September 2011

California Housing Partnership Corporation
California's Experts on Affordable Housing Finance, Advocacy & Policy

HOUSING PRESERVATION NEWS

Turk & Eddy: Preserving HUD-Assisted Homes and Creating Jobs with the Help of Federal Stimulus and Redevelopment Funds

Editor's Note: The American Recovery and Reinvestment Act (ARRA) has been a critical resource for preserving and creating homes affordable to lower income families and for creating housing-related jobs in high unemployment areas. So has Redevelopment Tax Increment financing, particularly in cities like San Francisco, where enlightened political leaders have made investing in affordable housing a priority. The following is an example of how one ARRA program, the Low Income Housing Tax Credit Exchange Program, played a critical role in helping a community based nonprofit housing organization save the homes of extremely low income seniors and create a significant number jobs in the process, in partnership with the local redevelopment agency.

A Property At Risk – TNDC and Redevelopment Heed the Call

Built in 1923 and 1925 as the Aspen Tenderloin Apartments, the Turk and Eddy apartment buildings are two separate mid-rise buildings located in San Francisco's Tenderloin neighborhood that provide 82 affordable studio and one-bedroom apartments for extremely low income seniors. In 2006, the owner's threat of converting the aging property to market rate at the peak of the real estate boom, combined with the looming expiration of the Section 8 rental assistance contract, prompted the City of San Francisco Redevelopment Agency (SFRA) to support the Tenderloin Neighborhood Development Corporation's (TNDC) efforts to help preserve it. CHPC Director of Financial Consulting Richard Mandel, notes that over the past 12 years TNDC, the San Francisco HUD Office, and SFRA have shown remarkable commitment in working together to preserve thousands of at risk apartments in San Francisco with CHPC's assistance. "Turk and Eddy is the latest shining example of this commitment," said Mandel.

Financial Challenges:

In early 2007, with substantial help from SFRA and the Region IX HUD office, TNDC acquired the two properties under an accelerated schedule. HUD's agreement to increase the Section 8 rents to their post-rehab value was critical to the project moving forward. The California Housing Finance Agency (CalHFA), which already had a loan on the properties, demonstrated its commitment to preservation by restructuring its financing into a new, more favorable loan. Working with the California Housing Partnership (CHPC), TNDC then secured an allocation of 9% Low Income Housing Tax Credits, which should have been the last step prior to beginning the rehabilitation process.

Housing Market Collapse Threatens to Derail Efforts

Unfortunately, the LIHTC allocation came just as the housing capital markets were beginning to collapse, so interest by syndicators and direct Tax Credit investors who traditionally would have been fighting each other for this Community Reinvestment Act investment opportunity were lukewarm at best. The few offers that were made were at insufficient prices to make the financing feasible and the financing gap could not be closed. To add to the crisis, the state instituted bond sale freeze meant that CalHFA was no longer able to sell any bonds and had to withdraw from the debt financing deal it had previously agreed to with TNDC.

American Recovery and Reinvestment Act to the Rescue

In February of 2009, after relentless advocacy efforts led locally by CHPC and Community Economics, Inc., and supported by a host of local and national partners including the Non-Profit Housing Association of Northern California, Congress agreed to include a new Tax Credit Assistance Program (TCAP) and the Low Income Housing Tax Credit Exchange Program ("TCEP") in the American Recovery and Reinvestment Act (ARRA) of 2009. "These two new federal programs gave a new lease on life to acquisition rehab efforts like Turk and Eddy unable to attract private investment on reasonable terms after the collapse of the financial markets" says CHPC President & CEO Matt Schwartz, who spoke extensively to Congressional staff about the importance of TCAP and the Tax Credit Exchange Program.

At the state level, the California Tax-Credit Allocation Committee (TCAC) determined that properties with allocations from prior years that were "shovel ready" but unable to obtain an investor on reasonable terms would be able to exchange their credit allocations for cash through TCEP. As a result, Turk and Eddy was one of the first properties in California to use TCEP. Former TNDC Project Manager Adhi Nagraj comments "Being part of the first LIHTC transaction in San Francisco to close using stimulus money makes me proud on behalf of TNDC, especially when I realize that in addition to saving the homes of 82 of San Francisco's lowest income households, we created more than 100 local construction-related jobs. We are grateful to Speaker Pelosi and the other members of Congress who had the foresight to support the TCAP and Exchange Programs that made this possible as well as to TCAC staff for figuring out how to make it work."

Citi Steps in with Private Capital

Despite successfully mounting many financial hurdles, the regulatory uncertainty and ongoing negotiations regarding how and when the Exchange funds would be made available caused some additional delays in closing the financing for the property. One of the biggest and most difficult was trying to find a replacement lender for CalHFA with the markets now in full retreat. At the last moment, Citibank stepped in to replace CalHFA as the permanent and construction lender, committing $8.7 million dollars for construction towards the properties at a time when very few lenders would even consider such a loan.

SOURCES	Construction	Permanent
Citibank Loan	8,732,000	3,646,000
SFRA Gap Loan	5,500,827	5,500,827
TCAC Exchange Loan	4,448,326	11,120,814
Federal Home Loan Bank Affordable Housing Program	530,000	530,000
Residual Receipts Account	289,000	289,000
Costs Deferred Until Permanent Loan Closing	1,848,672	--
Income from Operations Pre-Construction	655,777	655,777
TNDC Capital Contribution	--	262,184
TOTAL	**22,004,602**	**22,004,602**

USES	
Land and Building	7,500,000
Hard Costs	9,666,688
Arch, Engineering and Legal Fees	1,288,792
Finance and Syndication Costs	567,860
Construction Interest	189,624
Relocation Funds	615,405
Reserves	480,130
Other	371,733
Developer Fees	1,324,370
TOTAL	**22,004,602**

A Resident Gives Thanks for His "New" Home

As Turk and Eddy celebrates its Grand Re-Opening, it is clear that the immense effort of the organizations and individuals involved have produced visible results as evidenced by the joy of long time Turk & Eddy residents like 81-year-old Arthur Halcomb. Arthur recently moved back into his newly refurbished apartment after a year-long wait. Speaking about the rehabilitation, Arthur mentions how thoroughly impressed he has been by the work done by TNDC and the care it has shown for seniors and residents with disabilities like himself, accommodating their needs through what was obviously a difficult and complex project. "Before renovation the building was in a very poor condition. The heat wasn't working well, the electricity would shut down, the elevator was in bad shape and the light-colored carpet was always dirty. Now that I'm back in, I'm very impressed by what I see. The new laundry facilities, lobby and safety features are just what we needed. I love the multi-colored carpets and the light fixtures. To me this feels like a real home now. I think they've done an excellent job."

PRESERVATION SERVICES FOR NONPROFIT AND LOCAL GOVERNMENT STAFF

CALIFORNIA COMMUNITY FOUNDATION
usbancorp
UnionBank
citi Citi never sleeps
Bank of America
THE SAN FRANCISCO FOUNDATION
The Community Foundation of the Bay Area

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 Preservation Specialist, Nadia Shihab at nshihab@chpc.net or 415-433-6804 x 316, or our Housing Policy Manager, Marilyn Wacks at mwacks@chpc.net or 415-433-6804 x 313.