

# TaxCreditAdvisor

PUBLISHED IN ASSOCIATION WITH THE NATIONAL HOUSING & REHABILITATION ASSOCIATION

## Market Studies

### *Sizing Up the Potential Demand*

PAGE 32

### Seattle's Creative Preservation Deal

PAGE 4

### 2014's Best Tax Credit Developments

PAGE 8

### The Campaign to Boost Funding for Energy Retrofits

PAGE 28



**JUNE 2014 • ISSUE THEME: Market Studies**

- 32** **The Critical Verdict:**  
Market Studies Form the Essential Underpinning  
for Successful LIHTC Projects
- 40** **NCHMA:** Its Mission and History
- 44** **State-by-State Market Study Survey Responses**

**Low-Income Housing Tax Credit**

- 8** **The Top Developments:**  
Tax Credit Coalition Announces  
2014 Excellence Awards
- 13** **TCA Survey of States:**  
Housing Credit Reservations Are Brisk
- 14** **State-by-State 9% LIHTC Survey Responses**
- 24** **Ernst & Young's**  
*Corporate Tax Credit Fund Watch*
- 26** **Hot Topics:** New Developments Impacting the  
Tax Credit Industry

**Other**

- 20** **Cutting Utility Costs:**  
The Residences at Wood Street, Pittsburgh, Pa.
- 28** **Energy Advocacy:**  
Groups Seek to Expand Funding for Efficiency  
Improvements in Affordable Housing Properties

**New Markets Tax Credit**

- 46** **Filling a Void:**  
New Markets Tax Credits Finance New Health  
Care Clinic for Low-Income Persons in Cleveland

*Lake Washington Apartments, Seattle, Washington*

**Creative Financing:**  
Aging Seattle Property Gets  
Revitalized Without New Gap Funds

**Columns**

- 16** **David A. Smith:** *The guru is In*  
Demand doesn't create units;  
units create demand
- 19** **Thom Amdur:** *New Developments*  
Forging a Stronger Public-Private  
Partnership with RAD

**Departments**

- 3** In This Issue
- 18** NH&RA News
- 48** State Roundup
- 49** Capital Briefs



Lake Washington Apartments, Seattle, Washington

# Creative Financing

## Aging Seattle Property Gets Revitalized Without New Gap Funds

In Rainier Beach, Wash., a neighborhood in southeastern Seattle, the residents have had a lot to be proud of this year.

The Rainier Beach High School Vikings won the state boys' basketball championship for the third straight year and extended their winning streak to 34 games. They were ranked eighth in the U.S. and played in a prestigious high school tournament in April in New York City, falling just short in their bid for the national title.

In a different, quieter way, this community of 5,000-plus has had another feat to celebrate this spring: a \$54 million transaction to preserve Lake Washington Apartments that has been financed without any new gap funds.

"The beauty of this is that it allows us to preserve this as affordable housing," says Lance Matteson, executive director of SouthEast Effective Development (SEED), "and to do so in a fairly comprehensive way without any hits to local taxpayers. That is, no city or state grants were needed for this project."

"What also made this project special," he explains, "is that we've been able to put this together, with the help of our partner Bayside and all the partners, with

minimal rent impacts to the tenants. So not only is the property preserved as affordable, but because of the energy cost savings to the tenants, the impact of the rent changes is really de minimis. It's a beautiful project from the standpoint that the residents are gaining quality of life improvement with almost no hit to their pocketbooks."

SEED, a local nonprofit housing sponsor, and Bayside Communities, a for-profit real estate company based in Walnut Creek, Calif., are the co-general partners in the new partnership that acquired and is renovating Lake Washington Apartments.

### A Long History

The transaction is symbolic of what is happening to many older LIHTC properties – being preserved through resyndication with a second batch of federal housing tax credits, to recapitalize the asset, update and rehabilitate the apartments and property, and extend the affordability period.

The sprawling complex, with 366 apartments in 35

Lake Washington, continued on page 5

Lake Washington, continued from page 4

buildings on 16 acres, was built in 1947 and originally known as Seward Park Estates. The complex was purchased in 1996 and rehabilitated in 1997, using 4% federal housing tax credits and other funds, by a partnership whose general partners were SEED and A.F. Evans, Inc., a San Francisco firm. Bayside Communities replaced A.F. Evans as the co-GP in 2011 when it acquired a portfolio of properties from the company.

A few years ago, with Lake Washington Apartments in the final year of its original 15-year tax credit compliance period, the owners mulled over how to revitalize the property and keep it affordable for the existing residents. "Our intention all along was to preserve it," says Natalia Williams, senior vice president of finance at Bayside Communities.

"Along with Bayside," says Matteson, "we looked at other financing structures. "But tax credit financing was always part of that."

The transaction closed on March 14, 2014.

