

AFFORDABLE HOUSING F I N A N C E

ON GUARD

Developer **Dan Valliere** and other industry leaders are stepping in to protect some of America's most vulnerable affordable housing.



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RESCUE MISSION

Community strategies emerge to preserve affordable housing

BY DONNA KIMURA AND CHRISTINE SERLIN

The Bronaugh Apartments is one of the oldest rental housing developments in Portland, Ore. It may also be one of the most important, providing vulnerable seniors and disabled individuals with a safe and affordable place to live.

Like many other older affordable housing properties across the nation, the 50-unit community was in danger of losing its affordability. The Bronaugh's federal rental-assistance contract was due to expire in 2012, and the property was on the market as nonrestricted housing. That meant the residents were in danger of being displaced.

To thwart this looming threat, REACH Community Development, a local affordable housing organization, stepped in to buy the Bronaugh in 2013, performing emergency repairs and setting out on a sweeping, \$14.5 million preservation effort.

"We wanted to continue providing housing for the Bronaugh's residents, some of whom have lived there for many years," says Lucy Corbett, housing development project manager. "Had the building been sold for redevelopment, it would have displaced the residents from their homes, further reducing affordable apartments in an area with high rents."

Three years later, major renovations have been completed on the three-story building and its long-term affordability for residents has been ensured. A reopening of the Bronaugh was celebrated in mid-July.

The development is among the last of the at-risk Sec. 8 properties to be rescued under the Portland Housing Bureau's ambitious 11X13 Preservation Campaign. In 2008, the agency identified 11 privately owned buildings, with more than 700 units, at risk of losing their affordability by 2013. It then partnered with developers, funders, and others to put plans in place to preserve the properties by that year.



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"These 11 developments were prioritized for preservation because they represented extremely vulnerable housing with expiring rent subsidy contracts and Department of Housing and Urban Development (HUD)-insured mortgages," says Barbara Shaw, housing portfolio finance coordinator at the Portland Housing Bureau. "Portland has a very aggressive real estate market. The developments were all privately owned, expiring-use properties, and they were vulnerable to market-rate conversion."

The 11X13 initiative succeeded due to the strong collaboration between HUD, the city, and the state working with several nonprofits. In the case of Portland, the city gave the identified projects a priority route through the funding process.

For every dollar the city invested, the campaign leveraged more than \$6 from other investors and lenders. Portland invested \$22.3 million in Community Development Block Grants, Sec. 108-guaranteed loans, and local urban-renewal dollars. This leveraged over \$136 million in other development funds and will leverage more than \$120 million in federal rent assistance over the next 20 years. Renovations at one final project, the Hawthorne East, are scheduled to be completed by developer Northwest Housing Alternatives this month.

The effort comes at a crucial time. Affordable-use restrictions will expire on about 2 million federally assisted rental units over

the coming decade. About 64% of these are low-income housing tax credit (LIHTC) units, both those reaching the end of their initial 15-year compliance period or their 30-year extended-use period, according to the National Low Income Housing Coalition (NLIHC). Properties reaching the 30-year mark are the bigger concern, and there are 358,575 of these units that will hit 30 by 2025 and don't have other subsidies that would extend the affordable-use restrictions, reports the NLIHC.

The 11X13 campaign is one of several innovative efforts aimed at helping communities hold on to their affordable housing stock.

Housing leaders in the Minneapolis region have established a new fund to maintain 2,000 unsubsidized units, and in Washington, D.C., officials have launched a strike force to preserve its at-risk affordable housing.

Built in 1905, the Bronaugh is listed on the National Register of Historic Places. However, the development, initially three buildings that were tied together over time, had not been renovated since 1982 and was suffering from deferred maintenance.

REACH rehabbed the individual apartments, created a new community room, added a computer lab, and performed an important seismic retrofit of the building. The Bronaugh was one of approximately 1,700 unreinforced masonry buildings in Portland. Bringing the building up to code required significant



REACH Community Development has preserved 50 homes at the Bronaugh Apartments in Portland, Ore. The acquisition-and-rehab effort required creativity, says CEO Dan Valliere (left center), pictured with Jessica Woodruff (far left), director of housing development, and Lucy Corbett, housing development project manager.

PHOTOS THIS SPREAD: JOSEPH EASTBURN



Bronaugh has been preserved as part of Portland's 11X13 campaign. "Bronaugh's story illustrates the challenges Portland's seniors and others on fixed incomes face in trying to hold on to their housing in neighborhoods impacted by gentrification and rising rents," says city commissioner Dan Saltzman.

work, including drilling 88 micropiles to an average depth of 35 feet to secure the building's foundation.

