

Partnering for Preservation Rental Housing: Preservation and Rehabilitation

‘Opting Out’ is Not an Option

The preservation of our scarce inventory of affordable apartments has always been a priority for Rhode Island Housing. Faced with record-high foreclosures, particularly of multi-family properties, Rhode Island has seen its supply of affordable apartments diminished to such an extent that our shelters are bursting at the seams. Not only has the housing crisis wreaked havoc on our state, but it arrived at a time when contracts for many of our existing Section 8 developments were set to expire, exacerbating an already difficult housing situation for families throughout Rhode Island.

As contracts for Section 8 apartments begin to mature, the opportunities for owners of existing affordable housing to opt out of subsidy programs and “go market” has increased. Faced with continuing pressures from property owners to ‘opt out’ of subsidy programs, this HFA needed to continue refinancing existing Section 8 developments in order to extend the affordability restrictions and prevent their conversion to market-rate developments. Allowing these developments to ‘opt out’ is not an option when affordable rental homes are so critically needed in our state.

Partnering for Preservation

Rhode Island Housing has always valued its partners and seeks to establish strong partnerships in order to protect and preserve critical affordable housing for hundreds of families. Through creative financing, a solid partnership with the U.S. Department of Housing and Urban Development, a continuing resolve to be proactive, and a national non-profit organization that purchases housing to preserve its long-term affordability (and others), we have preserved over 400 rental homes in the past year alone. If subsidized developments convert to market, many individuals and families would be displaced from their homes and communities. This HFA’s creative approach to working with owners and buyers creates a unique public/private partnership that produces tangible results. We are saving “at-risk” affordable housing and stabilizing vulnerable individuals and families across the state.

At Risk – Two Case Studies

Heritage Village

The Heritage Village complex has provided affordable housing to low-income families and seniors since it was built in 1980. Comprised of two adjacent developments – Heritage I and Heritage II – both were constructed and financed with Section 8 rental assistance provided through a Housing Assistance Payment (HAP) contract. The current HAP contract for Heritage Village I was set to expire in August 2010 and Heritage II in May 2011.

Located in a desirable Rhode Island community, with a very limited supply of affordable rental homes, there was significant concern about the possible loss of the 204 homes as the development’s mortgage reached maturity. Heritage Village includes three buildings for seniors and six others for families; all of the apartments have Section 8 rental assistance which allows each household to predictably pay 30% of its income for rent; because the rental subsidies are ‘project-based’, meaning they reside with the property rather than the current residents, the subsidy’s availability for future households in need is also assured.

However, these assurances were at risk as the development's mortgage reached maturity. As the compliance period drew to a close, re-financing would have to address the reality that few permanent housing opportunities existed for this population. However, the property is well located with access to public transportation, employment centers, shopping/services and schools all within walking distance. With land values in this community increasing rapidly, high marketability, and extensive rehabilitation of the building needed, the costs were continually rising. Add to these forces, a scarcity of resources with which to preserve such a property, the complications climbed.

The primary source of financing for the transaction was a 40-year tax-exempt first mortgage from Rhode Island Housing supported by the lower of market or HAP rents. Other sources include: equity from the sale of 4% LIHTC, existing project reserves, deferred developer fee, and a general partner loan that will be subordinate to Rhode Island Housing's mortgage.

The purchase of the property occurred through three transactions:

1. An entity controlled by the non-profit purchased Heritage Village I from its owner at a price based on projected rents;
2. The non-profit purchased Heritage Village II directly from its owner at a price also based on projected rents.
3. However, because Heritage Village II has paid off its mortgage and has no affordability restriction, its value based on projected rents is less than its value from a conversion to condominiums. In order to properly account for the value of the development and maximize tax credit equity to the transaction, Heritage Village II was appraised under a condominium conversion scenario, and sold at this appraised price to the same nonprofit-controlled entity as Heritage Village

This multi-step process generated additional tax credit equity for the development. The non-profit provided seller financing equal to the difference between the appraised value based on projected rents and the value based on a condominium conversion a subordinate loan.

