FEATURED DEVELOPMENT

Single Bond Transaction Preserves 830 Affordable Housing Units

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

In 2007, Greystone Affordable Housing Initiatives LLC partnered with WWJ LLC (WWJ), an affiliate of Boyd Management Inc., to package 23 expiring properties into a single bond issue and preserve more than 830 units of affordable housing in rural South Carolina.

The two companies, in conjunction with the South Carolina State Housing Finance and Development Authority (SCSHFDA) and the U.S. Department of Agriculture (USDA) Rural Development (RD), packaged the RD Section 515 properties in an innovative transaction that used tax-exempt bonds (TEBs) and 4 percent low-income housing tax credits (LIHTCs) to renovate all of the properties and extend their affordability for another 30 years. Since closing this transaction - dubbed the RD515 Preservation Project - Greystone and WWJ have modeled other Carolinas transactions on it.

The Novogradac Journal of Tax Credit Housing recognized this groundbreaking transaction in December with its 2009 Developments of Distinction award for financial innovation.

"While the RD515 Preservation Project was very complex and, at times, difficult, the necessity of preserving affordable housing in rural communities cannot be understated," said Tanya Eastwood, Greystone's senior vice president. She added that the project's financing structure is a mechanism that provided the highly structured financing that was necessary to keep the housing affordable for many years while rehabilitating the aging apartments critically needed for rural families and seniors.

The preservation project included properties in 15 rural counties as well as six properties in 2007 qualified census tracts. The transaction featured 14 properties for families and six properties for the elderly. Each property contains 16 to 96 units, with an average of 30 units. Most of the properties were nearing the end of their expected useful life with an average age of 20 years. Fifteen properties were eligible for prepayment of their existing Section 515 loans, had expired restricted use periods and were considered "at risk" of removal from the affordable housing inventory. All of the properties had 1 percent to 2 percent annual vacancy rates and 371 tenants received USDA Section 521 rental assistance.

Photo Courtesy: Boyd Management
This property in St. Stephen, S.C. is one of 23 renovated by WWJ.

Joseph Wilczewski, Boyd Management's chief operating officer, said bundling the properties allowed the rents to be kept down to a much more affordable range. "It enabled them to stay very, very affordable," he said. At some properties, rents after the renovations were lower than before the renovations.

The preservation project's development costs were $57.5 million, or approximately $69,000 per unit. SCSHFDA issued $27 million in TEBs and secured them with 20 separate notes and mortgages. The agency issued 4 percent LIHTCs with the bonds, which Community Affordable Housing Equity Corporation syndicated. The LIHTCs generated $16.6 million in equity. By purchasing the 23 properties, WWJ assumed and subordinated $23.5 million of existing USDA RD Section 515 debt. RD deferred approximately $18 million as part of the USDA Multi Family Preservation & Revitalization (MPR) Restructuring Demonstration Program. The transaction also included $1 million in investment income and

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$500,000 in deferred development fees.

USDA recognized that South Carolina was in danger of losing many of its RD properties. The MPR demo program provided additional funding to preserve those properties, said Timothy R. Chandler, USDA multifamily housing specialist. Otherwise, he added "you could not have done 21 properties in a one-year program." (RD consolidated four properties into two for its funding purposes.)

Photo Courtesy: Boyd Management
Properties received new playgrounds and other upgrades.

In order to keep the bond transaction affordable, Greystone and WWJ negotiated deals with the other parties involved. WWJ owned many of the properties and acquired the rest at reduced prices. Bundling the properties allowed the partners to spread fixed transaction expenses, such as the bond costs, legal fees and underwriting, across the properties. Additionally, they negotiated volume discounts for third-party services, including market studies and construction costs.

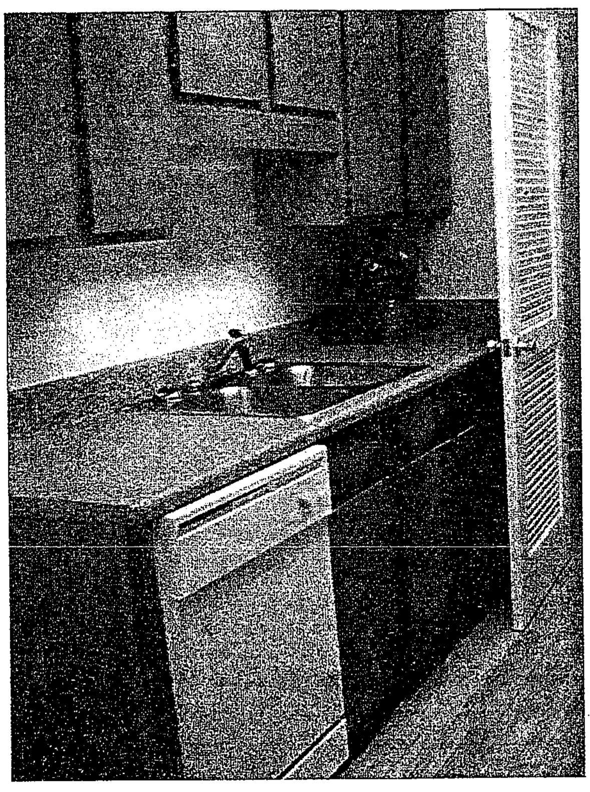

Photo Courtesy: Boyd Management
Workers replaced units' kitchen cabinets, countertops, floors and appliances.

