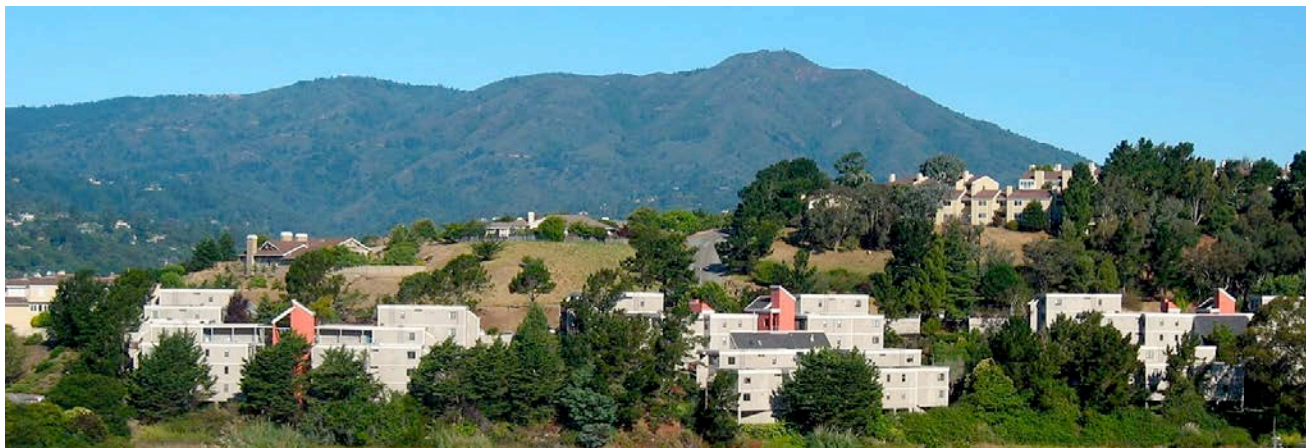




# HOUSING PRESERVATION NEWS

## Preservation through Stewardship: The Story of EAH and Shelter Hill in Mill Valley, CA



### **Editor's Note:**

*While CHPC's preservation case studies typically highlight the challenges of complex financial transactions, the importance of the owner-developer relationship in affordable rental housing preservation should not be overlooked. Small and single-asset owners, many of whom own and operate properties of tremendous importance to their communities, are critical partners in this effort. And while these small organizations may have at one time been committed to long-term ownership, the burdens of long-term property and asset management can be overwhelming. This case study highlighting the critical stewardship role that one large nonprofit housing organization took on to help a smaller one at Shelter Hill in Mill Valley is just one example of how mission-driven partnerships can lead to long-term preservation. To read the full story, [click here](#).*

### **Project Background**

In 1975, [EAH Housing](#) and Interfaith Housing Foundation (IHF) joined forces to build Shelter Hill, a 75-unit family development made possible by the city of Mill Valley's new inclusionary zoning ordinance. IHF, a local nonprofit, assumed long-term property management responsibilities for the development after its completion, while EAH, a large regional developer, went on to build and preserve thousands more affordable apartments throughout California and Hawaii. Since 1975, Marin County has emerged as one of the most expensive housing markets in the country, making Shelter Hill an incredibly valuable resource.

### **The Path to Preservation: EAH Takes on Stewardship**

IHF was always committed to maintaining Shelter Hill as long-term, quality, affordable housing, but its small size and limited resources raised significant capacity concerns. EAH's lengthy experience partnering with smaller nonprofits such as IHF led to its development in 1986 of a comprehensive program of stewardship services designed to help small owners achieve their housing and affordability goals. EAH implements its stewardship program through acquisition as well as various types of corporate associations.

Following several years of discussions, EAH established a majority presence on the board of IHF in 2009 and assumed management of the Shelter Hill property in 2010, though final HUD approval of changes in IHF's bylaws

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took another year. By assuming control of IHF’s board, EAH was able to lend its considerable organizational strength to achieve the goal of long-term preservation for Shelter Hill. “Now more than ever, the affordability of housing communities from the 60’s and 70’s stands on the precipice of an uncertain future. For smaller organizations, maintaining long-term viability has become increasingly challenging. At EAH Housing, we form effective partnerships to preserve affordable housing like Shelter Hill that benefits the working families and older adults of our communities, as well as the local economy,” says EAH Housing Senior Vice President of Real Estate Development Al Bonnett.



### Financing Challenges

After assuming managerial control, EAH began evaluating the property’s physical needs and estimating the investment level required to meet them. David Egan, project manager for the site, worked with architects and engineers for over a year to determine the full rehabilitation scope. Structuring a feasible financing plan came next. Predevelopment funds from the Marin Workforce Housing Trust provided an integral part of the overall financing plan. “Rehabilitating and preserving the affordability of Shelter Hill, and projects like it, is central to helping Marin be a more economically vibrant, environmentally sustainable and socially balanced community”, said Linda Wagner, Executive Director of the Trust.

