Preserving Multifamily Rental Housing in Hot Markets

HOUSING COLORADO NOW – 2019 ANNUAL CONFERENCE
Introductions

- Beth Truby: Preservation Program Manager
- Jennifer Siegel: Housing Development Officer
- Lauren Schevets: Director of Development – Colorado
- Kevin Knapp: Principal – Community Development
Session Overview

 Discuss policymaking that supports the preservation of affordable housing

 Highlight the components of 2 preservation transactions that made them successful

 Highlight opportunities for public/private collaboration
Agenda

- Policy: Colorado Housing Preservation Network
- Policy: City and County of Denver Preservation Ordinance
- Case Study: Preservation of The Colbum Hotel
- Case Study: Preservation of Nest Communities
Preserving Multifamily Rental Housing in Hot Markets
Housing Colorado Now
October 11, 2019

Beth Truby
Preservation Program Manager
Colorado Housing and Finance Authority
Colorado Housing Preservation Network

- Develop and maintain a master database
  - track inventory and identify “at-risk” properties
- Work to preserve properties
- Implement a coordinated strategy

colorado’s preservation initiative
preservation
database

1,400 Multifamily Properties and 72,000 Affordable Units

- Expiring by year
- Sources of restrictions
- Property and owner information

260 Properties on Prioritization Flag List

- 13,600 affordable units
- All expiration dates < 3 years
- Mod Rehab and 4% LIHTC at year 18
### Expiring Projects

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Expiration Date</th>
<th>Expiration Type</th>
<th>0 Bed Units</th>
<th>1 Bed Units</th>
<th>2 Bed Units</th>
<th>3 Bed Units</th>
<th>4 Bed Units</th>
<th>56% AMI Units</th>
<th>40% AMI Units</th>
<th>56% AMI Units</th>
<th>00% AMI Units</th>
<th>Restricted Units</th>
<th>Total Units</th>
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<td>11 North Bonfoy</td>
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<td>Misc CHFA</td>
<td>0</td>
<td>2</td>
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7-County Metro Denver Area
### Projects Expiring by Type

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<tr>
<th>PrioritizationFlag</th>
<th>Time Range</th>
<th>Count</th>
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<tr>
<td>None</td>
<td>Next 5 Years</td>
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<td>Next 15 Years</td>
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<td>Next 25 Years</td>
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### Units Expiring by Population Served

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<th>Population Category</th>
<th>In The Past</th>
<th>Next 5 Years</th>
<th>Next 15 Years</th>
<th>Next 25 Years</th>
<th>Next 50 Years</th>
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<tbody>
<tr>
<td>Not Specified</td>
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<td>25</td>
<td>21</td>
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<td>General Affordable</td>
<td>45</td>
<td>67</td>
<td>90</td>
<td>65</td>
<td>182</td>
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<td>Homeless</td>
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<td>7</td>
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<td>Senior</td>
<td>5</td>
<td>67</td>
<td>74</td>
<td>32</td>
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<td>Special Needs</td>
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<td>25</td>
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<td>8</td>
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<td>17</td>
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<td>Veterans</td>
<td>2</td>
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### Projects Expiring by Time Range

- LHTC Compliance Period End: 363
- HUD Section 8: 287
- CDOH restrictions: 250
- Misc CHFA Restriction: 188
- Misc Denver OED Restriction: 64
- Local Govt Restrictions End: 64
- HUD Mod Rehab: 16
- Loan Qualified Period End: 2
Project Details Dashboard

Project Name
Aria Apartments

Address
2791 W 52nd Ave
DENVER, CO 80221

Community Facts Neighborhood:
CHAFFEE PARK
Click to view detailed Shift Research Lab Community Facts

Comments:

