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NWRECC Preserves 12 Section 8-Based Properties in Innovative Acquisition/Rehabilitation

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A Boise, Idaho-based real estate company is the first to take advantage of a change in Oregon law that allows recipients of Oregon state affordable housing tax credits (OAHTCs) to apply the credits against the principal balance of a loan instead of passing the savings on to tenants, ultimately enabling the borrower to finance more debt.

Northwest Real Estate Capital Corp. (NWRECC) is utilizing this change in law to finance the acquisition and rehabilitation of 12 multifamily U.S. Department of Housing and Urban Development (HUD) Section 8 project-based properties. Because Section 8 housing assistance payments (HAPs) provide rent subsidies to its residents, OAHTCs can be used to buy down the permanent loan interest rate by 4 percent, increasing the amount of funds that can be borrowed to support greater rehabilitation of Oregon's aging affordable housing stock.

Oregon State Affordable Housing Tax Credits

"I think we're breaking a little bit of new territory here," said Bob Gillespie, housing division administrator at OHCS. "It has taken us a long time to find a method to preserve these state-financed properties, but this last year we've created a good working relationship with HUD — we've worked out ways with them to finance the uninsured portfolio, and this is a breakthrough for us."

The OAHTC program works differently than programs in other states; in most states, state-level housing tax credit programs are largely modeled after the federal Low-Income Housing Tax Credit (LIHTC) program. In the state of Oregon, the credit is lender-based and works against state tax liability for the lender's involvement in affordable housing-related financing. OHCS currently has 122 Section 8 properties in its pipeline and approximately 4,000 units with the potential to qualify for the credits. The HUD contracts, which help finance the properties, are expected to end anytime between now and 2013, putting the properties at risk of conversion to market rate.

"[OHCS] estimates that 70 to 80 percent of their Section 8 portfolio will be preserved either through new financings or current owners opting to stay in the program," said Shelly Cullin, a loan officer with OHCS. "That would be approximately 3,500 units."

Northwest Real Estate Capital Corp.'s Portfolio

NWRECC took on the $31 million project as part of its mission to preserve affordable housing. Spread across rural Oregon, the 312-unit portfolio was originally constructed between the 1970s and the early 1980s, and includes four complexes for seniors. The properties were acquired in 2001 from a commercial real estate company looking to sell off its affordable housing portfolio. The financing proved difficult and took time to determine a viable financing structure, according to Raquel Guglielmetti, vice president for NWRECC

The properties are located in smaller, mostly-rural communities across the state, including Hermiston, Pendleton, LaGrande, Oakridge, Reedsport, Coos Bay, Florence and Forest Grove. CSDI Construction Inc. (CSDI), the general contractor, began work on the first four complexes in early October. The focus of rehabilitation is on the exterior structures and energy-efficiency improvements, including new siding, roofing, windows, ramps and railings as mandated by the Americans with Disabilities Act (ADA), and landscaping.

"The positive results from the rehabilitation process go much deeper than the actual construction," said Robert Feldmann, president of CSDI. "The creation of local jobs, energy-efficient designs and upgrades all add

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to convert these projects into a part of the community that is a healthy, sustainable property where tenants are proud to live."

As needed, the interior apartments will receive energy-star appliances, carpets, linoleum, cabinets, and bathroom and kitchen fixtures. New amenities include dishwashers, garbage disposals, air-conditioning units and ADA-compliant apartment units where feasible. During the rehabilitation process, current residents will be temporary relocated with assistance from a moving company to either hotels or newly rehabilitated apartments; all resident expenses will be covered and an inconvenience bonus will be paid after the move is complete.

NWRECC also plans to create special resident services programs for each property, including support for senior citizens and technology centers.

The Deal

The properties are all 100 percent Section 8-subsidized for eligible residents whose incomes are at or below 60 percent of the area median income (AMI). To facilitate the financing, HUD approved an extension of the existing HAP contracts for 20 years in recognition of the new debt structure. Since this permitted OHCS to extend the preservation of the housing subsidy, it was able to waive its long-standing policy not to allow prepayment of mortgages on Section 8 properties.

NWRECC is working in partnership with OHCS and U.S. Bank's Portland Commercial Lending Department (USB) to structure approximately $18.2 million in loans. This includes the private placement of tax-exempt housing development revenue bonds (TEBs) for interim financing that roll over into AHTC permanent loans. Additional loans of nearly $2 million are being provided by USB during the rehabilitation to bridge the equity funding.

Wells Fargo Community Development Corporation (WFCDC) is partnering with NWRECC and will acquire approximately $10.5 million in tax credits at an average of 89 cents. This translates to a direct investment of more than $9.3 million and is the second such direct venture in which the two entities have partnered. Together, the two completed an acquisition and rehabilitation of 10 properties across Idaho — an equity investment of approximately $8.4 million on a $23.3 million financial package.

OHCS extended its resources to include nearly $1.65 million in newly acquired housing preservation funds, more than $128,000 in housing development grant funds, and $361,600 in weatherization grants. These grants will ensure that the properties receive rehabilitation and remain useful and safe structures for the next 30 years. Use agreements were executed to ensure the properties remain affordable for the next 30 years.

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"We could not accomplish this remarkable financing package without the commitment that all our business partners share in preserving affordable housing," said Guglielmetti. "These 12 properties will be an example of how we can work together to protect the remaining inventory of HUD Section 8 project-based housing."

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