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Shuttered Hotel To Get New Life as Affordable Apartments — For Less Than $5 Million

Developer Cites Advantages of Private Financing in Strategy To Meet US Housing Gap

The former Ramada Inn in Sheffield, Alabama, will be converted to housing for middle-income workers. (CoStar)

By Mark Heschmeyer
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The pandemic's disruption of the housing and hospitality markets has created an opportunity for developer Richard Rubin to buy permanently closed hotels and convert them into apartments for middle-income workers, a demographic he said is underserved.

Rubin, through his greater Los Angeles-based firm Repvblik (pronounced “republic”), is undertaking his plan without using federal funding or tax credits. The reason, he told CoStar, is that privately funded deals can close faster and with more owner flexibility.

Repvblik recently closed on the purchase of a former Ramada Inn at 4205 Hatch Blvd. in Sheffield, Alabama. The purchase is the firm’s first in the southeast United States and won’t be its last, according to Rubin. The total project cost is estimated to be $4.7 million, including property acquisition and remodeling.

“I think with this current downturn, there’s going to be a lot of workforce housing units produced not only by ourselves, but I think adaptive reuse is going to become a very specialized area where it’s going to be another string to a lot of bows,” Rubin said.

Rubin sees the biggest shortage of housing affecting middle-range workers earning 60% to 120% of area median incomes. The need for affordable housing is growing as the economic hardships related to COVID-19 accelerate, he said.

Commercial lenders have historically made capital available to support the top tier of the apartment rental market, while federal programs such as Low-Income Housing Tax Credits, or LIHTC, have helped developers provide housing for the poorest Americans.

“Most affordable housing in the U.S. is developed using [LIHTC]," Rubin said. “With LIHTC, from a developer perspective, one has to be patient as the close of a project could be between 12 to 18 months.”

There are other issues as well, according to Corianne Payton Scally, principal research associate in the Metropolitan Housing and Communities Policy Center at the Urban Institute.

“You can certainly do Low-Income Housing Tax Credit properties and still make a profit. It is not a program that denies profitability for developers, though it definitely comes with requirements,” Scally told CoStar.

For example, with the tax credit program, developers need to certify tenant income to ensure that they're eligible. It also requires the developer to retain long-term affordability. So, use of the program has restrictions on how rents can grow, according to Scally.

Developers also must compete with one another to receive the tax credits, which can add costs, particularly for those that are unsuccessful.

In addition, there are specified time windows for applying. A developer that is ready to move on a project may be outside that window, Scally said.

"So, if they're looking for quick financing, to be able to turn around the property quickly, the LIHTC program definitely is a slower process," she said.

The need for affordable housing is growing as costs continue to rise even during the pandemic. The National Low Income Housing Coalition last year found a shortage of more than 7 million homes that were both affordable and available to renters with the lowest incomes.

Adaptive reuse holds a lot of potential for expanding the supply of affordable housing, according to Scally, particularly in circumstances where a building has outlived its current or previous use.

Repvblik's Alabama project is a joint venture with Drever Atelier Partners, which acquired the long-shuttered Ramada Inn that had been on the market for more than a year, according to CoStar data.

Rubin lined up local debt financing in Sheffield through First Southern Bank. Work on conversion of the hotel into workforce housing is to begin immediately.

The project will create 120 energy-efficient, one-bedroom, workforce-targeted housing units. The property will include coworking spaces, a pool, gym, day care, storage and access to a neighboring 7-mile nature trail. Rents are to range from $500 to $700 monthly.

Repvblik expects the conversion to be completed and open for tenants in 2022.

The firm already has one other conversion project underway in Branson, Missouri, the Ozark town in southwest Missouri known as a family-entertainment vacation spot.

It's operating and leasing Plato's Cave in Branson. Built on the shell of a former Days Inn property, the project is nearing completion on the final 140 efficiency and one-bedroom units for a total of 341 apartments.

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