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Early Transfer Preserves Affordable Housing Developments

By Jennifer Dockery, Assignment Editor, Novogradac & Company LLP

In December, Eden Housing Inc., a Hayward, Calif.-based affordable housing developer, celebrated the grand openings of two properties, The Fireside in unincorporated Marin County, Calif. and The Altenheim in Oakland, Calif. The properties are two of 10 affordable housing developments that Eden is acquiring from Citizens Housing Corporation. Citizens began divesting itself from its properties in 2009 as part of a plan to dissolve the company. By recognizing early on that it would not be able to retain its properties, Citizens ensured that the properties remain affordable after its dissolution.

"Acquiring the whole portfolio was challenging, but we feel really good about being able to step in and help preserve it," said Linda Mandolini, Eden's executive director.

In 2009, San Francisco-based Citizens examined its finances and realized that it would have to dissolve. The majority of its properties were functioning well, but a few problem properties were draining funds from the corporation. Although the corporation could not sustain itself, Citizens' board of directors wanted the housing developments to remain affordable for their residents. Citizens approached Eden about acquiring one-third of its portfolio. Eden agreed to take over the properties, most of which were in the San Francisco Bay Area.

"The whole process of how that was done was a model of a company folding," said Richard D. Gross, Enterprise's vice president and impact market leader for Northern California. Gross also serves on Citizens' board of directors. "[Citizens] did it early enough that it could be done well."

Photo Courtesy: Eden Housing
Eden Housing acquired The Fireside near Mill Valley, Calif. in 2010.

Citizens began the process by bringing in Eden as the properties' manager. By shifting the management duties to the future owners, Citizens could concentrate on transferring the assets. Taking on the management duties also helped Eden understand what it was taking on and how best to handle the properties.

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Photo Courtesy: Eden Housing
The Altenheim in Oakland, Calif. incorporates a historic building and new construction into an affordable housing development for older adults.

"It gave us a really good vector on the whole portfolio. It helped us inform the restructure plans for most of the projects," Mandolini said.

Eden assumed management duties in November 2009 and began acquiring the properties in mid-2010; it worked with nine jurisdictions to attempt to acquire 1,000 units at 11 different properties, 10 of which it will eventually acquire. Eden will manage the 11th property for the new owner.

"We had different players at every level at every transaction," Mandolini said. Eden met with everyone from low-income housing tax credit (LIHTC) investors to state housing finance agencies as it replaced Citizens as the general partner. The developer asked the existing investors and lenders to stay in the properties and they agreed. Mandolini added that "collective good will and enthusiasm" made the transfer a success.

Of the properties that were to be transferred to Eden, two were still under construction. The second phase of The Altenheim was completed in October 2010. The senior development features 174 apartment units, many in a National Register of Historic Places-listed building. The second phase included 80 studio and one-bedroom units and a two-bedroom manager's unit in three newly constructed buildings. The units are affordable to households earning between 20 and 50 percent of the area median income. The GreenPoint-rated community provides supportive services and community and creative programs for residents.

Total development costs for the second phase were $27.5 million. Union Bank provided $10.8 million in LIHTC equity. Other sources of funding included US Bank, the California Department of Housing and Community Development Multifamily Housing

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Program (MHP), the City of Oakland and the Federal Home Loan Bank (FHLB) Affordable Housing Program (AHP).

A second property, The Fireside, near the city of Mill Valley, Calif., presented more of a challenge. At the time that Eden acquired the property, unexpected challenges had created a $3 million funding gap. Eden met with the property's 10 investors and lenders and the Housing Authority of the County of Marin and presented several scenarios for filling the gap. Eventually, the partners worked out a deal that involved additional capital from several investors and the California Housing Finance Agency, as well as the housing authority issuing additional housing vouchers.

Funding for the $28 million development eventually included 22 different sources, including the U.S. Department of Housing and Urban Development, FHLB AHP and the Corporation for Supportive Housing. Enterprise Community Investment Inc., with Bank of America as the investor, provided $9.8 million in LIHTC equity. California's MHP, various Marin County agencies and private lenders also provided funding for the development.

"They were really creative in financing the project and serving an important population and we wanted to be partners with them on the project," Gross said of investing in The Fireside.

The Fireside features 50 studio, one-bedroom and two-bedroom units. All of the units are affordable to families earning between 15 and 60 percent of the area median income. Five units are set aside for homeless seniors with serious mental illness, 18 units are for former or chronically homeless families or seniors and 18 units are set aside for families in which at least one member has been diagnosed with a mental illness, HIV/AIDS and/or has a history of substance abuse or a chronic health condition. The property also includes a community center, computer lab, children's area and management offices in a renovated historic inn building. Eden, which also manages the property, works with Homeward Bound of Marin and Marin County Community Mental Health to provide supportive social services to residents.

At press time, Citizens was still in the process of transferring some of its properties to Eden. When the transfers are completed, Eden will own and manage 10 of Citizens' properties and manage an 11th property for the new owners. Gross said that the transfers should be complete later this year.

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