Rental Housing: Preservation and Rehabilitation
"You Have to Think Big to be Big" – Rhode Island Homes Preservation Effort

Forty years used to seem like a long time. In July of 1971 when an affordable housing development was produced – the 40 year mortgage term may have seemed like forever. Forever is here. The challenge of expiring use housing is enormous – and housing finance agencies must find new and creative ways to address the question – "What now?"

All over the country there is a generational shift in affordable housing. The debate has been settled on whether it is more expensive to produce or preserve a unit of affordable housing – and preservation wins every time. The question then is how to put forth a broad strategy efficiently and effectively that identifies those units that are at risk – and preserves them going forward.

At MassHousing – the Agency is seeing a new breed of owner. In some cases – instead of just looking at one building – the Agency now has the chance to refinance entire portfolios. In doing this, the Agency is able to achieve efficiencies of scale – and to preserve large numbers of units at the same time. With a rising value of big non-profit buyers – there is new opportunity. But a housing finance agency must be ready to capitalize on this new opportunity – and in the case of Rhode Island Homes, MassHousing has done just that.

Rhode Island Homes LLC, a subsidiary of Providence Realty Investment and a new client to MassHousing, approached the Agency to finance the acquisition and preservation of ten, Section 8 housing developments in a portfolio owned by Equity Residential. All of the properties were originally financed by MassHousing between 1979 and 1984 and subsidized by Section 8 HAP Contracts. The purchase of all these properties was to occur in tandem as a condition of the sale. This allowed the more financially viable properties to cross subsidize other properties to achieve overall feasibility of the transaction.

The portfolio contains 931 units of low income family and elderly residents, with many of the properties located in communities with an acute shortage of affordable housing and in markets with some of the highest rents in the Commonwealth.

Project Name	Location	Total Units	Units At Risk	% of Town Affordable Inventory	Housing Type	At Risk or Waiver **
Cedar Glen	Reading	114	0	16.7%	Elderly	Waiver req'd
Glen Grove	Wellesley	125	0	26.0%	Elderly	Waiver req'd
Gosnold Grove	Falmouth	33	33*	4.2%	Family	Waiver req'd
Nehoiden Glen	Needham	61	0	12.2%	Elderly/Family	Waiver req'd
Chestnut Glen	Abington	130	97	28.4%	Elderly	At risk < 2 yrs
Heritage Green	Sturbridge	130	97	62.8%	Elderly/Family	At risk < 2 yrs
Noonan Glen	Winchester	18	18	12.2%	Elderly	At risk < 2 yrs
Norton Glen	Norton	150	150	25.4%	Family	At risk < 2 yrs
Longfellow Glen	Sudbury	120	22	44.8%	Elderly/Family	At risk < 5 yrs
Old Mill Glen	Maynard	50	9	14.1%	Family	At risk < 5 yrs

* No affordability restriction after 2018
** Indicates a waiver from existing state preservation policy (see description below).

In total MassHousing provided $125 million in financing, including a tax-exempt permanent loan in the amount of $111 million, a $14 million tax credit equity bridge loan along with $27.3 million of equity from the sale of 4% tax credits for the acquisition and rehabilitation of the properties.

This transaction required a waiver of the Massachusetts Department of Housing and Community Development's tax credit allocation criteria for four of the developments in order to generate sufficient resources to preserve the at-risk units contained in the other six properties. The waiver was required for the four developments as three were subject to underlying extended use restrictions pursuant to the state's Chapter 40B law for 100% of the units, and thus were not at risk of loss from the affordable housing inventory. One property in particular had a remaining use restriction of duration greater than seven years. Absent this waiver, it is estimated that as many as 362 units would have been at risk of expiring use within the next two years, and another 31 units within five years.

Responsive Program Development

At the same time, many of the developments were also precluded from refinancing due to MassHousing's prepayment restriction. However, viewing the portfolio opportunity as a whole, MassHousing was convinced that easing the restrictions on some properties was the best, if not the only, way to preserve the at-risk properties that were for sale. Flexibility was the key on this issue – as the Agency had to view everything in total – and not as individual concessions for individual properties. Allowing changes for some resulted in huge benefits for many. This was an easy cost/benefit consideration in the long run – and the Agency's agility in making these exceptions kept this deal alive.

As the deal came together, there were certain agreements from the developer that were critical to the transaction. In particular, in exchange for approving the use of volume cap and credits for this portfolio transaction, the Developer agreed to:

- extend existing use restrictions for 60 years, with rents restricted to tax credit rents for 30 years, and to 80% AMI for an additional 30 years;
- undertake rehabilitation of approximately $19,400/unit (including significant accessibility improvements), and participate in the EnergyStar Program and MassHousing's Tenant Assistance Program, providing quality of life benefits to tenants;
- continue to request Section 8 subsidy for so long as subsidy is available, with MassHousing serving as subsidy administrator.

MassHousing saw great value in the fact that all of the projects were ultimately transferred from a market-rate housing owner to an owner focused primarily on affordable housing. Additionally, the transaction did not result in material escalation of rents – which was very important for all of the existing tenants. Lastly, pursuant to the borrower's contractual commitment to extend affordability on all units, the transaction removed any uncertainty regarding underlying zoning restrictions with respect to those developments that were not deemed to be at-risk. Of equal importance, is the fact that the requested allocation of volume cap was managed without displacement of other new production or qualifying preservation projects and that a waiver allowing tax credits for the four non-qualifying developments generated the equity necessary to augment purchase prices which in turn enabled the preservation of the qualifying at-risk properties.

Success Breeds Success

MassHousing has on two other occasions engaged in this type of portfolio preservation approach. In each instance, at-risk units successfully preserved totaled somewhat in excess of half of the total number of units for which tax credits and volume cap were requested.

In the case of the Rhode Island Homes Portfolio request, the proportion of at-risk units to total units for which tax credits and volume cap were requested is somewhat lower, at 42%. However, in this case the percentage of total at-risk preserved units to units in properties requiring waivers is favorable (see table below).

Relative efficiency of the preservation of waived units portfolio-by-portfolio:

	Ratio*	**Units Waived**	**Units Preserved**
Road Island Homes	**118%**	333	393
Retirement Housing Foundation	**72%**	1,279	919
Preservation of Affordable Housing	**128%**	302	387

*Ratio of total units preserved to total existing unit requesting tax credit waivers.

Result

The closing of all ten transactions occurred on December 17, 2010 and the rehabilitation is currently over 50% complete. Often, closing one affordable housing transaction can seem like a great accomplishment. But closing ten in tandem is truly monumental in terms of the financial and personnel resources required. For the better part of a year and a half, MassHousing staff has been working with the developer and its partners to structure the deal and facilitate the closing. In addition to gaining a new client for MassHousing, the Agency also helped introduce and educate a new investor to its first tax credit projects. Further, these transactions were among the first to be funded under the New Issue Bond Program and the first for MassHousing.

It is unusual to have the opportunity to preserve a whole portfolio of affordable housing in one transaction. As demonstrated as these opportunities arise MassHousing is prepared to act with the resources and the technical expertise needed to get transactions done.

This is great news for hundreds of families and senior citizens and exactly the kind of affordable housing that is needed in the market right now. Without the financing to keep them affordable, many of these apartments may well have gone to market rents and become unattainable to working families and seniors living on fixed incomes. Thinking big yielded big results.