



Learning Lab 3 Part B



Managing a Major Long-Term Rehab with URM Case Study

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Overview

- Community Roots Housing History & Overview
- Rules and best practices when a property requires a major rehab
- Major rehabs vs. capital projects
- Funding alternatives for major rehabs
- Resident relocation process
- Compliance issues during rehab
- Case Studies: Unreinforced Masonry (URM) building retrofits



COMMUNITY ROOTS

— HOUSING —



History

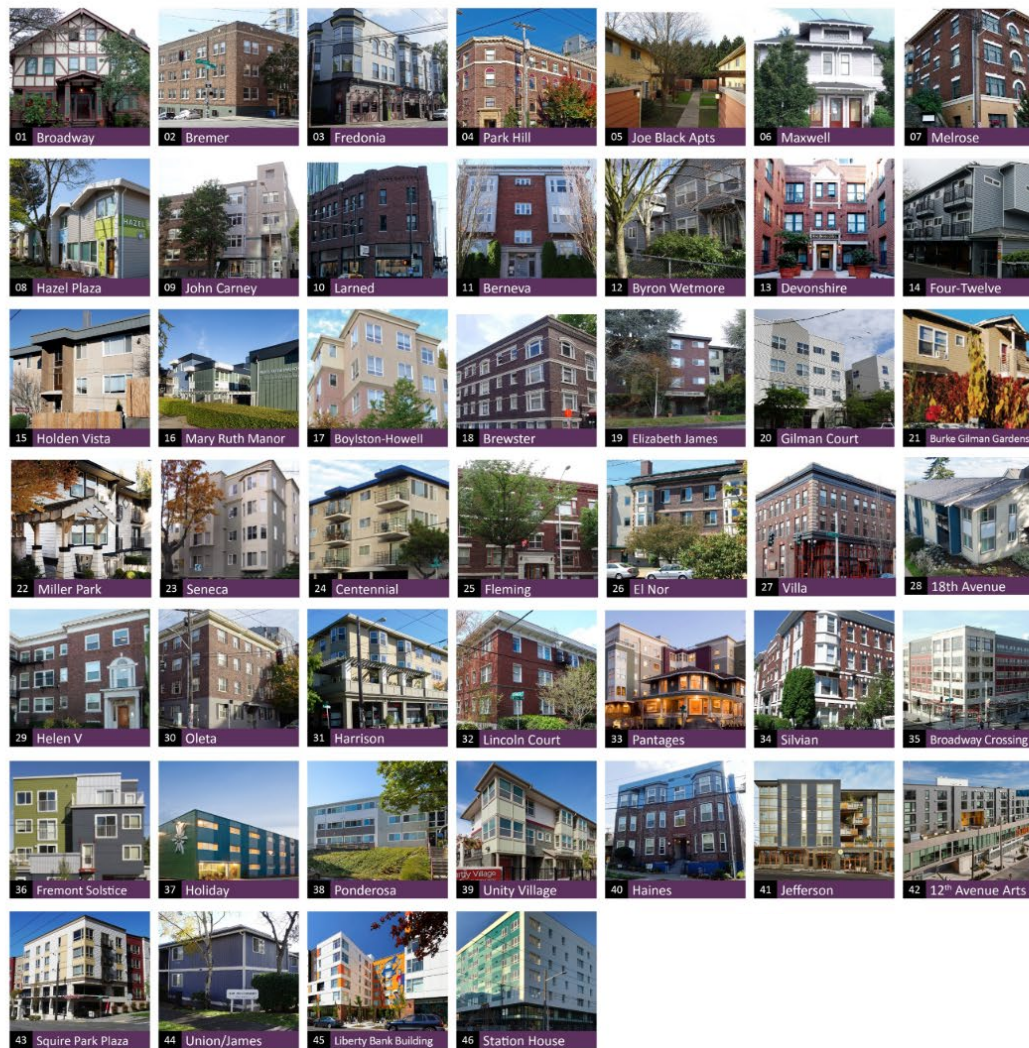
The purpose of the Program shall be to assist homeowners, property owners, tenants and residents of the Capitol Hill Community in preserving, improving and restoring the quality of their homes, property and neighborhood, and to provide additional housing, cultural, social and economic opportunities and facilities.



- Founded in 1976 by Capitol Hill community activists concerned about redlining and disinvestment.
- Low-interest loans for home repairs and supported home sharing for seniors.
- Chartered as a Public Development Authority (PDA)
- 1980's – Preserving and building affordable apartments

Our portfolio of properties

Our 45 buildings comprise over 1600 affordable apartments mostly serving people below 60% of the area median income. Including 12 project-based Section 8 properties, an emerging portfolio of middle-income properties, and a robust pipeline of additional affordable apartments. All distributed throughout Seattle and White Center.



Forthcoming:

- Africatown Plaza
- Heartwood
- Jazz House
- LGBTQ-Affirming Affordable Senior Housing
- Northgate Affordable Housing
- White Center HUB
- Yesler Family Housing
- YouthCare Academy

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From community roots to Community Roots

Formerly Capitol Hill Housing, we changed our name in 2020 to better reflect our community focus and aspiration.



Our Values

We believe in each person's right to a safe, affordable, quality home.



Our history is rooted in community

What started in Capitol Hill in the 1970s was the idea that everyone should live affordably in their neighborhood, in their community.



Community building is at our core

From the beginning, we've built relationships with neighborhood organizations, and the artists, businesses, and people in those neighborhoods.

WHEN A PROPERTY REQUIRES A MAJOR REHAB

RULES AND BEST PRACTICES

- Start planning ASAP as major rehab project financing can be lengthy
- Develop a complete scope of work with contingency as early as possible
- Coordination with property management and resident services
- External communications and community relations
- Lean on professional relocation contractors
- Communicate with residents early and often
 - Identify language barriers and disability accommodations
 - Will the resident be able to return to the building? The same unit? The same rent?
 - Generate excitement about the rehab to improve buy-in
- Plan to improvise

MAJOR REHAB OR CAPITAL PROJECT?

- Does the scope of work anticipate costly building code related upgrades? Two or more systems upgrades triggers a sub-alt – requiring bringing the building up to current building code including seismic upgrades (if needed)
- Are several concurrent projects due including exterior, mechanical, electrical, plumbing, unit interior, common areas?
- Does the property have sufficient reserves for the work required and future projects due in the near term?
- Would spending down the reserves prevent the property from funding costly and critical replacements due in the near term?
- Will the residents need to relocate during construction?

