A Dozen Alabama Properties Rehabilitated Using 4 Percent LIHTCs

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When ARD-Inc. decided to rehabilitate a portion of its affordable housing portfolio in Alabama, it came up with a creative solution. The family-owned housing owner, developer and property manager was able to rehabilitate 13 properties under a single 4 percent low-income housing tax credit (LIHTC) transaction, creating more modern, energy-efficient homes for the residents. During rehabilitation, two of the developments were combined.

"It is so hard to rehabilitate a small project with a USDA Rural Development loan and to get [low-income housing] tax credits," said Willard Corley, president of ARD-Inc. "So we had to take these smaller projects and do it as one big deal." Corley noted that the financial stacks for each of the 12 developments had to be able to stand alone. He added that coordinating the development timelines of all 12 properties proved to be very challenging.

While the developments range in size and location, the goal of this expansive rehabilitation project is to update the affordable housing stock for low-income residents across Alabama. The smallest of the 12 properties is a 16-unit affordable housing development in Pisgah, while the largest is a 64-unit development in Centreville. Before the rehabilitation begun, the Centreville development was two different properties. "From the south end to the northeast corner and northwest corner, these developments are scattered across the state," said Corley. The majority of the developments are comprised solely of one- and two-bedroom units. Only three developments have three-bedroom units. When all 12 developments are completed, ARD-Inc. will have rehabilitated 398 units of affordable housing across the state, 82 percent of which will continue to receive Section 521 Rental Assistance provided by the U.S. Department of Agriculture (USDA) Rural Development, according to the Alabama Housing Finance Authority (AHFA), which provided the LIHTC allocation and tax-exempt bond financing.

Units in all 12 properties are reserved for residents earning 60 percent of the area median income (AMI) and below. All of the properties previously used USDA funding, with 11 also using LIHTCs. Construction of this comprehensive development began in August 2014 and nine developments were completed by the end of January. The remaining three developments began construction Feb. 16 and will be completed by late May. Corley said that this development not only rehabilitated much of ARD-Inc.'s affordable housing portfolio in Alabama, but it also created as many as 300 construction jobs.

Creative Financial Structure

The development was primarily funded using 4 percent LIHTCs and USDA funding. Boston Financial Investment Management was the syndicator and put $7.3 million in 4 percent LIHTC equity in a multi-investor fund. "Boston Financial prides itself on providing creative LIHTC equity solutions to both investors and developers," said Thomas Paramore, senior vice president of Boston Financial Investment Management. "In this case, having the expertise and platform to underwrite 12 individual projects and consolidate them as a portfolio was essential to attracting investor capital. Demand (and pricing) for the projects would have been much more difficult to establish, if sold on an individual basis." Paramore said that because of the complexity of the deal, it was vital that all of the agencies, both public and private, were able to work together and be flexible to achieve the common goal of preserving the affordable housing developments.

AHFA issued $13.9 million in tax-exempt multi-family bonds and issued $932,783 in annual 4 percent LIHTC allocations. "The main benefits of this project and the creative financing mechanism used to fund it are the renovation and preservation of existing affordable housing units, as well as extending the useful life of these properties," said Robert Strickland, executive director of the AHFA. "This financing model represents a creative

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Photo: Courtesy of USDA Rural Development
ARD-Inc. rehabilitated 12 of its properties under one 4 percent low-income housing tax credit transaction. Pinecrest Apartments in Tuskegee, Ala., is one of the 12 properties.

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and alternative approach to the traditional 9 percent credit, which is subject to intense competition."

Furthermore, development partners said that this rehabilitation wouldn't have happened if it weren't for funding provided by the USDA. A total of $10.1 million of aggregate original USDA Section 515 debt was assumed, re-amortized and subordinated, for all of the 12 properties, and a portion of these original loans were deferred for 20 years under the USDA's MPR program. The Section 515 program is a direct loan program designed to provide subsidized loans to developers of affordable housing in rural markets. In addition, $10.6 million in long-term, senior debt was comprised of a combination of USDA guaranteed Section 538 loans and new USDA Section 515 loans. And there was $4.5 million in USDA Rural Development deferred debt. "Most of the [12] Alabama multifamily housing apartment properties were built and financed through USDA Rural Development 25 to 35 years ago. Now, completely rehabilitated, they provide existing tenants updated, modern and more energy-efficient apartments and amenities, with no or minimal rental rate increase and in some cases reduced rental rates," said Ronald W. Davis, state director of the USDA Rural Development in Alabama. "Improvements to these apartment properties will hopefully increase tenant retention and make it easier to attract new tenants to fill vacant units."

Greystone Servicing Corporation Inc. was the lender on the investment and provided construction and permanent debt on the four properties that received USDA Section 538 loans. Greg Wright, vice president of development at Greystone, said that the firm has completed several of these types of multi-development portfolio transactions in North Carolina, South Carolina, Virginia and Georgia. Similar transactions are underway with Greystone in Kentucky, Tennessee, Mississippi, Alabama and Florida. Wright said that this was a mission-based investment for Greystone. While Greystone Servicing Corporation

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Inc. was the lender, Wright assembled the other key team members, including the architect, general contractor, investment banker and various attorneys. Post-closing, Wright worked closely with the project management team to insure project completion.

Other funding sources included $8.6 million in construction financing from Bryant Bank to bridge the USDA Section 515 loans and additional financial support of $1.45 million from owner contributed reserves and deferred developer fees.

Alabama Properties
PROJECT FINANCING

- $13.9 million in tax-exempt multifamily bonds issued by the Alabama Housing Finance Authority
- $10.6 million in long-term, senior debt comprised of USDA guaranteed Section 538 loans and new USDA Section 515 direct loans
- $10.1 million of aggregate original USDA Section 515 debt
- $8.6 million in construction financing from Bryant Bank to bridge the new USDA Section 515 loans
- $7.3 million in 4 percent LIHTC equity placed in a multiinvestor fund sponsored by Boston Financial Investment Management LP
- $4.5 million in USDA Rural Development deferred debt
- $1.45 million of additional financial support from owner contributed reserves and deferred developer fees