Cumberland Homes, Springfield, Massachusetts
Developer: Beacon Communities Development, LLC
Photo courtesy of Beacon Communities Development, LLC

Preservation Deals

Traditional and New Approaches Keep Properties Affordable

The low-income housing tax credit remains a main driver of transactions for renovating existing multifamily properties and preserving them as affordable rental housing for years to come. Yet there are some new wrinkles that promise additional opportunities for sponsors, including the new Rental Assistance Demonstration program of the U.S. Department of Housing and Urban Development (HUD).

The bulk of preservation transactions still involve the acquisition and rehabilitation of existing properties by for-profit and nonprofit developers using federal housing tax credits, hard debt, and gap dollars such as those from HUD's HOME program. Sometimes developers obtain competitive 9% housing credits but often they combine readily available tax-exempt bond financing with 4% housing credits. Preservation transactions can involve one property or a portfolio.

Most properties being preserved already have government assistance of some type. These include properties with maturing HUD mortgages (e.g., Section 236), Section 8 contracts, or expiring contracts under HUD's older "orphan" rental assistance programs. Others are Section 515 rural rental projects and "Year 15" LIHTC developments at or near the end of their original compliance period.

Beacon Development Activity

Preservation transactions are bread and butter for Beacon Communities Development, LLC, a major Boston-based developer/owner/manager of affordable and market-rate multifamily housing.

"Over the past few years we have completed

Preservation, continued on page 19

Preservation, continued from page 18

Pam Goodman

numerous preservation transactions" says President Pam Goodman. "We recently redeveloped four communities with over 300 apartments in the greater Boston area that we acquired from a single seller. The developments all underwent significant capital rehabilitation using 4% tax credits with an enhanced voucher or project-based voucher component."

"We have also preserved," she said, "approximately 580 affordable apartments previously assisted under HUD's Section 236 and Rent Supplement programs with new project-based assistance under the RAD program. And over the coming year we expect to close on the acquisition of another 2,100 units in Massachusetts and Pennsylvania. All of these will be financed with either 9% or 4% credits with a Section 8 mark-up-to-market component. We're very interested in acquiring older properties with maturing mortgages or expiring Section 8 contracts and formulating plans to preserve affordability."

Beacon normally uses 4% rather than 9% housing credits for preservation deals. Goodman says the main challenge remains finding subsidies, which may be at risk in the current Washington environment. "There continues to be some concern about how the situation in Washington will impact the level of funding needed to accomplish these important preservation efforts," she said.

POAH Portfolio Acquisition

Sometimes preservation deals happen when a developer is in the right place at the right time. That's the case with Preservation of Affordable Housing, Inc. (POAH), a Boston-based nonprofit that purchased six affordable properties in Massachusetts from a single seller last summer. It has completed renovations to preserve them as affordable rentals for another 40 years.

POAH bought the properties – containing 841 apartments including 537 in downtown Boston – from State Street Development Management Corporation, which was exiting the affordable housing business and had previously sold several properties to POAH.

"We were able to wrap all of the properties together in one portfolio execution and take it down relatively quickly," says Rodger Brown, POAH's Managing Director of Real Estate Development. He said a major portfolio acquisition – this was POAH's fourth – "also gives us the power to create cross subsidies within the portfolio when necessary. In some deals, the price the seller wants may not be supported by the economics of the deal as we would envision the execution. But to the extent we can create an execution on another piece of the portfolio that generates capital beyond the needs of that particular asset, we have methods of upstreaming and downstreaming money to different properties in the portfolio to achieve overall feasibility."

Rodger Brown

POAH obtained $290 million in debt and LIHTC equity to cover acquisition, rehab, and other costs. Funding sources included proceeds of multiple tax-exempt bonds, 4% federal housing tax credits, state housing credits, tax credit equity, federal HOME funds, and a deferred developer fee. A separate partnership was created for each property with POAH as the sole general partner.

HUD approved 20-year renewals of 100% project-based Section 8 rental assistance for five of the properties. In the sixth, units are rent-restricted by the LIHTC program or a Section 236 regulatory agreement.

Public Housing Conversions

HUD's Rental Assistance Demonstration (RAD) program is writing a new chapter in preservation. Under RAD, owners of public housing properties and certain at-risk HUD-assisted rental projects can apply to HUD

Preservation, continued on page 20

Housing Preservation Database Launched

The Public and Affordable Housing Research Corporation and the National Low Income Housing Coalition have launched the National Housing Preservation Database. It contains property-level data from nine HUD and USDA data sources on the location, characteristics, and status of nearly all federally subsidized housing properties – more than 70,000 with 3.5 million units. Included are public housing projects, low-income housing tax credit properties, properties with HUD-insured mortgages, HOME-assisted developments, Section 202 projects, and Rural Housing Service Section 515 and 538 projects. Users can filter the data and download the entire dataset.

(http://www.preservationdatabase.org)

Preservation, continued from page 19

for new long-term contracts providing project-based vouchers or rental assistance for up to 100% of the units. This replaces public housing operating subsidies and capital funds previously flowing to the public housing authority for a public housing project, or supplants expiring rental assistance contracts to properties under HUD's defunct Rent Supplement (Rent Supp), Rental Assistance Payment (RAP), and Moderate Rehab Section 8 programs. Tenants of units with project-based vouchers or rental assistance pay no more than 30% of their income for rent.