Just as important as improving the physical condition of the building, REACH also made sure to protect the property's long-term affordability. The team worked with HUD to obtain a new, 20-year, project-based Sec. 8 contract for all the units.

The project was an important one to save. Its downtown location close to services and on the MAX light-rail line makes it a desirable property, especially for residents who don't have cars.

"Public awareness matters," says Dan Valliere, REACH CEO, describing one of the key lessons learned. "The public awareness around the need to preserve affordable housing in the central city provided incentive and motivation for all of the partners to assume some risk and to be creative."

Twin Cities preservation fund

The Minneapolis-St. Paul area is taking a stand to stem the loss of affordable housing. In an initiative that's the first of its kind in the region, officials have launched a fund that seeks to preserve 2,000 unsubsidized affordable rental homes in the Twin Cities.

The Naturally Occurring Affordable Housing (NOAH) Impact Fund hopes to begin acquiring properties by the end of the year. It recently took a big step forward when Hennepin County (the seat of which is Minneapolis) agreed to invest \$3 million in the fund, which seeks to raise \$50 million in two phases.

Financing the Bronaugh Apartments

9% LIHTC equity from Bank of America Merrill Lynch	\$8.7 million
Historic tax credit equity from Bank of America Merrill Lynch	\$1.5 million
Network for Oregon Affordable Housing permanent loan with state housing credits	\$2.0 million
Portland Housing Bureau loan	\$1.7 million
Oregon Housing and Community Services grants	\$280,000
Sponsor contribution	\$270,000

"It's cheaper to preserve affordable housing than it is to create it," says county commissioner Jan Callison. "For our clients who are using county services, housing is fundamental. Unless they have stable housing, it's very hard to work on some of the other issues they may bring, whether that's chemical dependency or unemployment or a need for other services. We know that we need to have our people stably housed if they're going to improve the conditions of their lives. It just makes more sense to preserve the housing that's already in existence."

Like many other communities, Hennepin County is seeing its affordable housing stock disappear as buildings are converted to market-rate housing. Officials estimate that the county has lost at least 1,300 affordable homes so far this year.

Overall, the county has approximately 82,000 units of unsubsidized multi-family rental housing, with rents affordable to households with incomes at or below 60% of the area median income, which is \$51,480 for a family of four.

Created by the Greater Minnesota Housing Fund (GMHF), the NOAH Impact Fund will target at-risk naturally occurring affordable housing composed of Class B and C rental apartments typically built between the 1950s and 1980s.

"The goal will be to keep the properties affordable for 15 to 20 years to preserve the affordability and avoid the displacement of tenants in a hot market," says Warren Hanson, GMHF president and CEO.

The first phase of the program seeks to preserve 1,000 units with \$25 million from the fund. If that is successful, officials would do a similar second phase.

The county's funds join \$1 million from The McKnight Foundation and \$2.25 million from GMHF.

The NOAH fund will work with high-performing, nonprofit affordable housing developers and socially motivated, for-



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—Dan Valliere, CEO, REACH Community Development



profit owner-operators. These organizations will be required to put up 10% of the equity, and the fund will put up 90% of the equity. That will make up roughly 30% of the overall financing needed for the properties, according to Hanson. The other 70% will then come from conventional lenders.

The fund will operate in a seven-county area of the Twin Cities.

Under a pilot, GMHF acquired a 72-unit property in New Brighton last year. Renters at Fountain Terrace were facing rent increases of more than \$200 a month until the fund, in partnership with Real Estate Equities, a for-profit owner, acquired the property, for \$6.8 million.

D.C. establishes strike force

Washington, D.C., lost at least 1,000 units of subsidized housing between 2006 and 2014. It's at risk of losing many more in the years ahead as subsidies expire on an additional 13,700 units by 2020, according to housing officials.

To protect the affordable housing stock, Mayor Muriel Bowser established the D.C. Housing Preservation Strike Force. The 18-member team unveiled several draft recommendations in June, including:

- Establishing a preservation unit located within a District government agency that is tasked with being the central resource to preserve assisted affordable housing;
- Providing seed funding to a public-private preservation fund; and
- Developing a small-properties preservation and affordability program in the Department of Housing and Community Development to help properties with five to 50 units with renovation and repair funds.

Although the regional approaches are different, each community seeks the same outcome: Preserve affordable housing before it's lost. The next few pages highlight three additional localities and how they're working to safeguard affordable housing.