MAJOR REHAB OR CAPITAL PROJECT?

- Multiple capital projects to be completed together, financed by the recapitalization of a property are considered Major Rehabs
- Recapitalization typically includes one or more of the below funding sources
 - Refinance bank loan
 - Public funding workout negotiations
 - LIHTC Syndication
 - Grants – energy and structural upgrades
 - Other
- Obtain a quality physical needs assessment to determine capital replacements
- Goal: To address all major capital projects overdue and coming due to set the property up for operational success for the next 15 years or more

FUNDING MAJOR REHAB PROJECTS

- Does the property generate income that would support a refinance?
 - Income Analysis – will the property generate higher rents?
 - Area Median Income (AMI) regulatory changes?
 - HUD buildings with Mark-to-Market increases based on rent comparability studies
 - Expense analysis – operational expense reductions in rehab?
 - Energy upgrades (LED Fixtures, Low-flow plumbing, upgraded mechanical equipment)
 - Reduced turnover costs with in-unit rehab of kitchen and bathrooms
 - Amenity improvements to support resident retention and drive community engagement
 - Debt Coverage Ratio - what annual debt payments can the property support?
- A refinance is often not enough to cover the funding need alone

COMBINING FUNDING SOURCES FOR MAJOR REHABS



- Low Income Housing Tax Credits (LIHTC)
- Amortizing bank loan
- Public funders
 - WA Department of Commerce (HTF)
 - City and County Housing Levy Programs
 - Federal Funding – Loans & Grants
- Sponsor Loan
 - The non-profit owner operator's investment
 - Repayment is often unfeasible
- Competitive LIHTC funding
 - Between applicants – limited allocation
 - Internally – pick and choose projects
- 40-year amortization with balloons
 - Reduces annual debt payments vs. 30 yr
 - Higher principal balance upon maturity
 - Often unavoidable – plan ahead
- Public funder negotiations
 - Help to fund funding gaps
 - May need to negotiate relaxation of older agreements & increase AMI levels

EVALUATING FUNDING ALTERNATIVES

- With LIHTC funding
 - Higher fixed costs (legal, accounting, fees...)
 - Added compliance period/extended use agreement to consider
 - Competitive - limited availability of funding
 - Combines with Bank Loan & Gap Funding
- What makes LIHTC funding worth the cost?
 - Equity provided reduces overall debt
 - Supports deeper renovations and improves long term sustainability
 - Avoiding “over levered and under renovated”
- Without LIHTC funding
 - Cash-out refinance PLUS
 - Gap Funding
 - Public Funders
 - Grants
 - Fundraising / Capital Campaign
 - Harder to fund all necessary projects
 - Pick and choose critical renovations
 - Kicking some of the cans down the road

TYPES OF RELOCATION



El Nor and Ponderosa, Bonanza



- **Permanent Relocation** = resident relocated for 1 year or more; resident is **displaced**
- **Temporary Relocation** = resident relocated for less than 1 year
- **In-Place Rehab (Tenant-in-Place/Occupied Rehab)**
- **Emergency Relocation**

RELOCATION INVOLVES MUCH MORE THAN PACKING AND MOVING RESIDENTS & IS HIGHLY REGULATED

- **Relocation Plan**
- **HOU satellite office**
- Prepare and distribute mandatory, **notices** to residents
- Convene **community meetings and info sessions**
- **Budget and track relocation expenses**
- **Supervise relocation staff and/or vendors (moving companies, cleaners, pest control)**
- **Relocation assessments** with every household
- **Customized assistance to residents with special needs (hoarding, accessibility pets, poor credit and many more)**
- Identify **suitable housing units**
- **Move assistance, coordination and support**
- Calculate and process **resident reimbursements and relocation benefits**
- **Document, track and report** resident relocation activity
- Ensure all **relocation guidelines** are being **adhered to**

COMPLIANCE ISSUES DURING REHAB

- Will the Area Median Income (AMI) levels or set asides change post rehab?
- Will there be a reduction in total units or changes to unit sizes?
- Do the residents need to recertify income and assets to move back in?
 - Residents who are not LIHTC qualified to return must be permanently relocated
- Will the rent amount change for residents upon moving back in?
 - Will rent changes trigger local restrictions on rent increases?
 - Do any of the funding sources require lower AMI levels and rent reductions?
- Will restrictions on full time Students impact households' ability to return?
- LIHTC resyndication – what is the Placed in Service (PIS) date?
- What is included in Basis?

ARE RELOCATION COSTS BASIS ELIGIBLE??

- The answer is unclear
- If current residents must be relocated – and compensated in some way for the relocation – for the rehab to proceed, the costs should be part of the rehab and capitalized to the rehab expense (included in eligible basis).
- However, IRS Audit Technique Guide indicates that tenant relocation costs should be expensed, rather than capitalized (NOT included in eligible basis).