Click Here to Add Project Comments

### Project Expiration Types
- LIHTC Compliance Period End

<table>
<thead>
<tr>
<th>Project Expiration Types</th>
<th>Owner Organization</th>
<th>Population Served</th>
<th>Total Units</th>
<th>Restricted Units</th>
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<td>Perry Rose LLC</td>
<td>General Affordable</td>
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<th>Bedroom Mix</th>
<th>1 Bed Units</th>
<th>2 Bed Units</th>
<th>3 Bed Units</th>
<th>4 Bed Units</th>
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<tr>
<td>0 Bed Units</td>
<td>0</td>
<td>31</td>
<td>41</td>
<td>0</td>
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<table>
<thead>
<tr>
<th>AMI Mix</th>
<th>36% AMI Units</th>
<th>40% AMI Units</th>
<th>56% AMI Units</th>
<th>60% AMI Units</th>
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<tbody>
<tr>
<td>36% AMI Units</td>
<td>8</td>
<td>6</td>
<td>15</td>
<td>42</td>
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<table>
<thead>
<tr>
<th>HUD Section 8 Expiration Date</th>
<th>HUD 2nd Section 8 Expiration Date</th>
<th>Local Government Expiration Date</th>
<th>HUD Mod Rehab Expiration Date</th>
<th>HUD Regulatory Agreement Expiration Date</th>
<th>CDOH Restrictions Expiration Date</th>
<th>LIHTC Compliance Period End Date</th>
<th>LIHTC LURA Extended Use Period End Date</th>
<th>State LIHTC LURA Expiration Date</th>
<th>Loan Qualified Project Period End Date</th>
</tr>
</thead>
</table>
foundation laid

- Housing Preservation Network
- Database
- Strategic Plan
- Preservation prioritization matrix
- Owner and jurisdiction outreach

Collaboration/coordination
successes!

- 2016-2018 units preserved
  - 13,678
- Mod Rehab workshop
- Mobile home parks
- Partnership w/EOC
- NCSHA/DRCOG awards
- Additional resources
emerging successes

- Preservation financing
- NOAH properties, especially <49 units
- Community land trusts
- Rural Preservation Academy
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LOCAL PRESERVATION POLICIES

Housing Colorado 2019

Jennifer Siegel, City of Denver – Housing Stability (HOST)
October 4, 2019
What is preservation? Why preserve?

• Preservation is the extension of the income-restriction that keeps a home affordable to low- and moderate-income residents.
• Preservation helps keep an existing affordable home available for low and moderate income households long-term
  - Can include both rental and for-sale housing
  - Can include homes that are currently income-restricted and those that are unsubsidized or “market affordable”
• The value of preservation:
  – Helps maintain city’s affordable housing stock
  – Can be less expensive than new construction of affordable housing
  – Entitlement process complete, no new infrastructure typically required
  – Can help maintain character of neighborhood by preserving historic structures
  – Can reduce displacement of existing residents
Denver’s Inventory of Income-Restricted Housing:

- 22,117 total units (20,688 rental, 1,429 for-sale)

Over the coming five years, the income-restrictions on 1,826 units will expire.

- 8.25% of Denver’s income-restricted housing stock
- Often, expiring properties are located in areas of Denver that would be cost-prohibitive to build new in today.
Our Preservation Policy “Toolbox”

The city currently has these primary tools to support the preservation of Denver’s income-restricted housing stock:

1. **Preservation Ordinance (only for income-restricted rentals)**
   - Notification requirements prior to sale
   - Right of first refusal

2. **Gap Financing:**
   - Loan products for acquisition and renovation
   - Accompanied by a new income-restriction

3. **Property Tracking:**
   - Strong coordination with CHFA, DOH and HUD to update inventory of income-restricted units

4. **Outreach to Managers and Owners of Income-Restricted Properties:**
   - Phone and mail outreach to owners of properties with restrictions expiring in under five years
   - Provide information on preservation ordinance requirements and financing products
The Challenge of Preservation

• In 2016, Denver faced an opportunity to preserve an existing senior property originally restricted via the tax credit program in the early 1990s
  – High-amenity neighborhood
  – Resident population earned less than income restriction
  – Income restriction expiring within 5 years
  – Seller sought to exit property ownership

• Denver’s primary tool at the time was its Preservation Ordinance
  – Provides right of first refusal when affordable housing is sold

• However, Denver was unable to exercise the ROFR
  – Price generated substantial financing gap
  – Timing of ROFR was too short for City to step in
Strengthening the City’s Toolbox

In response to the challenges posed by preservation, the City has worked to strengthen the tools it has available to preserve housing.