Rhode Island Housing provided \$15.1 million in tax-exempt financing, which combined with another \$8 million in syndication proceeds from the sale of Low Income Housing Tax Credits, allowed for the new owner to acquire the development and undertake a variety of upgrades and repairs, including fire and life safety system upgrades, new roofs, siding, windows, site drainage, and unit upgrades.. Each of the complex's apartments will receive about \$20,000 worth of renovations, including high-speed Internet access. Now under new ownership, Heritage Village's 204 units will remain affordable until at least 2048.

Pocasset Manor

The elderly and disabled residents of Pocasset Manor were facing nearly immediate displacement when the property owner prepared written notice of his intent to 'opt out' of the Section 8 program and convert the building to market-rate rents. Pocasset Manor, an 82-unit complex that includes 71 one-bedroom and 11 two-bedroom units, was built in 1982 using HUD Section 8 rental assistance. Located less than two miles from our capital city's downtown, Pocasset Manor has always been a highly rentable property. Rhode Island is one of the top 10 most expensive rental markets in the country, and the potential sale left residents in the building's 82 apartments with an uncertain future.

Its owner was threatening almost immediate displacement of 82 senior and disabled households in one of the country's hottest rental markets.

The non-profit proactively approached the seller about buying the property and preserving its affordability. At the time, Providence was described in the local press as 'one of the least affordable cities in the nation.' The non-profit had worked with Rhode Island Housing on several previous purchases in other parts of the state, but was new to the state's capital city. The development was originally constructed in 1982 and was financed with Section 8 rental assistance through a Housing Assistance Payment (HAP) contract. The current contract expired at the end of November 2007.

Working in partnership with us and using HUD's non-profit Mark up to Market Program, the non-profit developed a plan to purchase Pocasset Manor and two other HFA financed sites located nearby, one with the same seller and one with another seller,. The deal preserves Pocasset Manor's affordability for 40 years, and provided funding for significant repairs to the site, including a new exterior 'skin,' to remediate the water penetration problem which had plagued the building for decades. The non-profit again used a two-stage acquisition to increase tax credit equity. The primary source of financing for the transaction was a 40-year tax-exempt first mortgage from Rhode Island Housing supported by the lower of market or HAP rents. Other sources include: 4% LIHTC proceeds, existing project reserves, and loans from the non-profit that will be subordinate to Rhode Island Housing's mortgage.

The new ownership entity completed approximately \$4,200,000 in improvements. Renovations to the development included installing a new siding system of concrete block and metal paneling, repairing and enhancing framing, installing new windows, and replacing the roof. Additional renovations included significant fire alarm and elevator upgrades, removal and replacement of an underground storage tank, and some minor unit and common area renovations. The new owner established new reserve accounts to cover the costs of necessary upgrades and improvements forecasted in future years. The non-profit owner manages the property, achieving certain operating efficiencies with 2 other properties that they purchased in Providence.

Strong Partnerships Result in Success

As witnessed by these case studies, strong partnerships result in success. We have proactively reached out to both the public and private sectors to ensure that hundreds of individuals, especially elders, are able to stay in safe, healthy homes. While the preservation of our affordable housing stock is of the utmost importance, these preservation deals also allow us to successfully rehabilitate aging properties, thereby improving the lives of tenants and their families.

Rhode Island Housing's Preservation Program – designed to maintain our scarce inventory with strong partnerships - continues to respond to the state's housing crisis by working to ensure affordability not only in Section 8 properties, but in LIHTC transactions completing their initial compliance periods. The average tenant income living at these developments is less than 30 percent of HUD's median family income. Many of the residents are elderly, living on fixed incomes, and have little opportunity to increase their earning potential. If these developments convert to market, many individuals and families would be displaced from their homes and communities. Partnerships like these are critical to providing safe, affordable homes to all Rhode Islanders and to breathing new life into our communities. To date, over 7,300 units have been preserved by this HFA.