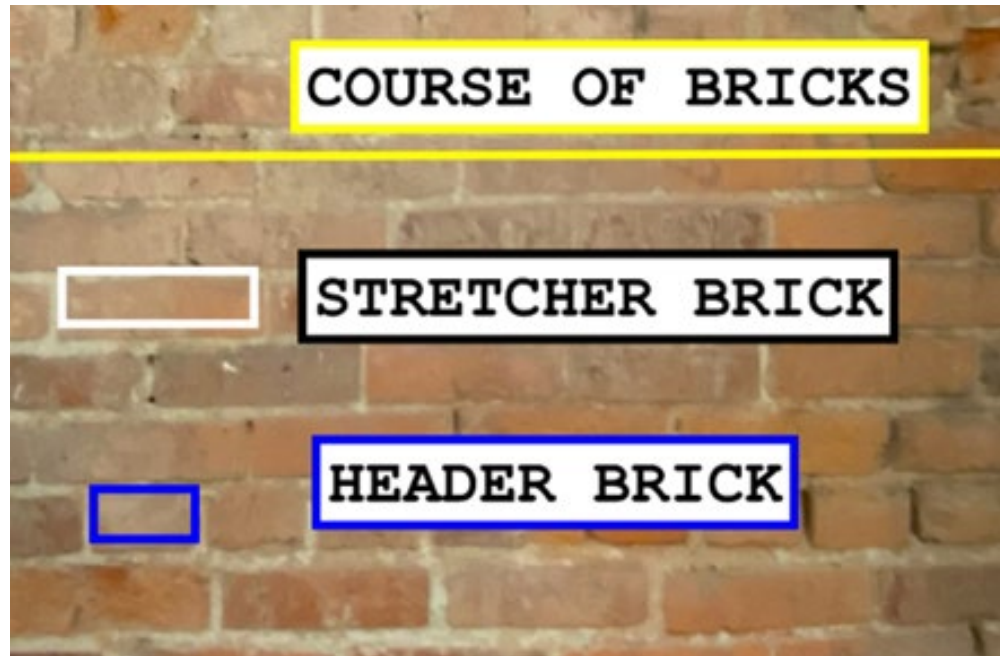
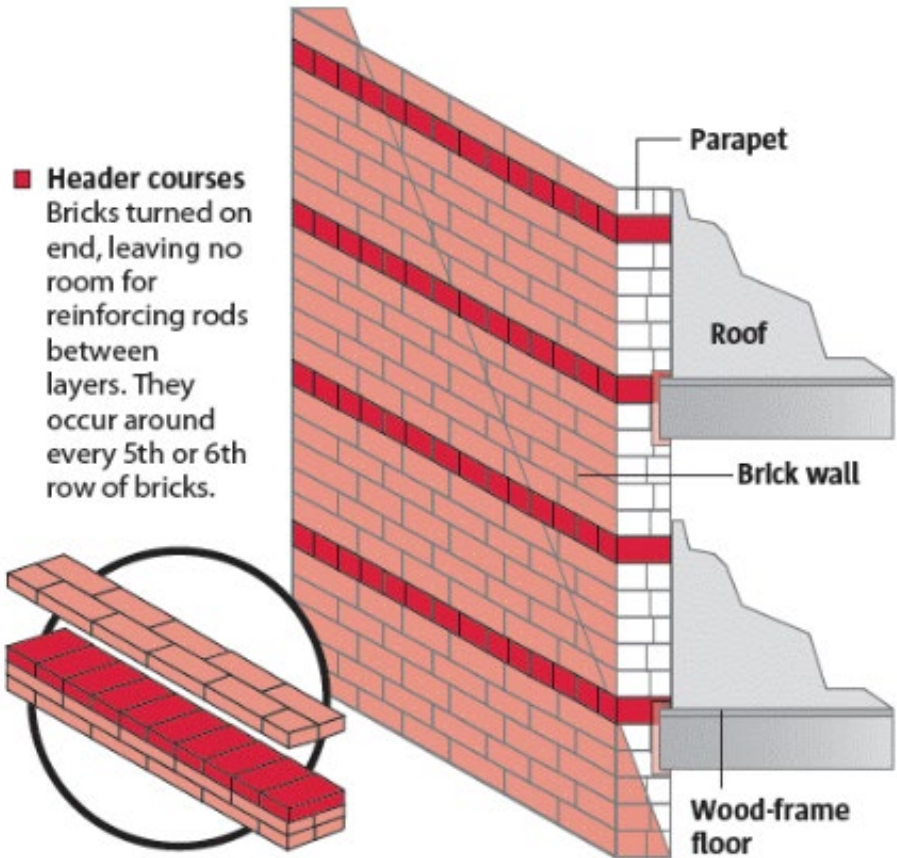
URM CASE STUDY: BACKGROUND

- Unreinforced Masonry Buildings (URM) are older multiple story red brick buildings known to be unsafe in an earthquake
- URM buildings are built without steel reinforcement or sufficient connections between the building's walls and other structural elements
- Seismic retrofits significantly reduce a URM building's collapse risk in an earthquake and can save lives
- Costs of additional seismic retrofits required during a major rehab often require creative and complex funding sources that can add years to the process
- URM buildings include apartments, office buildings, schools, and emergency facilities such as hospitals and fire stations
- URM buildings are found across Washington State

URM CASE STUDY: BACKGROUND

- Seattle conducted an evaluation on masonry buildings and identified 1,100 buildings as Unreinforced Masonry in 2016
- Proposed URM retrofit ordinance in Seattle to require owners to bring URM buildings into compliance over time
- Ten CRH buildings were identified and CRH had an engineer evaluate all fifteen of CRH's brick buildings to verify URM status
- The engineer determined seven CRH buildings are URM and will require retrofit under the proposed legislation, three were removed from the City's list
- Other CRH masonry buildings have seismic deficiencies requiring retrofits upon major rehabilitation
- Funding these retrofits is imperative to preserving URM buildings – a major challenge to the implementation of mandatory legislation
- Lack of adequate funding for retrofits could lead to demolition of URM buildings

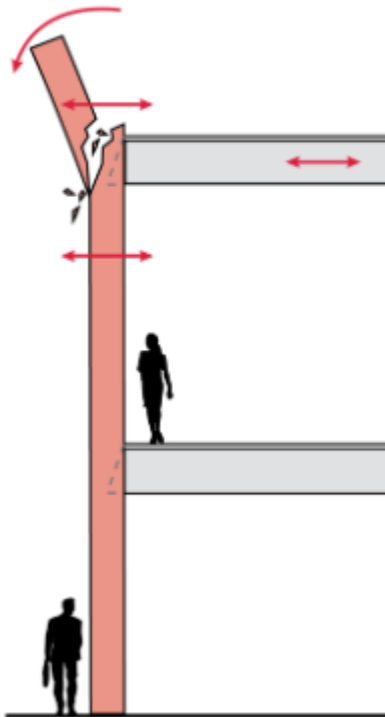
WHAT IDENTIFIES A URM BUILDING?



