

## HUD Preservation Round Two: Ensuring the Long-term Financial, Physical, and Environmental Sustainability of a LIHPRHA Property



*Los Robles Apartments in Vista, CA*

### Background

Los Robles Apartments is a 76-unit, multifamily, affordable development located in the city of Vista in San Diego County. The property was built in 1974 using a U.S. Department of Housing and Urban Development (HUD) Section 236 subsidized mortgage. By 1996, the for-profit owner of Los Robles was considering prepaying the mortgage and converting the development to market-rate. [Community Housing Works](#) (CHW) stepped in and helped residents work with HUD to purchase the property using provisions of the [Low-income Housing Preservation and Resident Homeownership Act](#) (LIHPRHA).

Enacted in 1990 after a wave of prepayments and conversions hit HUD-assisted properties nationwide, LIHPRHA curbed owners' ability to prepay HUD-assisted mortgages to discourage conversion of rents to market rate while offering incentives in exchange for maintaining affordability or transferring a property to a preservation-oriented buyer (nonprofits and tenant associations). There are 640 LIHPRHA-preserved properties nationwide, including 106 in California. While the purchase of Los Robles by its residents preserved the property as affordable housing, it did not ensure its long-term financial or physical health. Nearly 20 years later, CHW once again partnered with residents, this time assuming ownership of Los Robles through a refinance and rehabilitation, to ensure the property's long-term sustainability.

## **The Challenges of Refinancing and Rehabilitating Los Robles**

By 2013, Los Robles was nearly 40 years old and in need of an extensive rehabilitation from the ground up. Not only were the units in need of major upgrades, the "backbone" systems of the development - including water, gas, and electricity - also had to be replaced. Though HUD had provided initial equity to purchase the property and perform minor repairs, there was not enough initial funding to cover a full rehabilitation nor was any subsequent funding available.

Undertaking long-term maintenance and improvements proved more difficult than usual because all decisions regarding the rent increases and reserves needed to fund such work had to be made by residents, who by and large lacked the experience and skills needed to manage a complex real estate asset like Los Robles. Further complicating the residents' job were the restrictions of the HUD regulatory agreements remaining from the original mortgage and the LIHPRHA purchase.

An additional challenge was that, unlike many other [HUD Section 236](#) properties of this era, Los Robles had never received an allocation of [Section 8 project-based rental assistance](#) to help pay for repairs. The lack of rental assistance meant that there was no possibility of receiving a mark-up-to-market rent increase as part of a refinancing. As a result the property did not have sufficient income to take on new debt to pay for a major rehabilitation.

## **CHW, HUD, and Residents Work Together to Preserve Los Robles Again**

CHW had previously worked with the [California Housing Partnership Corporation](#) (CHPC) to refinance and rehabilitate two other aging LIHPRA properties, and again tapped Paul Beesemyer, Director of CHPC's Southern California Programs, to assist with the complicated financial and regulatory issues involved at Los Robles. Beesemyer comments, "Each recapitalization of an aging HUD-assisted property has an entirely unique set of issues. We've learned there is no such thing as a cookie-cutter approach. After completing many of these, however, our experience allows us to anticipate the procedural and regulatory challenges that will arise and devise approaches to mitigate them."

Fortuitously, CHW and CHPC found a mission-driven and experienced partner at HUD in Tom Azumbrado, currently serving double duty as Multifamily Director of both the Los Angeles HUD Field Office and HUD's Region IX Office in San Francisco. Azumbrado is well aware of the financial and physical challenges facing aging HUD properties and saw facilitating the refinancing and rehabilitation of Los Robles as a priority. Once CHW had demonstrated the extensive rehabilitation needs of Los Robles, HUD agreed that leveraging equity from the sale of [Low Income Housing Tax Credits](#) was critical to stabilizing the property's physical and financial condition. Azumbrado's support of the plan to increase the long-outdated LIHPRHA basic rents to LIHTC levels while at the same time prepaying the existing Section 236 mortgage so that eligible households would receive [Enhanced Tenant Protection Vouchers](#) was critical. The granting of Enhanced Vouchers, with their ability to pay market-rate rents, protected long-term residents from the impact of having to pay the higher Tax Credit rents and also increased the development's net operating income.

## **Investor and Lender Back the Project Through Complex Refinancing**

CHW, CHPC, and the permanent lender, the [California Community Reinvestment Corporation](#) (CCRC), worked extensively with HUD to amend the provisions of the LIHPRHA Use Agreement in order to facilitate the new transaction. While HUD did not have authority to change certain outdated language, it issued a "comfort letter" clarifying the enforcement of certain regulatory provisions that enabled CCRC to approve its loan. CCRC had not previously grappled with the peculiarities of LIHPRHA use

agreements, but remained committed to seeing the refinancing and rehabilitation of the development through.

