Entry Form
2017 Annual Awards for Program Excellence
Entry Deadline: Thursday, June 15, 2017, Midnight ET

Each entry must include a completed entry form. Please complete a form for each entry your HFA is submitting. The completed entry form will become the first page of your entry.

This form is a fillable PDF. Type your information into the entry form and save it as a PDF. Please do not write on or scan the entry form. **Questions: Call 202-624-7710 or email awards@ncsha.org.**

Entry Title: Enter your entry's title exactly as you wish it to be published on the NCSHA website and in the awards program.

Year 15 Resyndication Strategies for Scattered Site Portfolios

Category: Rental Housing

Subcategory: Preservation & Rehabilitation

Entry Summary: A 15-word (max) summary of the program, project, or practice you are entering.

Assistance for older affordable developments that require further evaluation and capital infusion of resources.

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Visual Aids:
Are you mailing to NCSHA 10 copies of any visual aids that cannot be included in your entry PDF? ☐ Yes ☑ No

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Maintaining the quality and availability of housing that is currently affordable to low- and moderate-income New Yorkers is critical to meeting New York City's long-term housing needs. Mayor Bill de Blasio's *Housing New York* plan calls for the preservation of 120,000 units over 10 years. HDC's Year 15 Resyndication Program is an effective tool that we use to preserve and rehabilitate existing affordable housing developments to keep them affordable and viable for many more years. We have recently and effectively prioritized efforts that include the stabilization of multiple buildings and scattered site portfolios that have been reorganized into one syndicated project entity.

Background

As affordable housing projects get closer to Year 15 (the end of the 15 year tax credit period) or beyond such term, the developments often face many challenges. Some are distressed portfolios that have significant capital needs and deferred maintenance, operating deficits, interest arrears, municipal tax arrears, and inability to pay mortgage balloons and other project obligations when due. These developments need more assistance and a greater capital infusion of resources. Portfolios may also require changes in ownership and property management. Tenants may suffer when buildings are no longer maintained properly.

HDC works with New York City to develop a pipeline of previous projects that would be eligible for refinancing and potential resyndication. New capital is needed to modernize such projects to fund upgrades and repairs and provide needed services to tenants. Pooling multiple buildings into one portfolio also allows construction and management to utilize economies of scale during the renovation and funding of ongoing operating expenses. While each building may stand on its own, combining them allows cross subsidization on operations and greater buying power for contracts.

Primary preservation strategies used by New York City have included the leveraging of tools for financing new construction of affordable housing but with a particular focus on the needs of preservation. This is meant to be a simpler program with easier tools than what might be used in typical resyndication efforts.

The capital program relies on the following tools – residential tax exemptions, mortgage extensions and workouts, additional subsidy as needed (up to $15K per unit) for capital work and project reserves, restructuring rents, and improving or changing project management.

The program can also be a helpful tool to extend the affordability even for developments that are not distressed. Healthier portfolios leverage strong market opportunities – and so the programs can be appealing to developers with portfolios after prior Tax Credit compliance periods expire. The owners of these developments may want the enhanced returns that can come from a resyndication and as such commit to the accompanying extended affordability.

Program and Financing Structure

HDC utilizes Tax Exempt Bonds/4 percent credits (as of right) as a method of financing the preservation and rehabilitation for some portfolios. Eligible projects must have a minimum of 50 units, and incur rehabilitation costs no less than the greater of $6,000/unit or 20% of eligible basis (IRC Section 42e3). General tax exempt bond rules apply – 20% of the units must be rented at or below 50% of Area Median Income or 25% (in NYC) at or below 60%. An allocation of private activity volume cap covering 50% or more of the aggregate basis of each building is required.

For a Year 15 re-syndication with tax exempt bonds to be feasible, two issues relating to the existing New York City debt must be addressed:

1. Existing debt must be extended and subordinated to run concurrently with the new financing term and LIHTC affordability restriction period. Existing mortgages may be extended to run concurrent with the term of new debt, to the extent that the City has the loan authority to do so. Where the City does not have the authority to extend the existing debt, HDC may purchase the debt to restate and extend term so that maturity dates are coterminous. This is an advantage of having a public entity that is separate from the original lender with broader authority.
2. Tax exempt bonds must fund more than 50% of the total development cost at construction. HDC may issue bonds to pay down subordinate debt and fund construction, so that the project meets the 50% test. In some cases, HDC may then reissue the subordinate debt to pay down bonds to supportable levels and to count the new debt toward such acquisition in basis for the overall project. Generally HDC has used its mortgage insurance fund REMIC to insure the mortgage on these portfolios and issued bonds under its parity resolution to offer low cost financing to these projects.

