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Stone House Development escapes worst of housing crisis

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October 7, 2008

Back when other developers were pursuing luxury condominiums for the affluent, Stone House Development Inc. was quietly going in a different direction.

Specializing in apartments for moderate-income renters, Stone House has completed a variety of projects statewide in recent years. Its biggest local ventures are the 111-unit Madison Mark on King Street and the 76-unit Park Central on East Wilson Street.

Now, with the mortgage lending world in crisis and hundreds of unsold properties languishing on the market in Dane County alone, the owners of Stone House could be feeling a bit smug.

But Stone House Vice President Rich Arnesen isn't claiming he anticipated the bursting of the housing bubble.

"Frankly, affordable housing is what we knew, so that is what we did," he said.

Both Arnesen and President Helen Bradbury learned the ropes working for the Alexander Co. That firm has long used federal tax credits for historic restoration and affordable housing.

Working on affordable housing also "gives you a good feeling at the end of the day," said Bradbury, a New Jersey native who holds an MBA from Emory University in Atlanta and started in the real estate development business there in 1975.

After moving to Madison so her husband could attend law school, in 1990 Bradbury became director of development for the Alexander Co. and oversaw the completion of some \$100 million in mixed income, historic or Section 42 projects throughout the upper Midwest.

In 1996, she and Arnesen left the Alexander Co. and formed Stone House.

Since then, they've completed more than a dozen projects -- including the 2005 renovation of the old Wausau East High School into 55 apartments. That effort earned Stone House the Historic Restoration Award from the Wisconsin Historical Society in 2006.

And despite the economic slowdown, Stone House has been able to rent all 76 units in the new Park Central, named after the Central Park envisioned for the rail corridor between East Washington Avenue and Williamson Street.

The \$12 million apartment project was helped with \$600,000 in city funding transferred to Park Central through Common Wealth Development, which now holds an option to buy 24 units in the project in 15 years.

"They are very smart business people," said Marianne Morton, director of Common Wealth Development. "They understand the local market and saw a real opportunity with Park Central."

At the same time, development of Central Park could be years away, especially with the city of Madison facing a budget crunch, leaving money tight for new ventures.

"All I can say is I'm glad we're not working out in the suburbs," said Bradbury, in reference to the credit crisis that has brought housing development to a virtual standstill. "We're still talking real estate, and it's still about location, location, location."

Located on the former site of the Badger Cab headquarters, Park Central features two separate buildings: a three-story, 24-unit building at the corner of East Wilson and South Ingersoll streets; and a 52-unit, four-story building next to it fronting East Wilson.

The two buildings are connected by an outdoor courtyard. Parking is provided underground at the ratio of one space per unit.

In addition, Arnesen noted that Park Central is the first certified "green built" apartment in

Wisconsin. Stone House partnered with Madison Gas & Electric on a rooftop solar water heating system and on photovoltaic panels that send about \$5,000 worth of electricity annually back into the grid.

MGE provided \$68,000 in funding through its Neighborhood Revitalization Grant program.

"We typically award a grant to only one major multifamily project a year, and we want it to lead the market in its use of energy-efficient designs and products," said Mark Faultersack, MGE residential services manager.

MGE had also participated with Stone House on the Madison Mark under a similar grant about three years ago.

In addition to using Energy Star-rated appliances and compact fluorescent bulbs, the Park Central development includes other energy enhancements such as insulation sheathing between the apartment floors and the unheated parking garage below.

And since the vast majority of Park Central's 76 units are dedicated as low-income affordable units -- a three-bedroom rents for \$1,100 to qualified families -- the project met the requirements for affordable housing tax credits.

While at the Alexander Co., Arnesen was responsible for all facets of developing mixed-income, Section 42 properties.

"Not a lot of other people understand how the program works, so we feel there's a competitive edge there," said Arnesen, a 1983 graduate of Madison East High School who holds a degree in finance from the University of Colorado.

One local competitor is Gorman & Co., which also works in the Section 42 credits and historic restoration arena.

Moving forward, Stone House is continuing to look for opportunities, but with caution. Arnesen said the downturn in the housing market could actually help the apartment industry.

"We already took a hit when we were losing tenants who were buying houses," he said. "Now I think it's coming back the other direction."

TALKING TAX CREDITS

So what is "Section 42" housing?

The Tax Credit Reform Act of 1986 created the Low Income Housing Tax Credit Program under Section 42 of the Internal Revenue Code.

The tax credit encourages developers to build affordable housing to meet a community's needs. As a condition for receiving the housing tax credits, owners must keep the units affordable for a specified number of years.

Affordable rents are calculated based on median household income figures published annually by the U.S. Department of Housing and Urban Development.

Prospective renters must complete an application that requests information regarding household composition, income and student status. These factors determine eligibility for the program.

Qualified income levels are determined by the local HUD office based on two factors: a percentage of the median household income for the metropolitan statistical area in which the development is located, and the number of people in the household.

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