Union Bank served as the construction loan lender and tax credit equity investor. Having previously worked with CHW on the refinancing of a Section 236 property, Union Bank was familiar with the complexity of the process and was a consistent partner throughout.

As part of the recapitalization, the new limited partnership owner entity (created by CHW and Union Bank) received a seller carry-back loan from the tenant association that had owned Los Robles since the original LIHPRHA purchase. The property's ability to make annual payments on this loan enabled the tenants' association to reimburse CHW for the critical resident services CHW provides at the property. For years prior to the refinancing, CHW had provided resident services but received no compensation for its work because these services were never an allowable HUD operating expense.

The following is the summary of the sources and uses of financing:

Sources	Construction	Permanent
<b>Union Bank Construction Loan</b>	\$ 10,741,100	
<b>Union Bank Limited Partner Equity Payment</b>	\$ 118,418	\$ 6,617,493
<b>CCRC (tax-exempt)</b>		\$ 5,265,000
<b>Costs Deferred Until Completion</b>	\$ 1,112,975	
<b>Seller Note</b>	\$ 5,965,596	\$ 5,965,596
<b>Income from Operations (during rehab)</b>	\$ 208,000	\$ 208,000
<b>Cash Reserves from Seller</b>	\$ 270,598	\$ 270,598
<b>NeighborWorks Energy Efficiency Grant</b>	\$ 405,000	\$ 405,000
<b>CSI Solar Energy Rebates</b>		\$ 90,000
<b>TOTAL</b>	<b>\$ 18,821,687</b>	<b>\$ 18,821,687</b>

Uses	Construction	Permanent
<b>Land/Acquisition</b>		\$ 6,580,598
<b>Rehabilitation</b>		\$ 6,941,955
<b>Relocation</b>		\$ 675,000
<b>Design, Engineering, Local Permits</b>		\$ 578,800
<b>Reserves and Financing Costs</b>		\$ 1,208,508
<b>Legal, Consulting, Dev. Fee, Other Soft Costs</b>		\$ 2,836,826
<b>TOTAL</b>		<b>\$ 18,821,687</b>

### Energy Efficiency and Solar Energy Grants Lower Costs and Greenhouse Gas Emissions

A series of energy efficiency grants provided another crucial resource in the rebirth of Los Robles. The property received a \$485,728 [Multifamily Affordable Solar Housing \(MASH\)](#) grant from the State of California, which CHW paired with a \$351,000 federal [Solar Investment Tax Credit \(ITC\)](#) to pay for most of the installation of an extensive photovoltaic energy system through [Everyday Energy](#). A \$405,000 grant from [NeighborWorks](#) funded additional energy efficiency upgrades such as solar hot water, new windows, and cool roofs. The NeighborWorks grant also covered elements of the solar panel installation that MASH and the ITC did not, including demolition of old carports that could not support

the weight of the new photovoltaic system. Finally, a grant from the [California Solar Initiative](#) (CSI) provided an additional \$90,000 for the installation of the solar hot water system.

All together CHW invested \$1.2 million in the photovoltaic system, which now provides all of the property's electricity in both residential and common areas. The solar hot water system reduced water heating costs by 70 percent. The energy efficiency improvements were so successful that the property received an [Energy Upgrade California](#) incentive of \$34,700 for improving energy efficiency overall by more 35 percent.

### Rehabilitated Los Robles Will Offer Affordable, Quality Housing for Years to Come



*New kitchens, a community garden, and a children's library are now available to the residents of Los Robles.*

In addition to the impressive energy efficiency upgrades, solar energy installation, and rebuilding of critical infrastructure, CHW also made major improvements to residential units and common areas. Residents returned from a brief CHW-sponsored relocation to find new kitchens, bathrooms, and flooring. Four apartments were renovated to improve accessibility. Improved common areas include a large new community building that includes the central office, activity room, library, computer room, and laundry facility. CHW added drought-tolerant plants, created a community garden, and upgraded the children's play area with new equipment.

Residents can enjoy their improved homes and common areas knowing that through the cooperation and stewardship of CHW, HUD and the residents themselves, Los Robles will continue to provide high quality, affordable homes for lower-income households for decades to come.

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#### Preservation Services for Nonprofit and Local Government Staff

CHPC provides technical assistance, and training to help nonprofit and government agencies build and preserve affordable homes for California families and seniors. For more information, please contact our Housing Policy and Preservation Associate, James Pappas, at [jpappas@chpc.net](mailto:jpappas@chpc.net) or 415-433-6804 x 320.

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