In New York, the demand for an allocation of volume cap is very high and HDC constantly aims to preserve volume cap whenever possible. HDC has other funding options in its toolbox that it may use to finance these deals if Tax Exempt Bonds/4 percent credits are not available or if it is determined that the allocation of volume cap would be better served elsewhere.

One additional preservation financing tool is the FHA/HUD's Federal Financing Bank (FFB) Risk-Sharing Program. The FFB program provides low-interest financing to projects that are being funded by state and local agencies through a risk-sharing structure with HUD. By participating in this program, HDC is able to reduce its borrowing costs and thus finance more affordable housing.

Benefits
There are many benefits associated with Year 15 Preservation and Resyndication transactions. Preservation is often a more cost-effective way of securing affordability and protecting tenants from the risks associated with poor maintenance and disinvestment. The transactions ensure long term affordability with federal compliance monitoring during the initial affordability period and preserve affordable housing resources under responsible ownership and management. It provides more flexible funding sources for capital and non-capital needs including maintenance work and project reserves. The affordable housing resource and value of asset (including debt) can be enhanced and it requires little new government direct subsidies other than extension of prior debt and real property tax abatements or exemptions. The preservation of this existing affordable housing is important because there is less vacant land available for new construction.

The preservation of the existing stock of affordable housing is a necessary action that each housing finance agency must undertake. As projects age, government lenders cannot let them fall into a state of debt and disrepair. This will negatively impact the tenants and their living conditions. By engaging in preservation efforts, HDC makes every effort to stop the decline of these properties by reinvesting, rehabilitating, and restoring their quality of life. The projects will remain affordable to the existing residents, many of whom have been part of the neighborhood for years. These efforts are replicable by other HFAs working in tandem with other available sources of financing.

Project Examples

MBD Year 15 Resyndication Portfolio (closed in June 2016)

The MBD Year 15 Resyndication Portfolio consists of the rehabilitation of 11 buildings containing a total of 270 units in the Crotona Park East neighborhood of the Bronx. As a part of HDC's refinancing, three building clusters have been combined into one new portfolio. All residential units will be affordable to households at or below 60% of Area Median Income. 41 units will be reserved for formerly homeless tenants.

The buildings were originally constructed between 1910 and 1940. They were renovated between 1994 and 2000. The current rehabilitation scope includes roof replacement, window and door replacement, facade repair, common area flooring and wall upgrades, light fixture replacement, kitchen and bathroom upgrades with energy efficient appliances, and accessibility upgrades. As needed, the scope will also include boiler replacement and mechanical and plumbing upgrades.

The MBD Year 15 Resyndication Portfolio was an existing project with existing debt. As part of the refinancing, the existing debts were either assumed by HDC or extended to be coterminous with the new HDC loan and its accompanying affordability requirements. The new mortgage has been structured so that it will stabilize the portfolio's financial position. The project is utilizing a $9.9 million City investment, along with low-income housing tax credits (over $16 million) and tax-exempt bonds (over $27 million).

Hope East of Fifth – Year 15 Resyndication (closed in December 2016)

The Hope East of Fifth Year 15 Resyndication project consists of the rehabilitation of 39 buildings containing a total of 506 residential units scattered throughout the East Harlem neighborhood of Manhattan. As a part of HDC's refinancing, eight building clusters have been combined into one new portfolio. All residential units will be affordable to households at or below 60% of Area Median Income. Upon re-rental, 20% of the units (102) will be reserved for formerly homeless tenants.

The buildings were originally constructed between 1890 and 1925. The majority of the buildings were last renovated in the 1990s. The rehabilitation scope of work will meet Enterprise Green Communities standards. The scope includes kitchen and bathroom upgrades with energy efficient appliances, roof replacement and/or repair, facade repair, waterproofing, hot water heater and boiler replacement, common area flooring, plumbing upgrades, electrical upgrades, elevator modernization, and accessibility upgrades.

HDC is providing $63 million in tax-exempt bond financing. At project completion, permanent financing will consist of a $20.7 million loan from HDC, a $4.46 million in new City Capital (HPD Year 15) subsidy, $43.1 million in low-income housing tax credit equity, as well as $27.75 million in re-cast and extended existing HPD subsidy or low-interest debt.