WWJ and Greystone obtained aggregate equity pricing of approximately 93 cents, with individual properties attracting between 89 cents and 99 cents for their 4 percent credits. The portfolio structure allowed Greystone and WWJ to adjust equity at the individual properties as needed. It also spread investment risk across the 23 properties. The year-long rehabilitation period, shorter than the average 9 percent new construction deal, also attracted investors because it resulted in an earlier return on their investments.

"None of [the properties] would have been able to go through the program alone. They were too small ... the finances wouldn't have worked out," said Tracey Easton, SCSHFDA's associate counsel.

Bundling the properties allowed WWJ to complete the renovations on all 830 units by December 2008 without displacing tenants. Subcontractors went through the properties, gutting and rehabilitating individual units in less than a day.

"The tenants basically have a brand new unit inside. They walked into a new home," Wilczewski said. He added that many of the residents were so proud of their units that they bought new furniture and planted flowers outside.

In 2009, WWJ and Greystone used the model on two additional transactions, including a 45 property portfolio in South Carolina that closed in September. That transaction will keep nearly 1,500 units affordable for rural families.

"It works," said Chandler of the financing model. "I dare say there was probably no other state in the union that was able to renovate 1,548 units in a one year period."

Wilczewski said that WWJ will use the RD515 Preservation Project financing model to renovate 300 properties it

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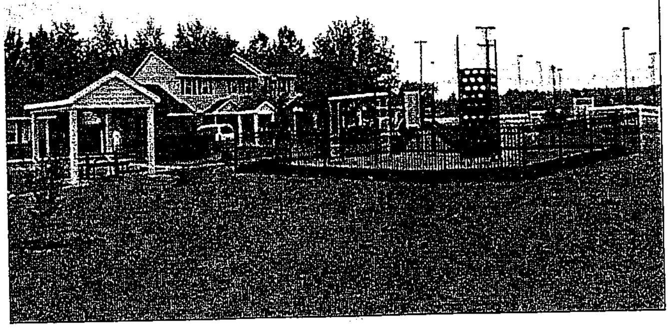

Photo Courtesy: Boyd Management
WWJ LLC and Greystone Affordable Housing Initiatives packaged 23 properties, including Summer Lane in Santee, S.C., into a single bond transaction in 2007.

owns throughout the rural South. WWJ and Greystone are working on an 18-to-20 property transaction in North Carolina, and they also anticipate closing a 35-to-40 property deal in Georgia later this year.❖

RD515 Preservation Project

In Summary

Financing

- Assumption and subordination of $23.5 million of existing USDA Rural Development Section 515 debt.
- $27 million in tax-exempt bonds issued by South Carolina State Housing Finance and Development Authority.
- $16.6 million in low-income housing tax credit equity from Community Affordable Housing Equity Corporation.

About the Property

- The RD515 Preservation Project won the 2009 Novogradac Journal of Tax Credit Housing Development of Distinction Award for Financial Innovation.
- WWJ LLC, an affiliate of Boyd Management, and Greystone Affordable Housing Initiatives worked with the South Carolina State Housing Finance and Development Authority and USDA Rural Development to bundle the properties into a single tax-exempt bond transaction.
- The transaction included 830 units at 23 different properties in rural South Carolina.
- Fifteen of the properties were considered "at risk" of removal from the affordable housing inventory.

Honorable Mention

Hubbard Place Apartments
Washington, D.C.
Cavalier Apartments
Somerset Development Company LLC

Somerset Development Company LLP's Hubbard Place Apartments in Washington D.C. transformed severely troubled, publicly assisted housing into decent and safe homes through the use of creative and innovative financing. Development costs for the redevelopment of the historic building were $52.5 million; hard cost construction costs were $17.5 million. The historic building received a $1.48 million LIHTC allocation and a $4.97 million federal historic tax credit allocation. Tax-exempt bonds for acquisition and rehabilitation were structured with a "reverse" or "mirror" defeasance to overcome a lock-out provision of an existing FHA-insured first mortgage. The U.S. Department of Housing and Urban Development (HUD) subordinated $26 million in new bond proceeds as a second mortgage lien on the property. Approximately $10.5 million was put in escrow to pay off the HUD loan, and $57,000 was escrowed to pay the anticipated prepayment penalty. The $26 million bond was paid down with tax credit equity to approximately $16 million upon stabilization. The tax credit syndication was structured with an interim loan, which was disbursed to the property in lieu of the first and second capital contributions. The District of Columbia Housing Authority exchanged soft subordinate financing for commitments on maintaining an extended affordability period. The private developer provided a substantial fund of more than $350,000 up front and contributed an additional 15 percent of annual net cash flow for resident services.

Project Team: D.C. Department of Housing and Community Development; D.C. Housing Authority; Somerset Development Company LLC; 3500 14th Street, NW, Tenant Association; MMA Financial (now Boston Financial Investment Management); Kann Partners; Hamel Commercial Inc.

Photo Courtesy: Somerset Development Company LLC
Hubbard Place Apartments in Washington, D.C. received an honorable mention from the Journal of Tax Credit Housing for its innovative financing.