audit revealed 23 problems in the agency's financial books. Mr. Wilson resigned from the non-profit but it was unclear from the article whether this was before or after the decision was made by the board to place him on administrative leave.

Elpis Inc. The life of Elpis began when it acquired the Josiah Smith Tennent (JST) house on East Bay Street from the City in 1993 for $5. This was an historic building on the fringe of the Eastside. It was in need of substantial renovation. According to Elpis, its primary exempt purpose is "restoring historic buildings in Charleston inner city. The completed buildings will be used for various outreach programs."

To view the web site of Elpis, go to www.simmonschildrensgarden.com. It reveals the social programs the corporation plans to offer. And on face value, we cannot fault its plans. Directed largely to members of the Eastside it will offer dental services, counseling, legal services, child minding and more. Next to the main building is a chapel that is also being used a hall. Worthy purposes, but housing related?

But let's put it all into perspective. We do not have records before 1998, but it seems that overall spending by Elpis could have amounted to $5.5 million since acquisition of the JST building, most of which has been on the JST building. We don't know the source of funding before 1997 but from 1997 to 2003 funding has been provided by Government grants –over $1 million, public gifts and grants – more than $1.7 million and an increase in borrowings of $1.2 million.

At the end of 1997, the JST building had a book value of $1.6 million; the difference between book and $5 cost being presumably explained by restoration work between purchase and the balance date in 1997. At the end of 2002, the book value before depreciation was $3.2 million and for some reason, it fell to $2.6 million at end of 2003. We can't reconcile these figures but the web site of Elpis suggests that the renovation of the JST and the adjacent chapel has been about $3.7 million. We think it has been more.

We give Elpis its due. It has restored the building very well. Full marks to its prowess as a restorer, but a failing grade elsewhere. The Eastside is crying out for help. After 10 years of waiting and possibly $5 million down the chute, the Eastside still has not received most of the social services that Elpis promised. How much better could the community be served if the JST building had been sold by the City to a private developer to restore, and the $5 million in funds (or at least the more than $1 million in HUD funds) be used for "affordable housing"? Why didn't Elpis choose another house or houses in the run down section of the Eastside to locate its planned social services? It could have been up and running much earlier and financed a far wider range of services.

The JST House is essentially completed but work continues on the garden. However, the house seems largely unoccupied. All entrances were locked on two of the times we went by to inspect it – about 2 pm on a weekday. But the boardroom and the adjacent chapel/recreation building are being used.

Elpis presently maintains offices at the Johnson and Wales Building and last year, occupancy costs – presumably relating to these offices - amounted to $33,000.

Elpis does conduct some social programs and these certainly would absorb some funds However, it does receive funding from HUD for two of these programs. According to our calculations, the government grants in the last 4 years included about $60,000 for its Innovative Reading Program and about $200,000 for its Restore Program and is to receive another $50,000 this year. Pastors also received $50,000 for the Restore project in 2001.

The 990 Forms submitted by Elpis show government grants totaling amounts well below those listed by the City of Charleston as being awarded to Elpis. Maybe these grants have not been drawn upon. But if this were the case, the grants should show in the balance sheet as accounts receivable.

Under the Restore program, Elpis recently acquired two buildings, one from the City, which are to be renovated and converted to two apartments to house four persons. The apartments will be used to house persons released from prison, to provide an opportunity for rehabilitation into the community. The wife of the Reverend Wilson owns a house next door to the Restore properties.