In January, HUD announced initial RAD commitment awards to 68 PHAs to convert 110 public housing projects and two Mod Rehab projects. The PHA awardees must finalize the funding sources for their transactions to receive HUD's final approval and proceed to development. *(For details, see* Tax Credit Advisor*, February 2013, p. 12.)*

Two of the 68 PHAs winning awards were the Fresno Housing Authority, in Fresno, Calif. (pop. 500,000), and the Housing Authority of the City of Wilson, N.C. (pop. 49,000).

The Fresno Housing Authority (FHA) received three RAD awards to convert all of the units (442) in 10 of its public housing properties to assisted long-term rental housing. The awards account for about 25% of FHA's

Photo: Bruce Weinstein with Creative Eye Photography

Preston Prince

total public housing units. The authority intends to act as the developer to renovate the properties and continue managing them afterwards.

FHA CEO and Executive Director Preston Prince says RAD will enable the authority to renovate more properties, more quickly than if FHA waited to save up enough of the annual public housing capital funds that it receives. "Our public housing portfolio has about $100 million in need," he says, "and we only receive $3 million a year in capital funds. It'd take 30 years to meet all our needs, and that doesn't take into consideration any future needs."

FHA serves about 18,000 families in the city and county of Fresno with about 13,000 Housing Choice Vouchers and a real estate portfolio that includes public housing, LIHTC, bond-financed, Section 8, and farm-worker housing properties.

RAD fits with Prince's portfolio analysis and planning regimen: to size up each property (value, condition, needs, potential highest and best use); determine what to do about each given actual/potential resources (sell, hold as is, rehab); and then act.

"When RAD came along we looked at our portfolio and thought hard about which of our properties matched up with what we thought we could accomplish with RAD," says Prince. FHA selected 10 properties it felt had an excellent chance to win an allocation of 9% housing tax credits under California's competitive LIHTC program. The authority has applied for 9% credits for the RAD transactions in California's current funding round; award announcements are expected around mid-year. To be competitive, FHA proposed deeper, layered income targeting at the properties, with some units designated for households as low as 30% or less of the area median income (AMI).

FHA is looking to spend between $70,000 and $90,000 per unit for renovations, Prince said. Work will include upgrading apart-

Preservation, continued on page 22

Photo: EMG, Inc.

Mountain View Apartments, Orange Cove, California
One of the RAD developments of the Fresno Housing Authority.

Preservation, continued from page 20

ments and building envelopes, installing new energy-efficient HVAC systems, infrastructure improvements, solar panels, new landscaping that uses less water, adding second bathrooms to three- and four-bedroom units, and building new community facilities at many sites.

Anticipated and possible funding sources include tax credit equity, debt, federal HOME program dollars, and public housing capital funds, reserves, unrestricted dollars, and housing replacement factor monies from FHA.

If all goes according to plan, construction will start next January and be finished by year-end, Prince said.

Photo: Housing Authority of the City of Wilson

Bruce Rose Plaza, Wilson, North Carolina
One of the RAD developments of the Housing Authority of the City of Wilson

In North Carolina, the Housing Authority of the City of Wilson received three RAD awards to convert all of the units (535) in four public housing properties to assisted long-term rental housing. The authority will serve as co-GP for each project while the development is done by an arm of The Communities Group. The Washington, D.C. firm has also been a consultant to the authority on numerous housing matters including RAD.

"With this [RAD] program, the housing authority is planning to transition out of public housing," says Jaime Bordenave, President and CEO of The Communities Group. "So they want to privatize everything through RAD or homeownership sales – to be all private with project-based vouchers or other approaches, but no longer public housing."

Edward Jagnandan

If the current RAD transactions are completed, the authority will be left with only 106 public housing units. Edward Jagnandan, President and CEO of the authority, expects to file another RAD application to demolish these units and transfer the project-based vouchers to an old downtown hotel that the authority would acquire and renovate.

Jagnandan decided to pursue the use of the RAD program for several reasons. These included the federal policy tilt toward vouchers and the small amount of public housing capital funds that the authority receives each year ($900,000, of which $400,000 must be used to repay prior borrowing). "I'm also very big on private-public partnerships and I like to look at creative opportunities," Jagnandan says. "RAD allows us to leverage our properties for funding."

Bordenave said aggregate total development costs for the four RAD projects would be about $48 million, including roughly $40,000 per unit in hard costs. Planned capital sources including HUD-insured Section 221(d)(4) mortgages funded by tax-exempt bonds issued by the housing authority, LIHTC equity generated by 4% housing tax credits, and dollars from the housing authority. All renovated apartments will be tax credit units rented to households at or below 60% of AMI.

Says Jagnandan, "Public housing authorities are going to be extinct eventually because the funding is just going to eventually go away and there'll be no monies to do anything. That is my take on the whole thing. And I think that housing authorities ought to be more creative and innovative. And I think the best route to go is to go private-public partnerships."

"I commend HUD for doing this [RAD] because it's the right approach to enhance some housing across the country." TCA