California Housing Partnership Corporation
California's Experts on Affordable Housing Finance, Advocacy & Policy

HOUSING PRESERVATION NEWS

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Revitalizing the Evergreen Apartments:

The City of Long Beach helps Abode Communities Preserve 81 Affordable Homes

Editor's Note

Despite reduced state and federal funding for affordable housing, local governments still have important tools to help nonprofit housing developers leverage limited financial resources and use creative methods to preserve and build affordable homes. The substantial rehabilitation of the Evergreen Apartments recently completed by Abode Communities with the assistance of the City of Long Beach offers a good example of these tools at work. The project extended the affordability of the Evergreen Apartments' 81 units for 40 years while at the same time extending the useful life of the property and improving residents' quality of life.

Project Background

Evergreen Apartments, located in Long Beach, CA, consists of three affordable multifamily buildings with a total of 81 two- and three-bedroom apartments. Two of the buildings were built in the 1960s and the third was constructed in the 1980s. Long Beach Housing Development Corporation (LBHDC), a nonprofit created and funded by the City of Long Beach to preserve and build affordable housing, purchased the buildings in the early 1990s at a foreclosure auction.

LBHDC had limited experience in long-term property management and, in 1999, agreed to sell the Evergreen Apartments to Abode Communities, one of Southern California's largest and most established nonprofit affordable housing developers. The City of Long Beach facilitated the sale with long-term, low-interest "soft" loans made with a portion of the City's federal HOME funds.

City of Long Beach Steps Up to Ensure Project's Feasibility

By 2011, Evergreen Apartments were in need of substantial improvements. Abode Communities began to look for ways to recapitalize and rehab the property working with CHPC's Southern California Program Director, Paul Beesemyer. Abode Communities and CHPC developed a financing plan in which the three properties would be bundled together and receive 4% Low Income Housing Tax Credits (LIHTC) and tax-exempt bonds. The plan had to ensure the development's long-term financial sustainability and affordability while raising new capital sufficient to fund over $100,000 per unit in rehabilitation costs, to be completed with residents on site, a difficult challenge under the best of circumstances.

The City's loans were key to the plan's success. Like most subordinate, government agency loans, Evergreen Apartments' loans were intended to be due upon the earliest occurrence of several events: sale, refinancing, or maturity. Because the multi-property financing structure contemplated both sale (in order to leverage LIHTC funding) and refinancing, the entire principal and accrued interest under the notes would typically have come due, leaving scant resources to accomplish the needed renovations. Despite the obvious attraction of receiving repayment in a time of recession and dramatic tightening of public resources, the City of Long Beach took the long view. The renovations and extended affordability proposed by Abode Communities provided a level of long-term public benefit that justified the City leaving its resources in the project. As a result, the City chose to reinvest in the sustainability of its affordable housing stock rather than demand repayment as it was entitled to do. "In agreeing not to call their loans, the City demonstrated real leadership and vision. The Evergreen Apartments could not have received the thorough renovation they did without the City's support," noted Paul Beesemyer.

In addition, the City of Long Beach collaborated with the development team on an innovative restructuring of its loans to sidestep several tax issues. Rather than recast the three existing notes with the new owner, the City agreed to accept full repayment upon sale and close of construction financing. It then issued a new loan for the same amount following completion of rehabilitation. The new 55-year, 3% simple interest loan allows for repayment from 50% of annual residual receipts. Repaying the loans with tax-exempt bonds allowed the project to meet the "50% test," a crucial LIHTC rule requiring that at least 50% of a project's aggregate basis be paid by bonds that are outstanding during construction. In addition, by retiring the existing debt and obtaining a new City loan, Abode Communities and CHPC sidestepped a loss of acquisition tax credit equity that would have been triggered by the IRS's debt forgiveness rules had the loans simply been assumed and recast.

Financing Plan's Private Partners

A seller carry-back loan also proved important to the project's financial feasibility. The new limited partnership created by Abode Communities as part of the tax credit syndication purchased the property from Abode itself, which in turn loaned those funds back to the project. This acquisition cost (minus land costs) is applied to tax basis for determining annual tax credits and substantially increased the total tax credit equity the project received. US Bank became the LIHTC investor for the project, and Union Bank was the bond purchaser and lender.

SOURCES	Construction	Permanent
Union Bank Loan and Tax Exempt Bonds	$ 13,541,500	$ 4,954,100
Seller (ACH) Carryback Note	$ 7,994,669	$ 7,994,669
City of Long Beach Loan	$ -	$ 1,962,897
Income from Operations (rehab)	$ -	$ 349,000
Transferred Reserves	$ 519,579	$ 519,579
Costs Deferred Until Completion	$ 1,290,930	$ -
Deferred Developer Fee	$ 724,087	$ 724,087
General Partner	$ 100	$ 500,100
US Bank Limited Partner LIHTC Payments	$ 1,766,608	$ 8,833,041
Total	**$ 25,837,473**	**$ 25,837,473**

USES	Construction	Permanent
Land/Acquisition		$ 11,193,522
Rehabilitation		$ 9,274,088
Relocation		$ 480,000
Design, Engineering, Local Permits and Fees		$ 613,780
Reserves and Financing Costs		$ 1,413,096
Legal, Consulting, Dev. Fee, Other Soft Costs		$ 2,862,987
Total		**$ 25,837,473**

Managing an Occupied Rehab and the Final Results

Once a financing plan was in place, the project still had substantial logistical challenges in managing an ambitious rehab of the Evergreen Apartments (on three non-contiguous sites) while most apartments remained occupied. Abode Communities completed the rehab on a rolling schedule over the course of 10 months. Vacant units were renovated and used as hospitality units as occupied units were upgraded. An average of eight units were renovated at a time with approximately 26 days needed to rehab each group of apartments.

This major transformation includes façade improvements, new roofs, revitalized courtyards, and the incorporation of sustainable permanent fixtures and energy efficiency upgrades throughout each site. Abode Communities was able to improve residents' comfort and reduce energy bills in the units by injecting blown-in insulation into the exterior walls and replacing windows and doors with energy efficient models. Additional sustainability improvements included high-efficiency central boilers, air conditioners and furnaces to reduce energy usage. To reduce water usage, Abode Communities installed dual flush toilets and low-flow fixtures, weather sensors on the irrigation sprinklers, and drought-tolerant landscaping. In addition, they upgraded units with 100% Energy Star appliances. The rehab also created an opportunity for Abode Communities to incorporate additional resident amenities such as a tot lot and resident resource center where Abode Communities' signature resident services program, Beyond Homes, is delivered at no cost to residents.

Evergreen Apartments:
The Jasmine after rehab

Evergreen Apartments:
The Palm after rehab

Evergreen Apartments:
The Sage after rehab

PRESERVATION SERVICES FOR NONPROFIT AND LOCAL GOVERNMENT STAFF

CHPC provides technical assistance and training to help nonprofit and government agencies build and preserve affordable homes for California families and seniors. For more information, please contact our Portfolio Initiatives Manager, Kate Hartley at khartley@chpc.net or 415-433-6804 x318, or our Housing Policy and Preservation Associate, James Pappas at jpappas@chpc.net or 415-433-6804 x320.

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