1. **Preservation Ordinance**
   - In 2018, Denver City Council approved amendments to the Preservation Ordinance
   - New rules and regulations streamline implementation of the Ordinance and frontload due diligence on preservation properties

2. **Gap Financing:**
   - Increased maximum per project funding from $3mm to $3.75mm, or 25%

3. **Sixty Year Affordability Period**
   - Beginning in 2019, all projects receiving City investment must be income-restricted for 60 years

4. **Preservation Partners**
   - Group of non- and for-profit organizations solicited via RFP ready to support the City in acquiring affordable properties

5. **Relationship Development with Broker Community**
A Preservation Success Story

• In 2016, Denver faced an opportunity to support the preservation of an existing SRO property originally restricted via the tax credit program
  – High-amenity neighborhood
  – Expired income restriction
  – Vulnerable resident population; majority formerly homeless
  – Seller sought to exit property ownership

• Denver collaborated with buyer to support preservation
  – Elected not to exercise ROFR due to 4% + State LIHTC award
  – Provided $3.45 million in gap financing to support acquisition
  – Worked closely with buyer to approve City financing prior to the property’s acquisition and move toward resyndication
Preserving For-Sale Housing

- The City is currently strengthening its efforts to preserve existing income-restricted for-sale housing.
- We are working with our Preservation Partners to establish processes for the following types of transactions:
  - *Extending Covenants at Home Sale:* The covenants restricting for-sale homes are often only 15-20 years. By investing in homes at resale, the City has an opportunity to extend their affordability.
  - *Preserving Affordable Homes in Foreclosure:* Income restrictions are often lost when homes are sold in foreclosure. Denver is working with its Preservation Partners to develop a process for purchasing homes out of foreclosure.
Coming Soon…

• “User-Friendly” Guide to Denver’s Preservation Ordinance
• Investment in a Preservation Fund
  – In 2019, Denver plans to invest in the creation of a “quick strike” fund that can support the rapid acquisition of preservation properties
• Policy approach to Naturally Occurring Affordable Housing (NOAH)
  – Denver currently is challenged in how best to preserve housing that is affordable to its residents, but does not carry an income-restriction. As an example, if a property’s income restriction has elapsed, the Preservation Ordinance does not apply.
• Policy approach to preserving properties under 50 units
  – Denver is currently challenged in acquiring and preserving properties that contain affordable housing, but may be too small for a standalone resyndication (<50 units)
Preservation Ordinance Overview

The Preservation Ordinance provides the City with notice when sale of an income-restricted property is planned and offers the City or its designee the right of first refusal when income-restricted properties are sold.

However, the right of first refusal is only applicable when income-restricted properties are sold; it does not apply after the expiration of an income restriction.

Preservation Ordinance Timeline

- **90 Days**: Notice of intent to sell
- **120 Days**: Entrance into contract to sell; Seller provides contingent PSA to City
- **120 Days**: City/designee provides LOI indicating intent to exercise ROFR
- **Time between LOI & replacement PSA not specified in Ordinance**: Time between LOI & replacement PSA not specified in Ordinance
- **120 Days**: Seller & City/designee enter into replacement PSA
- **Transaction must close**

*Note: Days marked with an asterisk (*) are approximate and may vary based on specific circumstances.*
QUESTIONS
Case Study: Preservation of The Colburn Hotel

980 Grant Street
Denver, Colorado
Revitalizing Communities Through Innovative Housing Partnerships
The Colburn – Overview

- Built in 1925
- Operated as a Hotel until 1989
- 92 Residential Units
  - 88 Single Room Occupancy (SRO) Units for Homeless Individuals
- 2 Commercial Units
  - Restaurant
  - Chiropractor
- LURA expired in 2017
The Colburn – Site Location
The Colburn – Rehabilitation

- Property acquired by Gorman in August, 2018.
- LIHTC Financial Closing in May, 2019.
- Gorman is currently under construction to rehabilitate the building and convert the units from SROs to Efficiencies. Construction will be completed by end of 2020.
- Planned Improvements Include:
  - Addition of efficiency kitchens
  - Addition of 8 ADA bathrooms
  - Addition of A/C to each unit
  - Improvements to finishes throughout
  - Mechanical, Electrical, Plumbing upgrades
  - Upgraded common amenities
The Colburn – Rehabilitation
The Colburn – Financing

- HUD Rental Assistance Demonstration (RAD) Conversion
  - 88 SRO Rental Assistance to 88 Project-Based Vouchers