### Funding Sources

The new funds raised for the transaction included \$13.5 million in tax credit equity from syndicator R4 Capital, Inc. and \$28 million in tax-exempt financing. Additional sources were a \$4.5 million seller note, operating income from rents, a deferred developer fee, and two existing subordinate loans with a total outstanding balance of \$6.3 million from the city and the state that were assumed.

The Washington State Housing Finance Commission issued short-term tax-exempt bonds that will be redeemed after construction is completed. The bond proceeds fund a mortgage, originated by Citibank, which provides construction and permanent financing. Citibank purchased the bonds in a private placement.

R4 Capital syndicated the housing credits for a price of 91 cents per dollar of tax credit, said Williams. According to Jay Segel, R4 Capital was attracted to the deal by a longstanding relationship and the previous track record of Bayside's principals and by the project itself. "It's in a super location," he said, "and it's going to make a big impact, a very positive impact on the community just because of the sheer size of it."

An existing Section 8 contract from the Seattle

Housing Authority provides project-based rental assistance for 37 units. The contract expires in 2018 but has six renewal options of five years each, says Williams.

To facilitate the new transaction, SEED and Bayside Communities bought out the limited partner interest of the original syndicator.

### Rolling Rehab Project

Construction began in April is expected to be completed in the second half of 2015.

Rehabilitation is staggered, with current residents relocated – most temporarily – to vacant apartments within the complex while their building is renovated. The property manager, EPMI, a Bayside company, stopped leasing empty units in December to create a vacancy cushion to accommodate on-site tenant relocation.

The development now has 366 apartments: 98 one-bedroom units; 244 two bedrooms (including two manager units); and 24 three-bedrooms. Units range from 650 to 950 square feet.

As part of the project, the developers will construct an additional 13 one-bedroom apartments to expand the complex to 379 units. Additional improvements include:

- Replacing building roofs and siding;
- Upgrading lighting, heating, and electrical systems;
- Installing energy-efficiency washers and dryers in apartments;
- Converting the common laundry room to exercise and study rooms, classrooms, and other community space;
- Upgrading kitchens and bathrooms and replacing flooring;
- Adding 50-75 parking spaces, a business center, extra security cameras, and three more community gardens; and,
- Expanding the management office.

According to Williams, the scope of rehabilitation is about \$49,000 per unit.

### Income Limits, Rents

The same range of tenant income limits will be

**Construction began in April is expected to be completed in the second half of 2015.**

Lake Washington, continued from page 5

maintained, with 20 apartments restricted to renter households earning 30% or less of the area median income (AMI); 100 units at or below 50% of AMI; and 257 units at or below 60% of AMI.

In the Seattle area, the current annual income limit for a four-person household at 60% of AMI is \$52,920.

Post-rehab gross initial monthly rents will range from \$449 to \$1,280.

Matteson said residents will see minimal, if any, rent increases because their monthly electric bills will be lower as a result of the energy efficiency improvements. The only utility that residents pay for is their electricity. In addition, residents will no longer need to use the paid washers and dryers that were in the laundry room.

Matteson said there is strong demand for affordable rental housing in Rainier Beach, a mostly residential and commercial neighborhood that he indicated is "one of the lowest income areas" in Seattle. Washington and proximity to public transit.

### A Special Situation

In addition to noting that the transaction was accomplished without any new gap funds, Matteson cited the vital role of federal tools in the deal.

"This illustrates the importance of tax-exempt bonds and low-income housing tax credits. Without these this project does not happen."

In all likelihood, the renovated Lake Washington Apartments will provide better, more comfortable, but still affordable housing for some of the families with players on the Rainier Beach high school boys' basketball team.

"They were only one of eight teams in the country to play in the national championship," says Matteson. "And although they didn't win, the fact that they were invited is significant. It's exceptionally rare for a public high school to be invited at all, and this was certainly the first time in Washington State. The community is very proud of them."

That includes the folks at Lake Washington Apartments, who will soon be celebrating their own milestone. **TCA**

GREYSTONE

# GREYSTONE AFFORDABLE HOUSING INITIATIVES



Greystone is committed to:

- Meeting the challenges of recapitalization and preservation of affordable housing properties
- Providing creative solutions and crucial financing options
- Rehabilitating properties through pooled transactions
- Working closely with State and Federal affordable housing agencies



Dedicated to sustaining and expanding affordable housing throughout the United States

Tanya Eastwood  
919.573.7502

TEastwood@GreystoneAHI.com  
www.greystone.com

Copyright ©2014 Greystone & Co., Inc. All Rights Reserved.

References to the term "Greystone," "we," "us," and "our" refer to Greystone & Co., Inc. and/or its affiliated companies, as applicable. For more information please visit our website [www.greystone.com](http://www.greystone.com) or contact [information@greystone.com](mailto:information@greystone.com). HA002 0314