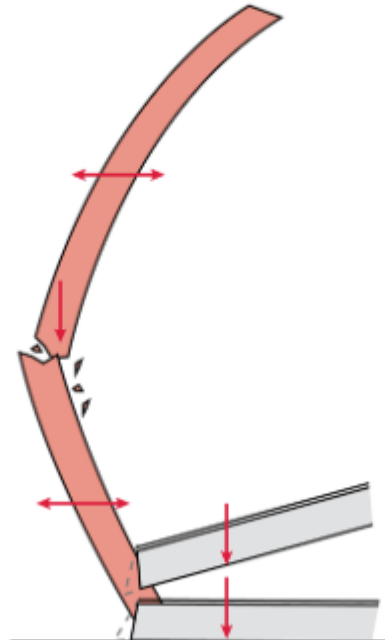
Interior Structural Masonry Wall at CRH's Larned Apartments

DURING AN EARTHQUAKE

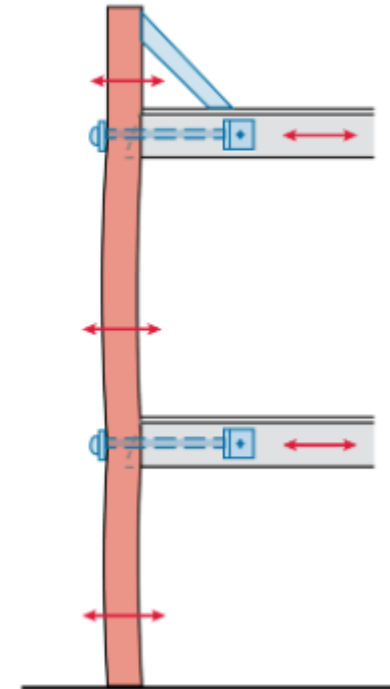
Parapet breaks off (URM)



Building Collapses (URM)



Building stays intact (Retrofit)



URM BUILDINGS IN THE CRH PORTFOLIO



BUILDINGS WITH SEISMIC DEFICIENCIES

- Technically not URM
- Present serious safety risks in an earthquake
- Seismic retrofits required during major rehab
- Includes buildings beyond brick construction



CRH SEISMIC UPGRADES – 2 CASE STUDIES



PLANNED/PIPELINE

- Building Conditions Survey
- Start to look at life of systems, is at the end of its useful life?
- Two or more systems triggers a sub-alt

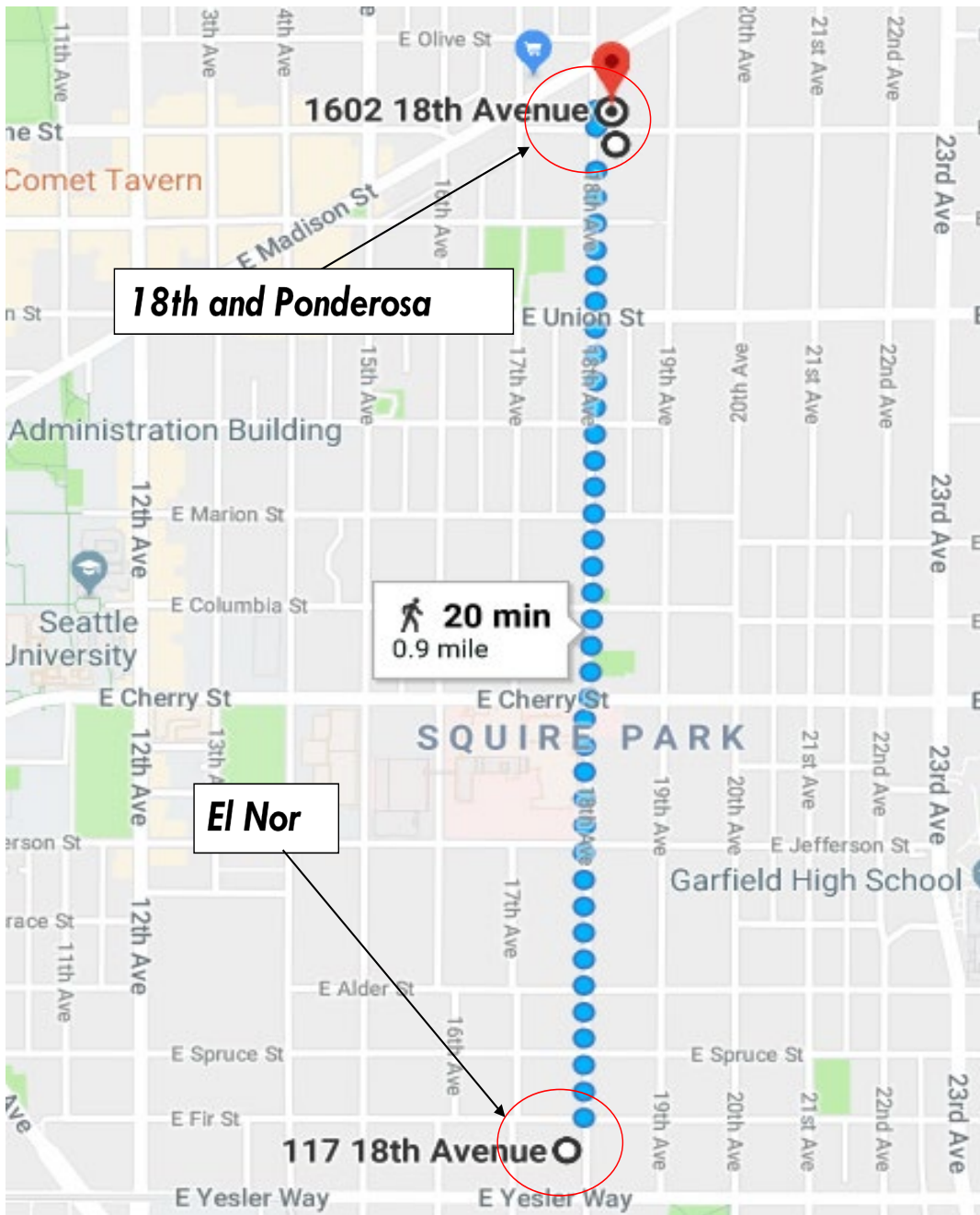
EMERGENCY REPAIR

- One system fails – ex. Plumbing, roof, boiler, etc
- Buildings Condition Survey
- Is more than one system at or near the end of its useful life?
- Two or more systems trigger a sub-alt

BONANZA/EL NOR

- TDC \$ 44.5M
- 87 Units, 1 & 2 bedroom
- Central District
- HUD Contracts for low-income seniors
- Occupied Rehab
- Seismic Retrofit
- Closing 7/2019
- PIS 6/2020 & 7/2020