Rehab Sets Bar in Detroit

GHC Housing Partners upgrades units and amenities at Bicentennial Tower to rival those found in market-rate projects

GHC Housing Partners' acquisition and state-of-the-art rehab of Bicentennial Tower has contributed to the revitalization efforts in Detroit's growing and vibrant Midtown neighborhood.

One of the leading affordable housing owners in the nation, the Sherman Oaks, Calif.-based firm purchased the 300-unit Bicentennial Tower as part of a portfolio acquisition of several Michigan developments that were being liquidated by a primarily market-rate owner.

The 1978 building had little work and money put into it over the years, operating as status quo, according to Greg Perlman, founder and CEO of GHC Housing Partners.

Perlman says the development team focused on a rehab that would rival the best market-rate project in the booming neighborhood.

"It's amazing to watch the transformation of the neighborhood after we acquired the project," says Perlman. "We are providing an affordable housing property as high quality as any."

The \$25.6 million acquisition-rehab, substantially completed in November, was one of the first projects to be financed under the Federal Housing Administration (FHA) Tax Credit Pilot Program, with Pillar as the FHA MAP (Multifamily Accelerated Processing) lender. The pilot program aims to speed the processing time for FHA-backed deals that use housing credits by better aligning the programs.

The financing also included 4% low-income housing tax credits and tax-



GHC Housing Partners' rehab of Bicentennial Tower not only upgraded the dwelling units; it also improved the common areas to encourage more interaction and socialization among the senior residents.

exempt bonds through the Michigan State Housing Development Authority. Since the market for third-party tax credit investments in the city of Detroit was limited at the time, GHC Housing Partners structured the equity investment to purchase and redevelop the project itself.

Bicentennial Tower comprises 251 one-bedroom and 49 two-bedroom units, with two-thirds serving seniors and the remainder families. The majority of units serve households earning 60% of the area median income, with project-based Sec. 8 Housing Assistance Payment contracts covering 299 units.

The property was completed in less than a year, with residents able to remain in place during the renovations. The team

spent approximately \$30,000 to modernize the units with refurbished kitchens and bathrooms as well as upgraded flooring and lighting. Water-saving devices and high-efficiency HVAC systems were also installed. In addition, GHC enhanced the amenities and created a services package for residents.

The development team updated the underutilized common areas to include modernized elevators, a renovated community room, a new fitness center, and a theater room. Two full-time service coordinators have been hired to help organize social, health, and educational programming for the residents. Also, the building features a 24-hour guard and doorman service. —C.S.

RAD Helps Reposition Property

Colt Arms is one of the first communities under the program's Component 2, which enabled the development to receive project-based assistance

Colt Arms Apartments was heading in the wrong direction.

At 41 years old, the senior housing community was tired, struggling with roughly a 15% vacancy rate and needing a major overhaul when Hudson Valley Property Group (HVPG) acquired the Paterson, N.J., property in January.

The Sec. 236 development is one of the first preservation projects in the nation to be preserved under the federal Rental Assistance Demonstration (RAD) program's Component 2, which allows Rent Supplement, Rental Assistance Payment (RAP), and Mod Rehab properties to convert tenant-based vouchers issued upon contract expiration or termination to project-based rental assistance (PBRA).

"The property was spiraling down," says Jason Bordainick, co-founder and managing partner of HVPG. "If it ended up continuing in that direction, people would have been displaced because of obsolescence of the property over time."

The rehabilitation of the 207-unit development is on track to be completed in November.

The turnaround of Colt Arms is about a \$30 million effort, with approximately \$12 million of that amount being invested in the building. The rehab includes replacement of the heating system and improvements to the safety and security systems. Individual units are also being rehabbed, with new kitchens, bathrooms, and floors.

The other critical piece of preserving the property has been to help residents by "project-basing" the apartments through the RAD conversion, says Bordainick.

"The majority of residents were not subsidized," he says. "As a result of the RAD program, effectively all of the residents who are income-qualified received project-based assistance, which lowered the amount of money that the tenants had to pay out of pocket."

Most residents will now pay just 30% of their income toward rent. Under the RAD conversion, 154 apartments have PBRA through the Department of Housing and Urban Development (HUD). The New Jersey Department of Community Affairs provides Sec. 8 project-based vouchers for 52 apartments.

PBRA contracts help affordable housing owners like HVPG address the deferred maintenance and long-term affordability of privately assisted housing stock. They offer longer-term, 20-year contracts instead of the 15-year project-based vouchers, and they are made directly with HUD rather than going through public housing authorities.