<table>
<thead>
<tr>
<th>Sources</th>
<th>Amount</th>
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<tr>
<td>First Mortgage – Freddie TEL (KeyBank)</td>
<td>$8,290,000</td>
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<tr>
<td>4% LIHTC (KeyCDC)</td>
<td>$6,364,322</td>
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<td>State LIHTC (KeyCDC)</td>
<td>$2,452,282</td>
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<tr>
<td>City and County of Denver</td>
<td>$3,450,000</td>
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<td>State Division of Housing</td>
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<td>Federal Historic Tax Credits (KeyCDC)</td>
<td>$1,932,737</td>
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<td>State Historic Tax Credit Loan</td>
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<td>Funding from Operations</td>
<td>$335,770</td>
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<td>Deferred Developer Fee</td>
<td>$603,406</td>
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<td><strong>TOTAL</strong></td>
<td><strong>$24,985,017</strong></td>
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The Colburn - Preservation Challenges

- Acquisition:
  - Market Rate Expectations
  - Basis Limitations
- Two-Phases: 1) Acquisition then 2) LIHTC closing
  - Funding Sources for Acquisition
  - Risk
- Occupied Rehab:
  - Transition to New Management
  - Temporary Relocation of Residents
- Historic Building
- Complex Financing
The Colburn – Lessons Learned

• Collaborative Relationships between Buyer and Seller
• Engage with Residents
• Partnerships are critical
  • Local, State, and Federal Partnerships and Resources
• Financing Team
Thank you!

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The Nest: Preservation Through Public Private Partnership

Kevin Knapp
October 11, 2019
Colorado Housing Now Conference
The Opportunity

• **Portfolio for Sale:** 238 units across five buildings in Central and South Boulder
• **Price:** $39,320,000
• **Boulder Market:** Very hot market with REITs buying properties to redevelop or significantly increase rents
Due Diligence

Required Criteria:
• Met the 10-year rule
• Strong initial underwriting bolstered by a QCT
• Large enough scale to appeal to tax credit investors
• Ability to leverage multiple sources of financing

Desirable Components:
• Value add opportunity on well-maintained properties
• Large lots
• Transit-oriented locations
• Ample parking
• Large units
• Nearby amenities
## Financing: Equity Options

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<th>Market Rate</th>
<th>Affordable</th>
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<td><strong>Main Sources</strong></td>
<td>Equity &amp; debt</td>
<td>9% LIHTC</td>
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<tr>
<td><strong>Timeline</strong></td>
<td>Solicitation begin immediately</td>
<td>One round in June</td>
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<tr>
<td><strong>Risk</strong></td>
<td>- Element’s largest equity calls</td>
<td>- Funds not available for acquisition</td>
</tr>
<tr>
<td></td>
<td>- Competitive process with preference for affordability &amp; supportive services</td>
<td>- Competitive process</td>
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Financing: Debt

- Partnership between Red Stone and Google
- Terms that beat out FHA risk-share, 221d4, and other private financing
- Interest in the deal
- How Red Stone found Element
Project Financing and Scope

<table>
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<tr>
<th>Source</th>
<th>Amount</th>
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<tr>
<td>Boulder Affordable Hsng Funds</td>
<td>$10,750,000</td>
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<td>Private Activity Bond Debt</td>
<td>$30,560,000</td>
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<tr>
<td>4% LIHTC Equity</td>
<td>$20,400,000</td>
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<td>Developer Contribution</td>
<td>$1,770,000</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$63,480,000</strong></td>
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**Project Scope**

- **Complete interior upgrades:** floors, cabinets, countertops, EnergyStar appliances, bathrooms, insulation and energy upgrades
- **Exterior improvements:** modernized exteriors, new railings and stairs, updated landscaping, new playground equipment, refinished parking lot
- **Fire sprinkler system:** for safety of the residents and the buildings
- **New branding:** create an identity and sense of place for residents

<table>
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<th>Use</th>
<th>Amount</th>
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<td>Acquisition</td>
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<td>Soft Costs</td>
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<td>Reserves</td>
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<td><strong>TOTAL</strong></td>
<td><strong>$63,480,000</strong></td>
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Exterior Renovations
Interior Renovations
Why Everybody Wins

- **City of Boulder**: return on investment, speed of delivery, efficient conversion of dollars to units
- **Red Stone**: performing asset in a location of interest to investor
- **Element**: excellent investment that benefits the community
- **Residents**: new housing in a great location at a (permanently) affordable rent
How This Can Happen in Your Community

• City/municipality support
• Leverage LIHTC from CHFA
• Local developer with strong relationships
• Attractive debt financing options for max leverage
• Preservation of existing ‘market-rate affordable’ asset
THANK YOU!

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- Kevin Knapp
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  kevin@elementproperties.com