CASE STUDY EXAMPLE 1: THE EL NOR APARTMENTS

- El Nor Apartments – A URM building
- 55 units serving very low-income seniors
- Comprised of two buildings built at different times, later joined in the center
- Resyndicated with two other CRH properties as Bonanza
- All three properties have HUD Section 8 contracts serving very low-income seniors and families
- High occupancy and very long-term residents limited unit upgrades at turnover
- Aging building systems and exterior envelope renovations coming due

Before Major Rehab



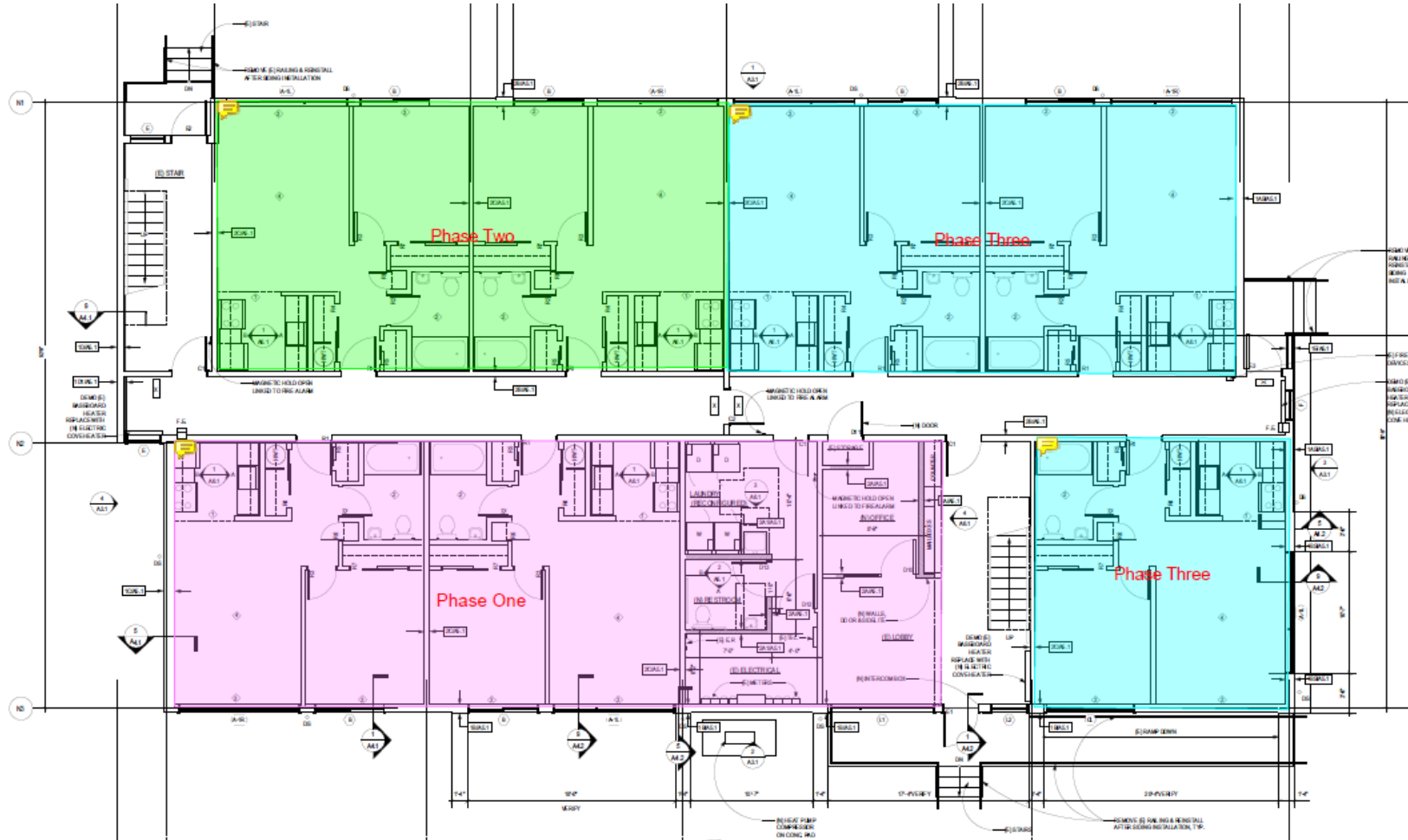
Bonanza – Sources and Uses



SOURCE OF FUNDS		
	Const	Perm
Construction Loan	22,277,213	
LIHTC Equity	1,222,050	15,519,299
Permanent Loan	0	12,000,000
Def Developer Fee	639,823	639,823
Washington State	496,421	496,421
City of Seattle - OH	1,259,965	1,259,965
Seller Financing	8,284,064	8,284,064
CHH Loan	5,663,203	5,663,203
Cashflow during construction	418,583	700,265
TOTAL	\$40,261,321	\$44,563,039

USE OF FUNDS	
Acquisition Costs	17,930,000
Construction Costs	14,799,394
Soft Costs	6,063,950
Pre-Development / Bridge Financing	25,000
Construction Financing	1,435,252
Permanent Financing	748,033
Capitalized Reserves	841,541
Other Development Costs	2,607,000
Bond Related Costs of Issuance	112,870
TOTAL	\$44,563,039

RELOCATION MOVE OUT PHASES



Temporary Relocation
Resident relocated for
less than one year.

EL NOR APARTMENTS – BEFORE





EL NOR APARTMENTS – MID REHAB

EL NOR APARTMENTS - AFTER



THE EL NOR APARTMENTS – KEYS TO SUCCESS

- Comprehensive planning with support from development consultants, attorneys, engineers, architects, the CRH Board, and all funding partners
- HUD HAP Contracts that adjusted to market rents post rehab
- The El Nor extensive rehab and retrofit cost was balanced by lighter rehab costs at the other two properties
- URM conditions limited to the southern (older) building reducing cost of retrofits
- Relocation was carefully managed using a vendor specializing in this work
- Minority owner requirement for the general partnership for the initial 15-year compliance period
- Strong relationship with mission driven affordable housing provider willing to partner on this project fulfilled this requirement