The authorization of the PBRA contracts is key for preserving older assisted HUD properties under the Sec. 236 and 221(d)(3) programs that have 40-year contracts expiring with no renewals.

The Colt Arms deal required several sources of financing, including 4% low-income housing tax credits and tax-exempt bonds from the New Jersey Housing and Mortgage Finance Agency. R4 Capital syndicated the credits to raise approximately \$10 million in equity, and Red Stone Tax Exempt Funding did a private placement to purchase the bonds, providing approximately \$20.5 million,

including a \$1.9 million interest reduction payment loan.

In another move, the development team had to decouple the Sec. 236 interest reduction payment (IRP). There are two tranches of debt—one against the mortgage on the property and another on the decoupled IRP stream, which had about eight more years left, according to Bordainick.

"We spent a lot of time and money in advance of closing to execute a variety of tests, third-party reports, and meetings with tenants to ensure that we had the right budget and scope for the preservation work," Bordainick says.

Metro Co. acted as a consultant, and the Nixon Peabody and Berman Indictor law firms collaborated on the deal. —D.K.



A new apartment kitchen at Colt Arms. The owners are investing \$12 million in the building.

SRO Law Saves Hotel as Housing

A new Chicago ordinance helped The NHP Foundation buy the Mark Twain Hotel and maintain its affordability for residents

The NHP Foundation (NHPF) has acquired the old Mark Twain Hotel with plans to rehabilitate and maintain the property as affordable apartments under Chicago's new Single-Room Occupancy (SRO) Preservation Ordinance.

The approximately 58,000-square-foot historic building has 152 SRO units and more than 9,000 square feet of retail space.

"Since 1932, the Mark Twain Hotel has been a landmark of the Gold Coast neighborhood. The acquisition and future renovation of the property by The NHP Foundation is an incredibly exciting project for all parties involved," says Richard Burns, president and CEO of the NHPF, a New York City-based nonprofit that paid \$21 million for the building and plans to spend at least \$15 million on renovations.

Approved in 2014, the SRO ordinance establishes an early-warning system for affordable SRO buildings that are up for sale by requiring owners to notify the city and residents 180 days in advance. During this period, owners must provide potential buyers committed to maintaining the building as affordable with the opportunity to negotiate a sale. Building owners may opt out of the 180-day requirement by paying a preservation fee of \$20,000 per unit.

The Mark Twain is the largest deal so far under the ordinance, according to Mecky Adnani, vice president of acquisitions and development at the NHPF.

"We will now continue our mission to preserve the affordability, to comprehensively rehabilitate, and to fully reposition the Mark Twain in one of the rapidly

growing neighborhoods of Chicago," she says. "When done, this property will be a transformed, state-of-the-art SRO facility with amenities and a full array of resident services."

The NHPF is working on the redevelopment phase, with plans to add kitchens to each unit and community space to the property. Construction is anticipated to begin in 2017 with the goal of limiting displacement for existing residents. The property will be included in the National Register's Proposed Residential Hotels in Chicago, 1900–1930 group designation, which recognizes the accommodation from this era as historically significant.

Bellwether Enterprise Real Estate Capital worked with the NHPF to bring debt and equity to the transaction from Pembroke Capital Management, the Chicago Community Loan Fund, and U.S. Bancorp Community Development Corp. (USBCDC).

Pembroke, a commercial real estate investment manager and balance-sheet lender, primarily funded the property acquisition with a \$16.6 million loan. Its local investment partner was BMO Harris Bank. The Chicago Community Loan Fund is the junior lender.

"The issue of affordability is very real for residents of American cities as rents and property values rise," says Stuart J. Boesky, CEO of Pembroke. "After losing 2,200 SRO units between 2011 and 2014, Chicago has taken action to preserve this essential housing resource for the working poor in valuable locations throughout the city."

The city Department of Planning and Development issued Illinois Affordable Housing Tax Credits, also known as donation tax credits, to the development. The tax credits generated were sold to USBCDC.

The Red Line train station beneath the building recently underwent a \$50 million renovation.

The property is in a mixed-use neighborhood and sits across from The Sinclair, a residential tower, and a Jewel/Osco supermarket construction project that will be completed in 2017.

The Mark Twain property is managed by Heartland Housing, a company of the Heartland Alliance. —D.K.



The NHPF is redeveloping the Mark Twain Hotel, adding kitchens to each unit as well as community space.