



HOUSING PRESERVATION NEWS

Poway Villas: A Winning Formula for Preservation



Overview

This week marks the renovation celebration for Poway Villas, a 60-apartment 100% Section 8 community in the City of Poway, California. The 40 year-old property was preserved by San Diego-based Community Housing Works (CHW), using the same successful financing template it previously used to preserve the award-winning Turnagain Apartments development. Poway Villas is an example of how to successfully layer Low Income Housing Tax Credits (LIHTC's) with Department of Housing and Urban Development (HUD) rent subsidies to preserve and renovate aging housing assets in the absence of city, county and state funding. This issue of Preservation News takes a closer look at this innovative model.

[NOTE: Poway Villas was purchased from the original owner using a HUD Low Income Housing Preservation and Resident Homeownership Act (LIHPRHA) grant. HUD has just released Notice H 2012-25, which permits limited amendments to LIHPRHA use agreements. This new policy will smooth the path for future recapitalizations of properties preserved under LIHPRHA.]

Project Background: Section 236 and LIHPRHA

Poway Villas was developed in 1974 using a HUD Section 236 subsidized mortgage and the Section 8 Loan Management Set Aside (LMSA) program, which was established to provide rent subsidies to prevent defaults on subsidized mortgages. By the mid 1990's, Poway Villas was at risk of converting to market rate as the Section 8 LMSA contract was nearing the end of its initial term, the Section 236 rents had dropped far below market, and the owner was eyeing the prospect of obtaining market rents.

In 1996, nonprofit Poway Villas Community Housing Association (PVCHA), with technical assistance from CHW, purchased the development from the original owner using a HUD Low-Income Housing Preservation and Resident Homeownership Act (LIHPRHA) grant. Over time, PVCHA found that Poway Villas’ budget-based rent structure did not provide enough funding for it to adequately maintain the building. By 2011, the reserves for repairs had dwindled to just \$300,000 against an estimated \$4.5 million in needed renovation costs. In November 2011, facing a looming mortgage maturity and impending physical deterioration, PVCHA sold the property to CHW, who would employ LIHTC’s and tax-exempt bonds to comprehensively renovate the property and preserve it for the long term.

A Winning Financing Formula: Budget-based Rents Increase, Subordinate Financing & LIHTCs

Predevelopment funds from the Local Initiatives Support Corporation (LISC) provided an integral part of the overall financing plan early on. With significant help from CHPC Southern California Program Director Paul Beesemyer and attorney Larry Levy and CHW’s legal team, CHW obtained HUD’s approval to mark up the Section 8 rents to comparable market using a budget-based methodology under Chapter 15 of HUD’s Section 8 Renewal Policy (“Nonprofit Section 8 Preservation Effort”). In addition, HUD provided a 20-year, contract renewal. The Section 8 rent increase was the key to structuring a financial feasible LIHTC transaction.

But to realize the anticipated \$6 million equity benefit of 4% LIHTCs, CHW had to find a bond purchaser willing to live with HUD’s LIHPRHA use agreement – which runs for the greater of 50 years or remaining useful life – in a senior lien position. With Beesemyer’s help, CHW was able to persuade Union Bank not only to take this unusual risk but also to make an attractively priced equity investment that made the transaction work.

Ultimately, CHW’s success in securing the budget-based Section 8 rent increase, LIHTC’s, and a seller carryback loan acceptable to all parties – as well as other financing elements – resulted in the preservation and rehabilitation of a valuable but aging community asset.

“Between the mortgage, the tax credit equity, and seller note, we were able to achieve the kind of comprehensive renovations that will preserve Poway Villas as a home for current and future low income residents for many years into the future,” said Mary Jane Jagodzinski, CHW Senior Project Manager.

POWAY VILLAS

SOURCES	Construction	Permanent
Union Bank - construction loan	\$ 10,000,000	\$ -
Union Bank - Perm Loan Tranche A	\$ -	\$ 4,287,000
Union Bank - Perm Loan Tranche B (Sec 8)	\$ -	\$ 2,538,100
Seller Note	\$ 5,206,278	\$ 5,206,278
Income from Operations (during rehab)	\$ -	\$ 350,000
Union Bank Limited Partner LIHTC Payments	\$ 1,270,688	\$ 5,964,701
Costs Deferred Until Completion	\$ 1,869,113	\$ -
TOTAL	\$ 18,346,079	\$ 18,346,079

USES	Construction	Permanent
Land/Acquisition		\$ 8,127,953
Rehabilitation		\$ 5,098,606
Relocation		\$ 714,522
Reserves & Financing Costs		\$ 1,602,868
Design & Engineering, Local Permits & Fees		\$ 468,955
Legal, Consulting, Dev. Fee, Other Soft Costs		\$ 2,333,175
TOTAL		\$ 18,346,079

Sustainability by Design: Energy-Efficient Renovations and Community-Building Amenities

By leveraging LIHTC's, increasing the Section 8 rents, and negotiating a way to subordinate the financing to HUD's restrictions, CHW was able to perform \$4.5 million in highly energy-efficient renovations that will reduce the energy usage by 40% over pre-retrofit levels. Major renovations of the residential buildings include new roofs and additional insulation, new high efficiency air conditioners, rerouted plumbing, the addition of solar hot water to reduce energy costs, new site lighting, and the renovation of every apartment, including flooring, all new bathrooms and kitchens including new Energy Star appliances, no-VOC paint, and fixtures.



When CHW began planning the major renovation of Poway Villas, they chose a quilt as a design theme to reinforce symbolic values of home, comfort, community and cooperation. Throughout Poway Villas, there are representations of quilt patterns in the patio surfaces, the Community Building patio screen, and the community gardens. CHW also built a new 2,100 square foot Community Building incorporating the quilt design that includes a leasing office, a community/kitchen space, a 8-computer Learning Center, a laundry room, a maintenance room, and a patio. Additional amenities include a new resident organic garden with 9 large raised planting beds and surface beds, potting tables and sheds, a walking/running path along perimeter, with 4 par course stations, a new large Tot Lot, the addition of new patios for each residential building with barbeque and tables, a central formal garden (Quilt Garden) with two pergolas, tables, rose garden, edible landscape including citrus, herbs, shrubs, and the replacement of all turf with native California or naturalized plants for sustainability. Poway Villas is also participating in the Energy Upgrade California certification program.

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 Preservation Manager, 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.

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