The HUD 236 loan that had financed Shelter Hill’s original construction was set to expire in 2017. A 1995 renovation made possible with a HUD Flexible Subsidy loan further complicated the financing. Fortunately for Shelter Hill, project-based Section 8 vouchers subsidized rents for two-thirds of the units. EAH, with the help of CHPC, determined that it could successfully apply for low-income housing tax credits, leverage new debt, apply seller carryback financing, and either keep the Flexible Subsidy loan in place or pay off the additional HUD debt.

In 2011, EAH and CHPC began to piece these funding sources together. HUD restrictions proved a challenge, but CHPC was able to help EAH maximize the property’s value while maintaining affordability. Laura Kobler, CHPC Director of Training and Senior Program Manager, structured Shelter Hill’s financing, noting that “it was extremely important to all of us that the property be recapitalized to last well into the future, while still maintaining affordability for the current and future generations of residents.”

SOURCES	Construction	Permanent
Citibank Tax Exempt Construction Loan	18,280,000	-
Citibank Tax Exempt Perm Loan - Tranche A	-	5,478,000
Citibank Tax Exempt Perm Loan - Tranche B	-	5,591,000
Seller Loan	10,511,127	10,511,127
Marin County CDBG	51,000	51,000
Assumed Reserves	-	231,492
Income From Operations	-	869,193
Tax Credit Equity - Union Bank	1,006,741	10,099,210
<b>TOTAL</b>	<b>29,848,868</b>	<b>32,831,022</b>

USES	
Acquisition	17,550,776
Rehabilitation	7,150,352
Relocation	626,187
Architect/Engineer	437,000
Financing Fees/Legal	2,290,551
Capitalized Reserves	1,511,893
Other Development Costs	1,147,864
Developer Fee	2,116,398
<b>TOTAL</b>	<b>32,831,022</b>

### HUD Flexibility Creates New Financing Options

In the final financing plan, EAH fully paid off both the Section 236 and the Flexible Subsidy loans. HUD negotiations were extensive and multi-faceted, involving questions of ongoing, long-term use restrictions, property value, seller carryback financing and proceeds, and tenant rent levels. Together, EAH, CHPC, and HUD worked to develop a new rent structure that allowed for the rehabilitation the building needed to extend its useful life while also protecting existing residents.

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## Critical Private Partners: Citi and Union Bank

Citi Community Capital was a key partner in the transaction, providing a new 15-year loan with a 35-year amortization period. The extended amortization term enabled additional debt servicing capacity and the incremental loan value necessary for a full rehab scope. Citi also made a second loan to the project underwritten with Section 8 increment. Together, these loans brought nearly \$12 million in permanent financing to the development. “Citi has seen a marked increase in recapitalizations of older, HUD-assisted properties such as the Shelter Hill project. We were pleased to be selected by EAH to lend our expertise to underwriting and closing this transaction,” said Merle Malakoff, Citi Community Capital Director. “The \$95k/unit renovation invested in this property, which includes significant structural work to improve seismic performance of the hillside property, will help ensure that Shelter Hill Apartments will continue to serve as an important affordable housing resource in southern Marin County.”

Securing 4% tax credit equity was the final piece in Shelter Hill’s financing plan. This element of the transaction came together remarkably quickly as EAH and CHPC rushed – post HUD negotiations – to complete the equity and debt due diligence. Less than 8 weeks after commencing negotiations, Union Bank was able to attend the bond closing as Shelter Hill’s new tax credit investor.

## Reinvested Equity Enables Property Preservation and Organizational Sustainability

Shelter Hill’s appraisal set the property’s value at \$17 million. Existing liabilities totaled \$10 million. The sale of the property to the newly formed tax credit limited partnership thus created a “seller carry back loan” through which IHF, as the seller, will receive regular annual payments from the project’s cash flow. IHF and EAH intend to apply these funds, in turn, to other affordable housing needs.

## Renovation and Investment Underway

Construction is now underway at Shelter Hill. Improvements include exterior re-siding and repainting, resurfacing of driveways and parking lot areas, new roofs, interior painting of all units, new counters, cabinets and kitchen appliances, bathroom repairs, enhanced internet and cable, and seismic upgrades for all buildings. The renovation will also reduce energy costs through new, efficient windows in all units and solar photovoltaic panels that will supply a portion of the development’s power needs. The building’s revitalization also brings with it expanded resident services, including a new computer lab.

In Marin County’s high-priced market, a comprehensive renovation and re-investment in a development such as Shelter Hill has never been more important. More than 35 years after joining forces, the reunion of EAH and IHF is providing existing tenants with better housing and an increased level of services while guaranteeing that future generations of residents will also enjoy Shelter Hill’s many benefits.

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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 Preservation Manager, Nadia Shihab at [nshihab@chpc.net](mailto:nshihab@chpc.net) or 415-433-6804 x 316, or our Housing Policy Manager, Marilyn Wacks at [mwacks@chpc.net](mailto:mwacks@chpc.net) or 415-433-6804 x 313.

