Tools for Affordable Housing Preservation

A Case Study of Bellefield Dwellings
Pittsburgh

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Panelists

- Ray Baum- Pepper Hamilton
- Holly Glauser- PHFA
- Peter Kaplan- PNC Bank
- Lara Washington- AHRCO
- Vidhi Anderson- Diamond and Associates
Affordable Housing Preservation

- Prolong useful life of the project
- Increase long term viability of the project
- In need of operating efficiencies
- An under utilized or a deteriorating asset
- Housing units with expiring subsidy contracts
- Expiring low income use restrictions
- Threat of conversion to market rate
- Cost prohibitive rehabilitation
Objective

• This panel aims to provide you with some tools to get you thinking about your project.

• We will be using Bellefield Dwellings as an example of one such project and its journey from being a concept to reality....
Bellefield Dwellings

• 158 units
• Located in the Oakland neighborhood
• Built in 1904 as luxury housing
• Converted to senior housing in 1970s
• Owned and managed by AHRCO
• 146 1-BR units and 12 2-BR units
• 99% occupancy
Bellefield Dwellings
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Building and Neighborhood

- Increase long term viability of the property
- Needs serious capital improvements
- Most available housing in the area is student housing
- Wait for affordable housing unit in excess of 1 year
- At risk to be converted to student housing
- Existing use restrictions were expiring
- LP entity attracted to student housing
- AHRCO wanted to maintain it as affordable housing
Where to start

• D&A ran some initial numbers, did initial feasibility analysis
• Got the team together- architect, investor, attorney, historic consultant, property manager, general contractor
• Have an experienced team
• Physical needs assessment
• Status of existing tenants
Scope of Work

• Accessibility
• Energy Efficiency
• Quality of Life Improvements
Scope of Work

Accessibility

- Addition of 8 ADA units
- Elevators to all floors
- Chair lift to roof
- Common laundry area
Scope of Work

Energy Efficiency

- New insulated windows
- Solar Photovoltaic system on roof
Scope of Work

Quality of Life Improvements

- New unit bathrooms, doors, finishes
- Community room improvements
- Upgraded outdoor spaces
What were the options

• How much will it cost
• What capital resources were available
• What subsidies were remaining
• HAP extension really made the project happen
What were the options

- Was it going to be debt alone?
- Or LIHTC with or without debt
- 9% or 4%
- Historic tax credits
- Fixed rate long term debt
  - Fannie Mae
  - Freddie
  - FHA
  - Conventional loan from a bank
Financing Programs

- LIHTC
- Historic tax credits
- Taxable and tax exempt bond programs
- Allocation of Private Activity Bond Cap for Qualified Residential Rental Facilities
- PennHOMES
- Construction Loan
- Fannie Mae or Freddie Mac Loan
- HUD Financing
PHFA

• How does PHFA scan and select the winners
• How does PHFA prioritize since a lot of your old inventory is coming back in for new credits
• What should applicants really focus on - big picture
• What made Bellefield attractive
Timeline and Schedule

• Submitted LIHTC Application
• Unsuccessful
• Applied again
Financing

• Total Uses: 16.8M
  – Hard Costs- 8.2M
  – Land Cost- 1M
  – Acquisition cost- 3.7M
  – Soft Cost- 1.3M
  – Reserves- 1.2M
  – Developer Fee- 1.4M

• Total Sources: 16.8M
  – URA- 1.2M
  – Fannie Mae Loan- 4.6M
  – LIHTC Equity- 8.6M
  – Historic Equity- 2M
  – Replacement Reserve- 260k
  – Deferred DF- 110k
Challenges
Historic Designation - Challenges

• Need to be eligible for the National Register in order to qualify for 20% Investment Tax Credit for Certified Historic Rehabilitation

• Bellefield was successful after 4 attempts over 28 months
Bellefield Dwellings
National Registry Process

PLAN A
• Individual Nomination
• Criteria: Architectural Importance

PLAN B
• Individual Nomination
• Criteria: Trends and Patterns of History
Bellefield Dwellings
National Registry Process

PLAN C
• Schenley Farms Historic District Boundary Increase
• Include 26 parcels

PLAN D
• Schenley Farms Historic District Boundary Increase
• Include Bellefield only
Bellefield Dwellings
National Registry Process

Lessons Learned

1. Start Early
   (Bellefield took 28 months)

2. Be Flexible and Transparent

3. Use an Experienced Team
Construction Phasing

- Work is being completed with residents in place
- Work carefully scheduled in "stacks" so that minimum inconvenience to residents
- Construction schedule impacted by residents' desire to stay in their units
In Place Rehab - Challenges

• Scheduling
• Subcontractor education
• Communication
• Activities coordination
Challenges - Investor

- 18-month construction schedule combined with need to place in service by end of 2013 (to meet tax credit program requirements and generate 2013 credits)
- Placed in service deadline also put pressure on closing timeline
- Need to have in place tenants tax credit qualified to ensure 2013 tax credit delivery
- Although Historic Parts I and II were approved, the property was not on the National Register at the Time of Closing, putting the $2,051,000 of historic tax credits at risk.
Challenges- Investor

- Need to simultaneously close $4,600,000 permanent loan and $10,675,133 equity investment. Lender and investor have shared concerns but each has different "hot buttons".
- Need to get comfortable with potential loss of rental subsidies, which could dramatically alter the project economics. Section 8 rents below market rents but above maximum tax credit rents.
- Commitment of long term HAP made the financing possible
- Compliance issues
Challenges - Real Estate Taxes

• Tax Assessment
• Negotiating with existing LP
In Conclusion
What We Got Right

- With the extensive rehab, 9% Tax Credits were the Right Choice
- 4% Credits Couldn't Generate Enough Equity to Cover Costs, even with historic credits.
- Higher debt in 4% scenario would have increased operating risks.
- Fannie Mae or Freddie Mac could close in 3 months to help property meet the placed in service deadline.
- HUD loan would likely taken longer, putting more pressure on the construction schedule.
- AHRCO's persistence on the historic credits paid off.
Lessons Learned

• Not everything happens as planned
• In this economic environment, the local, state public funds commitments can sometimes be hard to maintain
• Schedules are a roadmap but be flexible
• Roadblocks or speed bumps - stay the course
• Experienced real estate team
Work in Progress
Work in Progress
Work in Progress
The Future of Bellefield

• Increase the useful life of the building
• Create energy efficiency in the building
• Create accessible features- entry, units, laundry, common areas
• Preserve affordable housing in the neighborhood
• Preserve an outstanding building and a landmark
• Preserve and enhance the social services enrichment programs
• Preserve and enhance the quality of life for our seniors.
Questions?

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