DEVONSHIRE APARTMENTS

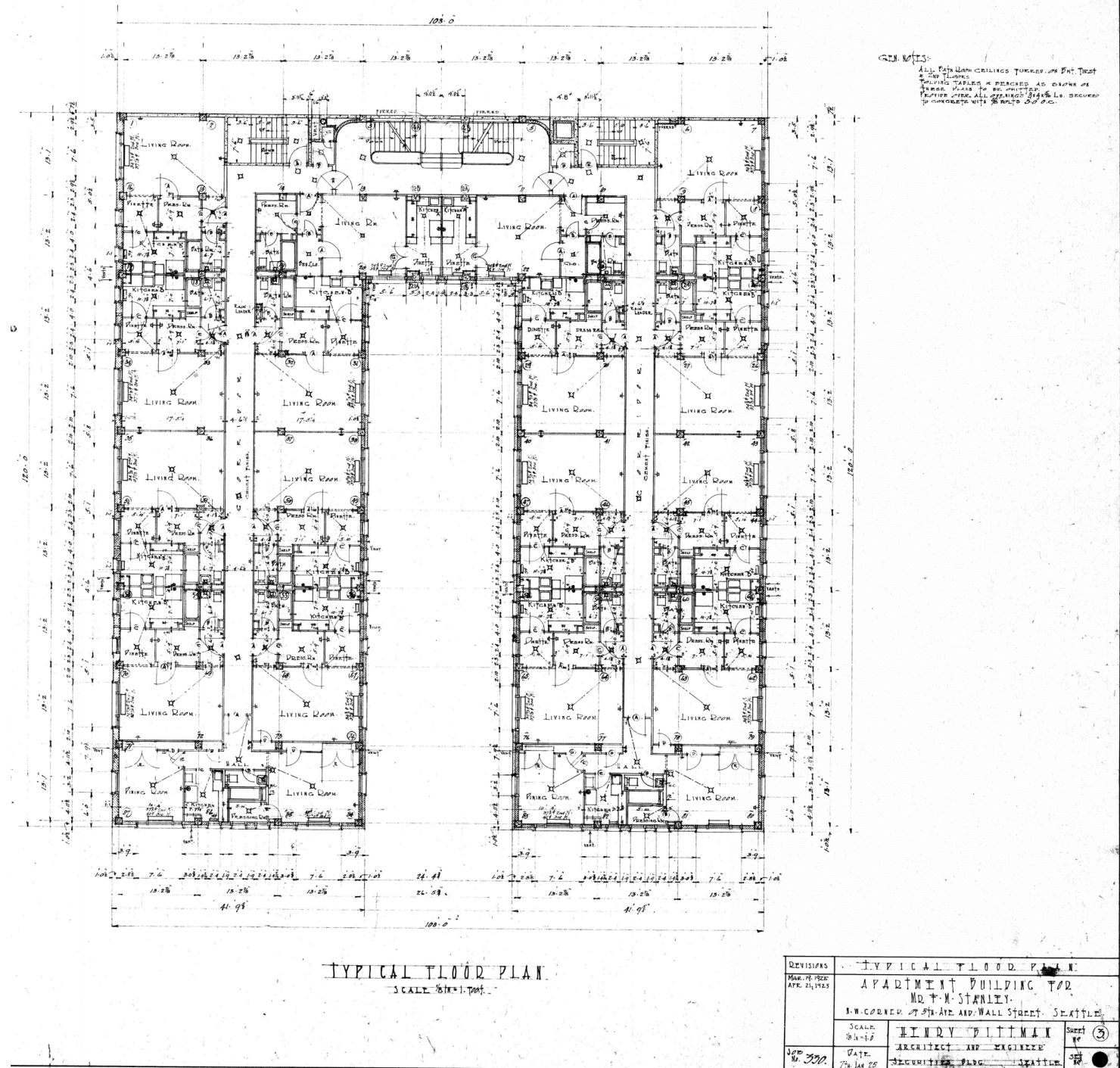
- TDC \$ 32 MM
- 62 Units, studios and 1 bedroom
- Belltown
- Low Income Individual, 50% and 60% AMI
- Occupied Rehab
- Seismic Retrofit
- Closing 9/19/23

