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Affordable Housing

by Jeffrey Banker

An Environmentally Savvy Tale of Preservation

Allegheny Hills Retirement Residence, formerly East Brady Heights, is a 79-unit affordable senior housing community that wanted to make enhancements and upgrades to ensure quality of resident life and continue as a reliable housing provider. It was built in 1981 under the Department of Housing and Urban Development/Federal Housing Administration Section 202 program at the prevailing, and now high, interest rate of 8.5 percent.

In addition to improving aesthetics and adding modern amenities, Allegheny Hills wanted to improve energy efficiency: Sixth-floor residents would be hot during Pennsylvania winters, for example, while second-floor residents were cold.

As a rural, HUD property that did not require loan pre-payment approval, Allegheny Hills had several options to fund its desired repairs. The one it ultimately chose represents a combination of state, federal and private funding sources that came together to create a unique financing, and provide for a modern, environmentally sound renovation project.

Weighing the Options

Allegheny Hills’ most basic option was to leave its original financing in place and continue to fund renovations out of its replacement reserves. This strategy would provide no additional monies for repairs, however, and the property would have continued to pay on a 8.5 percent loan.

Refinancing also was an option, as Allegheny Hills was required to provide HUD only 30 days notice to pre-pay its loan. Prepayment, however, could have caused a drop in rental payments because the property would become subject to the Multifamily Assisted Housing Reform Affordability Act (MAHRAA). To avoid this, Allegheny Hills followed HUD Notice 02-16, which outlines the pre-payment process for a 202 loan. Though not required to request permission to pre-pay, employing this strategy allows for properties to maintain their exemption from the mark-to-market program.

The developer for Allegheny Hills, a.m. Rodriguez Associates, initially contemplated a HUD 221(d)(4) loan to fund renovations and provide permanent financing. While the 221(d)(4) is an efficient program and provides certainty of execution, it requires that all rehabilitation costs be funded at closing along with the real estate portion of the transaction. This requirement to bring in cash early increases the cost of the transaction, and since the sources of funds are fixed, would have reduced the amount of rehabilitation that was accomplished.

A third option was to couple other financing sources with low-income housing tax credits (LIHTCs). This structure would require the coordination of multiple government requirements and complex underwriting, but

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it also would provide additional proceeds to expand the scope of the renovation.

As a rural property, Allegheny Hills was eligible for a U.S. Department of Agriculture Section 538 loan guarantee. The 538 program features a construction/permanent guarantee with the ability to lock in the construction and permanent interest rates at construction closing. Additionally, 538 loans provide an interest credit that in effect “buys down” the interest rate on the first \$1.5 million of the permanent loan to the long-term monthly applicable federal rate.

Coordinating and Combining Funding Options

Lancaster Pollard, as both an FHA and USDA lender, was able to provide a side-by-side comparison of USDA and FHA funding. Allegheny Hills ultimately opted to combine USDA and other funds to limit the up-front equity requirement. The chosen structure required coordination to ensure all participants’ requirements would be met. Further, Allegheny Hills will maintain its exemption from MAHRAA because Lancaster Pollard adhered to HUD Notice 02-16 when it underwrote the financing.

Lancaster Pollard provided a construction/permanent loan of \$3.47 million, with the Section 538 guarantee to help reduce overall interest cost and provide the interest credit on the first \$1.5 million of the permanent loan. The Pennsylvania Housing Finance Agency provided a PennHOMES loan of \$1.14 million, and PNC Multifamily Capital provided low-income housing tax credit equity of \$7.7 million.

Going Green while Getting Green

The interest rate buy-down to the applicable federal rate translates into more affordable housing: East Brady will be able to charge \$35 less per unit than it would have had to without the credit. Further, the renovations fund energy efficiency upgrades that will make the property LEED (Leadership in Energy and Environmental Design) certified. The pursuit of LEED certification had the additional benefit of helping the property in its application for low-income housing tax credits, and the energy savings will help the property operate more efficiently to continue keeping tenant rents low.

Allegheny Hills’ rehabilitation is extensive (approximately \$70,000 per unit in hard costs), and its long-term, low-interest loans will help maintain financial stability. Rehabilitation includes new floor-

ing, paint, kitchen cabinets and Energy Star-rated appliances in each unit; new plumbing, electrical wiring and high-efficiency windows, a high-efficiency HVAC system, and a new roof. The property also will replace its parking lot, update its landscaping, construct a greenhouse, and add a hair salon for residents.

The low-income, elderly residents of Allegheny Hills will be able to enjoy a project that is cutting edge from both a rehabilitation and an overall financing standpoint. While many may shy away from combining financings that can appear on paper to have incompatible requirements, an experienced and dedicated team can make the differing programmatic requirements for each financing component workable.

New windows and boilers are among the energy-efficient changes planned at the renovated Allegheny Hills Retirement Residence.

