



HOUSING PRESERVATION NEWS

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The Arbors: Green Preservation Rehab in Richmond, CA



"The Arbors is a success story that shows how an experienced nonprofit housing developer working in partnership with a mission driven local nonprofit lender can overcome huge financing obstacles to transform older HUD-assisted housing into healthier green housing that will remain affordable for future generations of low income Californians." CHPC President Matt Schwartz's statement at the Arbors Grand Opening February 4th, 2010.

Project Background

Like many residents in older HUD-assisted properties throughout California, the families and seniors of The Arbors were once at risk of being displaced due to expiring federal subsidies and the anticipated conversion of their homes to market rate. This all changed in February 2006, when Resources for Community Development (RCD) acquired the 36-unit property to preserve and renew it.

Built in 1966, the Arbors consists of 36 one and two bedroom units that target residents earning 30-60% AMI (between \$26,790 and \$53,580 for a family of four), with 23 units with Project Based Section 8 Subsidies and 4 handicapped accessible units. The Arbors was originally financed with a HUD Section 221(d)(3) Below Market Interest Rate (BMIR) loan pre-payable in twenty years. When the loan became eligible for prepayment, Congress had just passed the Emergency Low-Income Housing Preservation Act of 1987 (ELIHPA), or Title II, to preserve HUD-assisted properties through their original mortgage term, which in this case was 2005.

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While ELIHPA was a ground-breaking advance at a time when tenants and advocates were concerned about a huge loss of affordable housing, it quickly became clear that extending affordability protections for the remaining term of the mortgage was simply buying a temporary reprieve. “Twenty years goes by in the blink of an eye,” said Richard Mandel, CHPC Director of Financial Consulting. “Before you know it, you’re re-preserving a deal that was supposedly preserved twenty years ago.”

Acquisition Financing Challenges: LISC Steps Up

RCD faced a nearly fatal financing challenge when the original lender for the acquisition was unable to perform due to loan-to-value concerns. Although initially acting as a subordinate gap lender, the Local Initiatives Support Corporation (LISC) stepped up to provide RCD with the \$3.3 million in acquisition financing at well over 100% loan to value, a risk that virtually no other lender would have taken even in a pre-2008 environment. Together with an \$800,000 California Housing and Community Development (HCD) Predevelopment Loan, the LISC acquisition loan made the project possible at a time when there were no other options due to the state of the financial markets.

The loan would not have happened without the work done by Bay Area LISC Senior Housing Program Officer Peggy Jen in explaining to her local and national credit committees why making this loan at this time at such a high loan to value ratio was a good investment. LISC’s extraordinary underwriting was motivated both by its mission to preserve the affordability of the property as well as by its interest in assisting a strong nonprofit developer in demonstrating the usefulness of a green physical needs assessment in transforming the property into a modern asset that will be self-sufficient for years to come.

SOURCES	Acquisition/ Predevelopment	Permanent
Citi - Const Loan		-
City of Richmond	423,486	3,208,113
FHLB Affordable Housing Program		175,000
Insurance and Income from Operations		249,085
Union Bank - LP 9% LIHTC Equity		5,836,269
Citi - Perm Mortgage		701,200
Citi - Sect 8 Increment Debt		916,500
LISC	3,260,000	
State - Predevelopment Loan	800,000	
Total Sources	4,483,486	11,086,167
USES		Permanent
Land and Structures	3,850,000	4,225,832
Hard Costs		4,125,752
Architecture	208,347	211,607
Financing Fees & Interest	201,600	444,360
Reserves		266,740
Other Costs	148,539	1,008,507
Developer Fee	75,000	803,369
Total Uses	4,483,486	11,086,167

Permanent Financing Challenges and Heroes

The Importance of Local Government Partnerships: The City of Richmond

Three major investments by the City of Richmond and the Richmond Community Redevelopment Agency totaling \$3.2 million were critical to the success of the Arbors financing plan. As Patrick Lynch, Housing Director for the Redevelopment Agency noted, it takes years for the City to put together the layers of funding to support a project at this level. Staff from the Community Redevelopment Agency as well as the Planning Department worked hard to assemble the funds and then prepare and execute the documents that eventually resulted in the project’s preservation.

Private Partners Come Through: Union Bank and Citi

In order to preserve the property for an additional 55 years and cover the cost of the extensive rehab that it would need, CHPC worked with RCD to obtain an allocation of 9% Low-Income Housing Tax Credits (LIHTC). While securing an investor for the tax-credits was an initial challenge, ultimately Union Bank committed to purchase 5.8 million in tax-credit equity and then stuck to its commitment to invest in a relatively small preservation transaction while other investors walked away from similar transactions.

“We value our relationship with RCD and saw this as a key preservation opportunity. So we stood by our pricing and terms at the height of the financial crisis in the fall of 2008 and did not use the crisis as an opportunity to re-price the transaction or as an excuse to walk away from our commitment,” said Jonathan Klein, Vice President of Community Development Finance at Union Bank.

Citi also demonstrated a deep commitment to RCD and the Arbors community by making two permanent loans in addition to a \$6.2 million construction loan. In particular, at time when other banks were becoming more conservative in their willingness to assume ongoing income from HUD rental assistance programs, Citi underwrote its second permanent loan tranche against the full value of the Section 8 contract rents without requiring additional reserves. “Citi has been a leader in financing and preserving older HUD assisted properties in California since the late 1990s and the Arbors is an example of our commitment to continue supporting strong nonprofit sponsors like RCD in doing this important work,” said Merle Malakoff, Vice President at Citi Community Capital.

The Finished Product: Community Oriented, Green Rehab

RCD’s rehab plan incorporated the latest developments in green building while also including improvements aimed towards strengthening the health and capacity of the residents. The rehabilitation included the new construction of a playground area for toddlers and school-age children and a 1,200 square foot community building, which now houses a computer learning center, an indoor lounge area, a children’s reading area, and an outdoor courtyard for resident use. The community building also provides new office space for on-site property management and services staff, including a Resident Services Coordinator that will bring health, community building and empowerment services to the residents.

RCD also worked with its architect, Gelfland Partners, and Sun, Light and Power and Solar Richmond to incorporate numerous green features into the property’s rehabilitation, including a 7.5 kW PV system to offset common area loads, low or no VOC paint and adhesives, energy-efficient windows, roofing, appliances and lighting fixtures throughout the development, drought tolerant and native landscaping and efficient irrigation, high efficiency water heater replacement, pre-cut lumber, recycled aggregate base rock, over 40% fly-ash in concrete, green maintenance manuals for tenants and maintenance staff, passive solar heating, daylighting and natural ventilation of community building space. The Arbors has been selected to participate in the GreenPoint Rated Existing Home Multifamily Pilot Program.

Conclusion

By preserving the federal subsidies and renewing its affordability for years to come, RCD successfully prevented the displacement of the Arbors residents, while also creating a model for green rehab and preservation in California. But it wouldn’t have achieved these results without the steadfast support of its nonprofit, government and private partners.

**PRESERVATION SERVICES FOR NONPROFIT
AND LOCAL GOVERNMENT STAFF**

CHPC provides financial consulting, 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 Manager, Marilyn Wacks at mwacks@chpc.net or 415-433-6804x13.



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