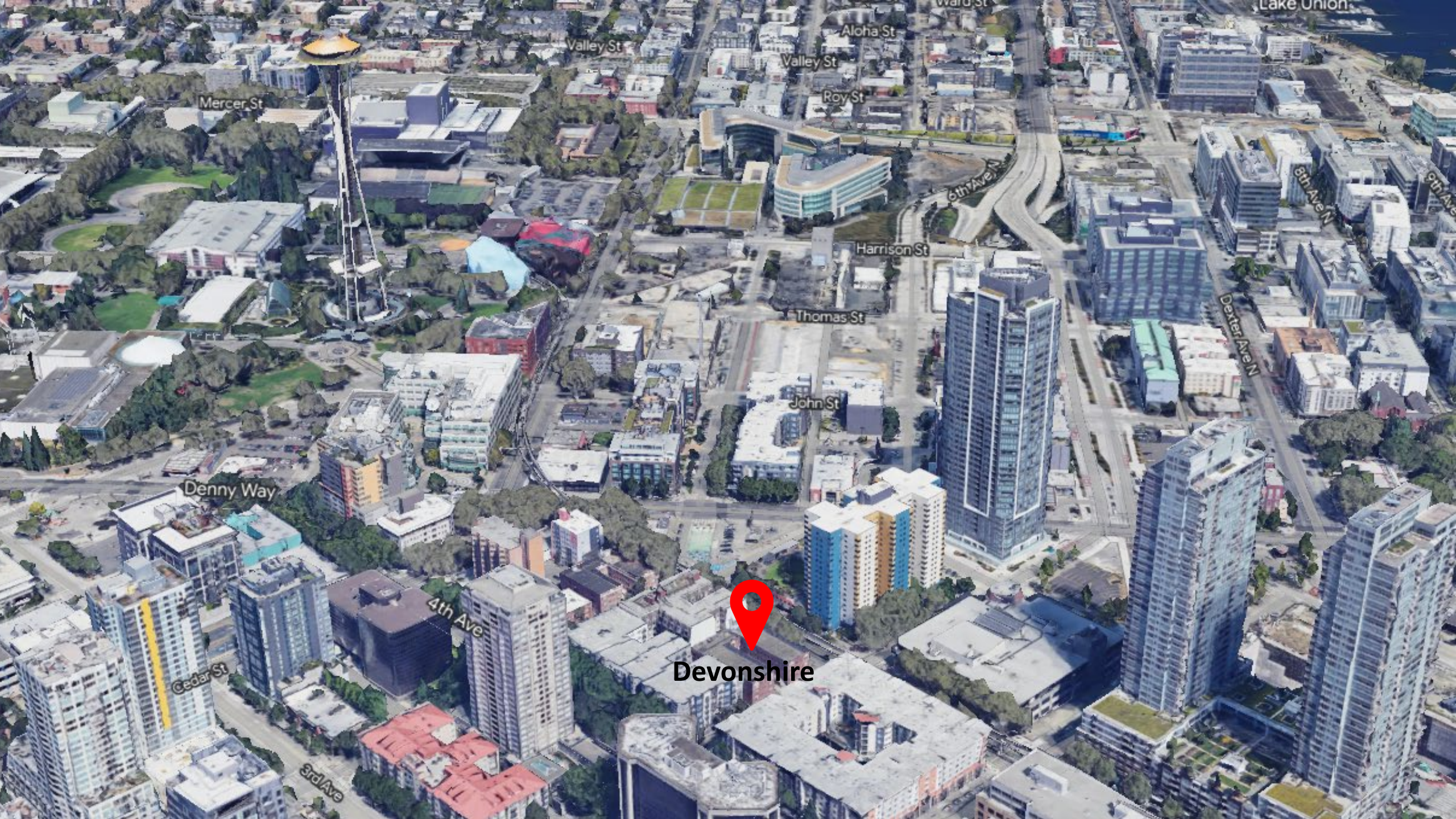


The Devonshire Apartments – Introduction:

- Was designed by Henry Bittman in 1925.
- Consists of 62 apartment units:
 - 54 studio units
 - 8 one-bedroom units
- No significant upgrades in nearly 100 years.

OAI conducted a Facility Condition Assessment in 2021 and determined that many of the buildings systems are nearing or at the end of their useful lifespan.





Devonshire

Mercer St

Valley St

Aloha St

Valley St

Roy St

6th Ave N

Harrison St

Thomas St

John St

Denny Way

4th Ave

Cedar St

3rd Ave

8th Ave N

9th Ave

Dexter Ave N

Lake Union

TIMELINE



- Built in 1925
- CRH purchased in 1993
- 2001-2005 Transfer of Development Rights
- 2012 signed an MOU with the Seattle Department of Neighborhoods
- 2021 experienced plumbing failure
- 2022 went in the OH – NOFA round
- 2023 closed on construction finance

The image shows several sheets of architectural blueprints rolled up and fanned out. The blueprints are white with black lines and text, showing various floor plans and dimensions. The dimensions are in millimeters and meters. The blueprints are set against a light blue background with a subtle grid pattern.

Devonshire – Scope of Work:

LIFE SAFETY & SECURITY IMPROVEMENTS

- Hazardous material abatement and removal.
- New automatic fire sprinklers and fire alarm system.
- New exterior access and security systems.

ACCESSIBILITY IMPROVEMENTS

- Unit conversion to Type “A” and Type “B” dwelling units.
- New ADA accessible parking stall and accessible routes.
- New ADA compliant fixtures, controls, and furnishings.

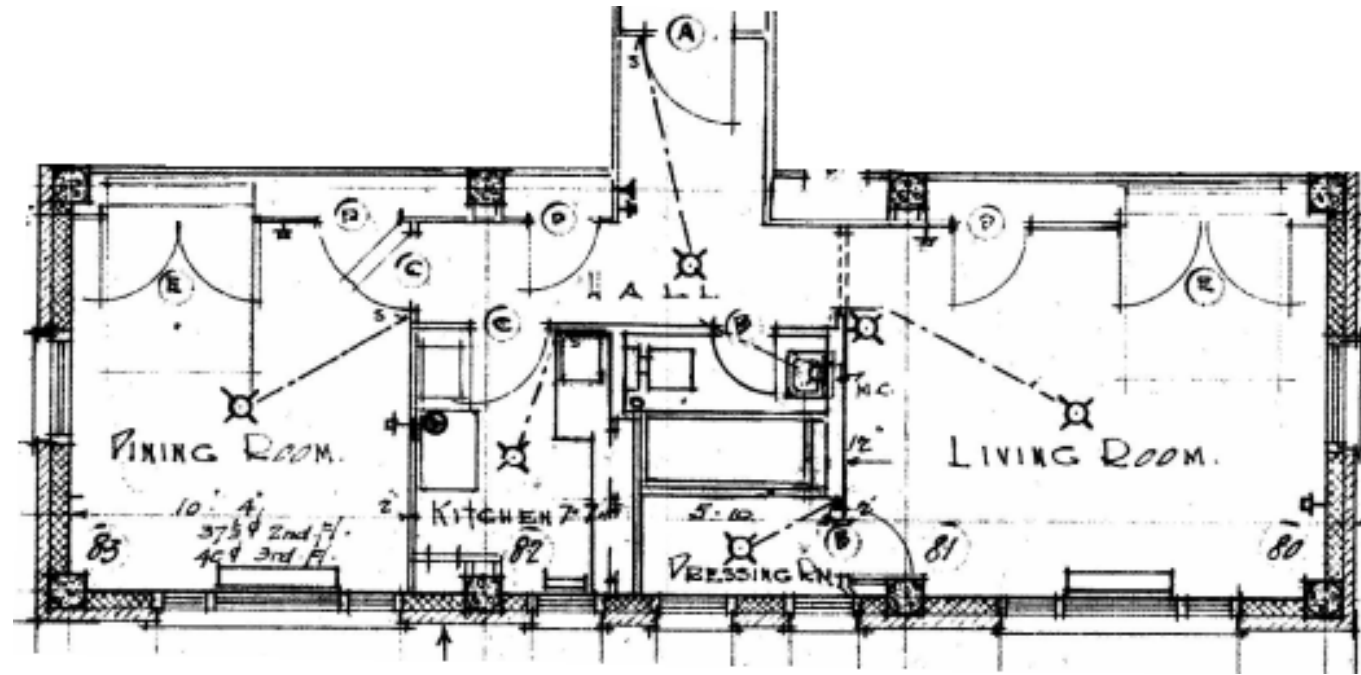
EXTERIOR ENVELOPE IMPROVEMENTS

- Masonry repairs and structural reinforcement.
- Membrane roof replacement.
- Exterior door and window replacement.
- Thermal insulation and air-barrier upgrades.