ELPIS						**$'000**		
Cash flow		**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Revenue								
Grants	Public	160.8	196.3	220.3	107.8	315.8	504.5	179.8
	Government	274.3	12.0	100.0	150.0	150.0	150.0	175.8
	Total	**435.1**	**208.3**	**320.3**	**257.8**	**465.8**	**654.5**	**355.6**
Other		6	0.0	0.0	6.3	0.0	0.0	108.5
Total		**441.1**	**208.3**	**320.3**	**264.1**	**465.8**	**654.5**	**464.1**
Costs								
Salaries and Wages							0.0	63.9
Fund raising fees							0.0	7.0
Interest		32.9	28.3	34.0	18.8	78.7	79.0	22.9
Insurance Cost		5.9	10.2	9.1	16.6			32.7
Depreciation		22.5	20.5	20.6	17.2	17.2	16.8	64.2
Occupancy								33.0
Contract expense					27.5	1295.3	483.7	140.8
Other		11.4	15.6	32.9	13.6	76.3	25.5	37.7
Total		72.7	**74.6**	**96.6**	**93.7**	**1467.5**	**605.0**	**402.2**
Surplus/Deficiency		**368.4**	**133.7**	**223.7**	**170.4**	**-1001.7**	**49.5**	**61.9**
Balance Sheet		**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Assets								
Cash		68.6	24.5	111.5	285.6	48.0	148.5	124.4
Building		1576.1	1722.2	1769.3	2441.0	3288.5	3286.6	2576.4
Less depreciation		69.5	90.2	0.0	0.0	137.7	142.9	256.2
Total		**1575.2**	**1656.5**	**1880.8**	**2726.6**	**3198.8**	**3292.2**	**2444.6**
Liabilities								
Accounts payable		35.3						45.6
Mortgages		704.7	681.9	450.2	1104.2	1609.9	1614.3	1878.4
Total		740	681.9	450.2	1104.2	1609.9	1614.3	**1924.0**
Unrestricted net assets		**835.2**	**974.6**	**1430.6**	**1622.4**	**1588.9**	**1677.9**	**520.6**

Notes to the financial accounts. The 990 forms are summaries of financial performance. There are often inconsistencies in reporting, not only for Elpis but others "affordable housing" providers as well. For example, almost certainly Elpis paid insurance in 2001 and 2002 but the amounts were not recorded separately. Elpis also did not fully record depreciation prior to 2003. An adjustment to its accounts caused the book value of its buildings and surplus to fall dramatically last year. However, we are at a loss to reconcile the fall of over $800,000 in the value of the building and the increase in depreciation of only $110,000.

Pastors Inc. The major asset of Pastors is the building at 81 Columbus Street. This was bought from the City in February 2000 for $1. Since acquisition, the ground floor has been renovated to a "business center" and the second floor converted to two apartments. The design of the business center was to provide office space to small businesses that could not afford a large office. The original concept envisaged secretarial and computer services.

There is nobody presently utilizing the center and one can only surmise the reason. We inspected the premise about 2 years ago and found the costs of occupancy very high. Perhaps others have found it to be so too. To access Pastor web site, go to www.pastors-cdc.org.

Pastors has its head office in the building. It derived revenue of about $22,000 from its apartments last year but costs well exceed rental income and the company is dependant on grants. Total costs in 2003 were $174,400 of which $27,200 was a notional cost for depreciation of the building. Included in the costs was the salary of the executive director Orlando Newkirk, of $45,500. This cost rises to over $50,000 if other employment costs are added.

The book value of buildings amounted to $540,000 at the end of 2003. It is unclear if there are other buildings included in this, as the company refers to some units under construction at the end of 2003. However, at the end of 2002, the book value of buildings – 81 Columbus Street only - was $518,000.

Was it all worth it? Funds raised in last two years amounted to $427,000. The mortgage has increased by $234,000. These two items total $662,000. Most, directly and indirectly, has gone to 81 Columbus Street. This is now a "white elephant" and we suspect worth nowhere near the book value of $500,000 or so.

Is Pastors a viable charity? It has proved inept at forming and managing a business center. Why should it do better with affordable housing? Its overhead – including the salary of its director - is too high to be absorbed by the present level of activity. How will it be able to repay the $234,000 mortgage from rental income while it has such a high infrastructure cost?

Pastors seems intent on becoming a larger force in "affordable housing" and has been a favored recipient of grants from HUD. The City has also sold a number of properties to it in the last year to be redeveloped as "affordable housing". With CAH, Habitat for Humanity and EDC already experienced, why is Pastors even being considered by the City as a future provider? What strengths does it have?

Because of limited income and assets, tax returns before 2002 were not necessary.

Pastors				**$'000**	
Cash flow	**Yr to Dec**	**2000**	**2001**	**2002**	**2003**
Revenue		na	na		
Grants	Public			3.1	4.5
	Government			295.4	124.8
Total				**298.5**	**129.3**
Other				0.3	22.2
TOTAL	**Total**			**298.8**	**151.5**
Costs					
Salaries				40.6	45.5
Fund raising fees				0.0	11.5
Interest				5.0	8.6
Insurance Cost				2.1	8.1
Depreciation				3.8	27.2
Occupancy					6.0
Other				26.8	67.5
Total				**78.3**	**174.4**
Surplus/Deficiency				**220.5**	**-22.9**
Balance Sheet				**$'000**	
Assets					
Cash			3.8	12.2	8.6
Accounts receivable			171.7	65.2	39.2
Prepaid Expenses			0		37.7
Investments & other				1.1	1.5
Building			89.3	522.2	574.5
less depreciation			0.0	3.8	31.0
Total			**264.8**	**596.9**	**630.5**
Liabilities					
Accounts payable			0.0	53.3	45.0
Other			145.6	65.2	33.9
Mortgage			0.0	138.8	234.8
Total			**145.6**	**257.3**	**313.7**
Surplus/Deficiency			**119.2**	**339.6**	**316.8**

Agape Ministries – The Evangelical side of the group.

