

Nonprofit Uses Financing Partnerships to Preserve At-Risk Property Despite Competition

Azusa Apartments is an 88-apartment affordable housing development located in Azusa, California, a Los Angeles-area suburb. The property was built in 1971 subsidized by a [U.S. Department of Housing and Urban Development \(HUD\) Section 236 loan](#). After the loan reached the end of its 40-year term in 2012, the property owners engaged in an aggressive competitive sales process in an attempt to maximize profits.



CHW's Azusa Apartments, located in Azusa, CA.

A variety of factors made Azusa apartments a particularly attractive acquisition target: the property's location near L.A. job centers, the extension of a nearby rail transit line, strong rental market conditions, and a [Section 8 project-based rental assistance](#) (PBRA) contract with HUD that provides income-based rental subsidy for very low-income households in 81 of the 88 units.

Through its financing partnerships and effective use of its own resources, [Community HousingWorks \(CHW\)](#) prevailed in the cut-throat competition and completed an extensive rehabilitation that has earned multiple awards including [Affordable Housing Finance Magazine's Readers' Choice Award for Preservation](#) and SCANPH's 2015 Multifamily Project of the Year.

Financing Partnerships and Organizational Fund Help CHW Beat the Competition

Nonprofit, preservation-oriented buyers can be at a disadvantage when competing for acquisition of at-risk affordable properties because they often are forced to rely on public funds or other sources that are difficult to access quickly to complete a purchase. Dave Gatzke, CHW's Vice President for Acquisitions, solved this problem by pledging equity from CHW's own Housing Futures Fund to leverage acquisition financing via CHW's membership in the [NeighborWorks America](#) network and a strong relationship with [U.S. Bank](#). CHW's quick work in assembling the acquisition financing made it possible to close the sale in less than six months - a key factor in being selected in the competitive market for the property. Gatzke comments, "To be competitive in the [Azusa] marketplace, CHW knew that it had to execute and close quickly. The cooperation from

U.S. Bank and [NeighborWorks Capital](#) allowed us to be successful. I think everyone recognized the importance of preserving this important affordable housing for 88 deserving households, and worked together to make it happen."

CHW Works with CHPC, Union Bank, and Red Capital to Finance Rehabilitation

CHW worked with the [California Housing Partnership Corporation \(CHPC\)](#) to develop the financing plan for Azusa Apartments. The development was able to compete successfully on its second attempt for 9% Low Income Housing Tax Credits through the at-risk set aside. While a light rehabilitation with 4% LIHTC credits might have been feasible for a buyer with a shorter investment horizon, CHW knew that obtaining 9% LIHTC would be necessary in order to perform the much deeper revitalization the 40-year-old property needed to increase durability, substantially reduce utility expenses, and improve the resident experience.

The LA HUD Multifamily team led by Tom Azumbrado helped Azusa Apartments secure a [Mark-Up-to-Market](#) increase of the Section 8 PBRA contract to post-rehabilitation rents, which provided over 50% of the capital for the purchase and renovation by increasing the size of the first mortgage that could be leveraged. CHW was also able to obtain three additional project-based tenant protection vouchers through a special first-come, first-served program authorized by Congress for properties with recently matured mortgages to assist income qualified tenants in the few units that did not have rental assistance. Finally, CHW secured a 221(d)4 FHA insured mortgage commitment with [Red Capital](#) serving as the lender.

CHPC then assisted CHW in negotiating a favorable sale of the 9% Tax Credits to [Union Bank](#). Union Bank's familiarity with FHA requirements made them an excellent partner for the project. The FHA structure does not allow for a large construction loan, so Union Bank agreed to an aggressive schedule of paying in 70% percent of the Tax Credit equity during construction, thereby providing a de facto construction funding source. CHW then used its internal Housing Futures Fund to advance construction payments in advance of receipt of Union Bank's equity payments. CHW's cumulative advances from the Fund exceeded \$2 million at some points during construction.

Sources	Amount
Red Capital FHA 221d4 taxable loan	\$16,077,000
Sponsor Loan	\$1,500,000
Income from Operations	\$160,669
Union Bank LIHTC Equity Investment	\$12,386,270
TOTAL	\$30,123,939

Uses	Amount
Land/Acquisition	\$18,425,000
Rehabilitation	\$6,483,859
Relocation	\$536,618
Design, Engineering, Local Permits	\$473,403
Reserves	\$399,300
Financing Costs	\$1,456,848
Legal, Consulting, Dev. Fee, Other Soft Costs	\$2,348,911
TOTAL	\$30,123,939

Working with Residents to Ensure a Smooth Rehabilitation

Key to CHW's success was early communication with residents several months before the rehabilitation began and hiring a dedicated staff member to manage tenant noticing and coordination. To further reduce the impact on tenants, CHW renovated the property in phases of four to six apartments per week and gave each household a stipend based on family size to cover lodging and meals for the time they would be out of their apartment. CHW also hired movers and provided packing supplies in order to minimize disruption to residents.

Azusa Apartments Sustainably Rehabilitated and Preserved for the Long Term



Residential improvements to Azusa Apartments include seismic improvements to the residential structures, new kitchen and bathroom cabinets, new countertops, Energy Star appliances, new through-wall combined air-conditioning and heating units, new bath tub and shower surrounds, interior flooring, paint, fixtures, hard-wired smoke detectors and CO2 detectors, patio fencing, energy efficient windows, and a new "cool" roof to reduce cooling costs. The residential upgrades reduced energy use by 27% and provide healthier homes for residents.



Site improvements include a refurbished ADA accessible community building that provides new community gathering spaces and improved space for resident services. A new play area, new picnic and barbecue facilities, and a community garden

provide additional improvements for residents. Solar photovoltaic and domestic solar hot water systems offset the common area electricity and gas use, increasing energy efficiency and lowering operating costs. An improved irrigation system, trimming of mature trees, drought-tolerant landscaping and use of artificial turf have reduced water use by 34%.

The award winning preservation purchase and recapitalization of Azusa Apartments demonstrates that with the right financing tools and partners, mission-driven nonprofit affordable developers such as CHW can successfully compete against better-capitalized

bidders to acquire and preserve at-risk affordable developments in a competitive market. The development's extensive rehabilitation exemplifies a strategy of long-term investment in livability and sustainability, ensuring that existing housing can serve low-income households for years to come while reducing greenhouse gas emissions.

For more information about the California Housing Partnership, please visit our website at www.chpc.net.

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