Agape				
Cash flow	**Year to Dec**	**2001**	**2002**	**2003**
Revenue			**$'000**	
Grants	Public	23.8	6.9	154.7
	Government	0.0	0.0	0.0
	Total	**23.8**	**6.9**	**154.7**
Other		0.0	0.3	0.0
TOTAL		**23.8**	**7.2**	**154.7**
Costs				
Program Services		0.0	0.0	122.7
Other		25.2	14.9	38.9
Total		**25.2**	**14.9**	**161.6**
Surplus/Deficiency		**-1.4**	**-7.7**	**-6.9**
Balance Sheet			**$'000**	
Assets				
Cash		7.8	0.0	1.3
Total		**7.8**	**0.0**	**1.3**
Liabilities				
Other		0.0	0.0	3.8
Total		0.0	0.0	**3.8**
Surplus		**7.8**	**0.0**	**-2.5**

We know little about the activities of Agape. We understand that it has confined itself to religious and social ministry. We provide a financial summary just for the record. Because of limited funding, it was not required to file a full 990 Form prior to 2002. But with previous years of modest funding, we are intrigued by the big jump in public grants and gifts in 2003. The group has few assets. Strangely it has no occupancy costs, yet occupies space in the Johnson and Wales Building. Possibly this is a gift from Elpis. To access the web site of Agape, go to www.agapeministriesofcharleston.org,

JDW Networks - a professional fund raiser We did not presume to ask but it is more than a coincidence that the initials are also those of James Dallas Wilson. It is a non-profit but the directors are largely members of the Gallant and Wilson families. Its major purpose seems to be helping other non-profits obtain grants. In this it has been successful for the 990 Form reveals that it had 10 clients during 2003. It charges small fees for its services, it says. There is nothing unlawful about the activities of JDW Networks Nevertheless, considering the directors, their association with the Mayor and City Council, and the role of the City in determining who gets HUD funds, JDW Networks bears scrutiny in terms of the end use of grant monies that it has helped other non-profits obtain.

JDN Networks			**$'000**
Cash flow	Year to Dec	**2002**	**2003**
Revenue		na	
Grants	Public		20.0
	Government		0.0
	Total		**20.0**
Other			30.3
TOTAL			**50.3**
Costs			
Salries and Mgt			19.6
Fund raising fees			4.9
Resource Development			20.2
Total			**44.7**
Surplus/Deficiency			**5.6**
Balance Sheet			
Assets			**$'000**
Cash			5.6
Total			**5.6**
Liabilities			
Total			**0.0**
Surplus/Deficiency			**5.6**

To access the JDW Network website, go to www.jdwnetwork.com.

Again, its financials are shown as a matter of record. As the Corporation is relatively new, there are no financials prior to 2003.

EPILOGUE

Since we began preparation of this report, the Director of the City's Housing and Community Development has decided to retire. This was not expected. Ms. Pat Crawford has served the City for over 25 years but was many years away from compulsory retirement. She has remained relatively silent about the reasons for her retirement and chooses to speak of the opportunities that are before her as a newly ordained minister of her church. However, it is common knowledge that she was very upset about shifts of responsibility relating to her department.

Perhaps related to the management shifts is the anecdotal evidence of a tightening in the distribution of HUD and City funds. We understand that the RPC is still very tardy in distributing funds. We also hear from one of the "affordable housing" providers that it has been told by the City that it have to make do with less subsidies in future. The conclusion we draw for this is that $2.3 million in HUD funds can only go so far and can make only a small dent in alleviating the lack of "affordable housing" on the Peninsula.

We have also been told that the City has been considering tapping into the $10 million bond funds to begin a new housing initiative. But how "affordable" this housing might be remains to be seen. After all, the City has to meet interest payments on these bonds so will need some income not only to meet interest payments but capital repayments as well.