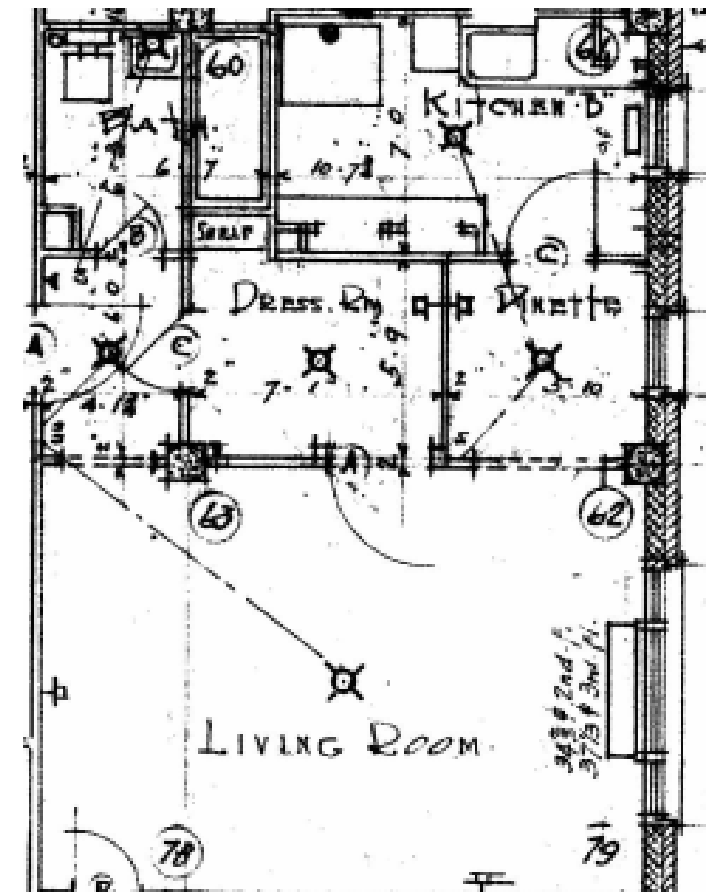
STRUCTURAL IMPROVEMENTS

- New concrete shear walls for added resistance.
- Seismic upgrades and reinforcement.
- Masonry veneer anchorage.

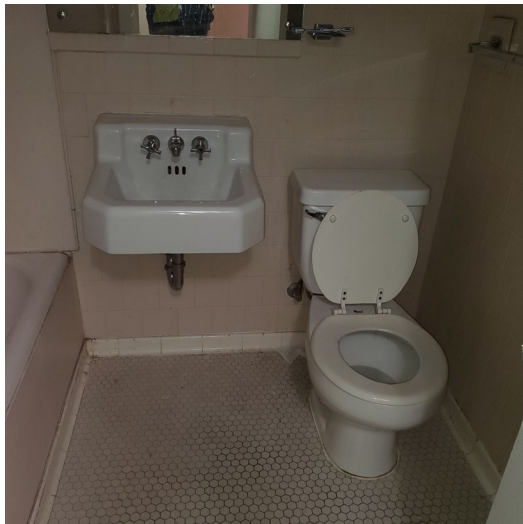
Devonshire – Existing Unit Floor Plans



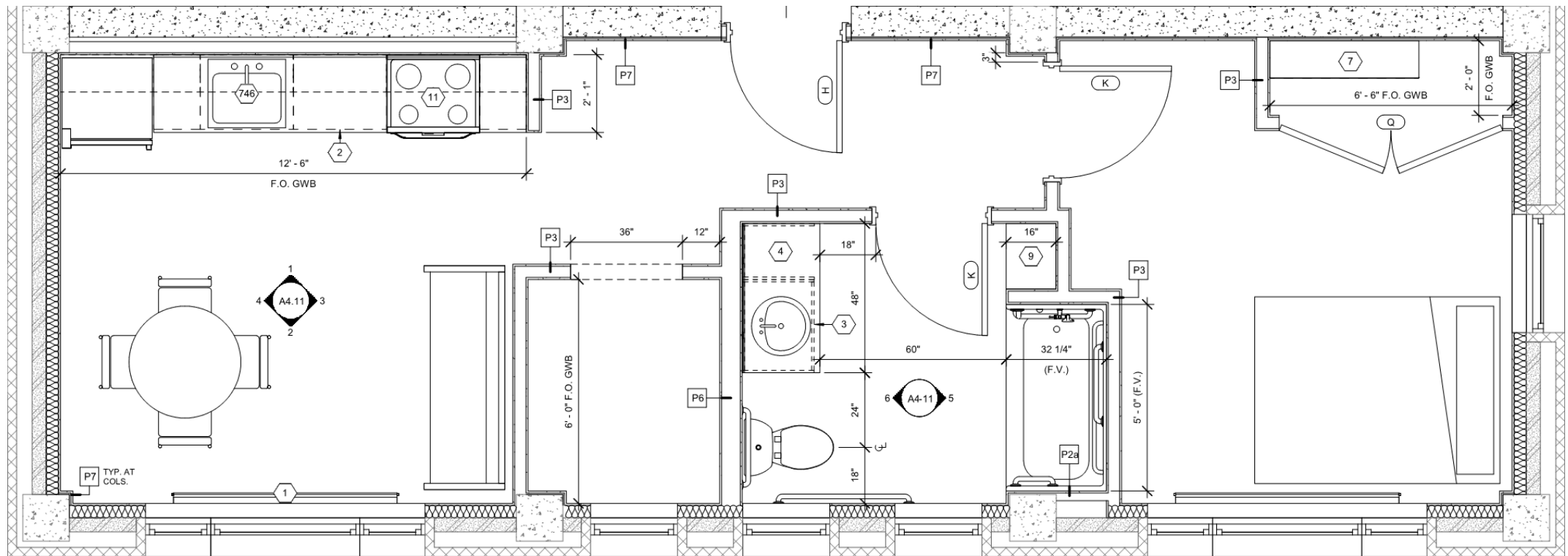
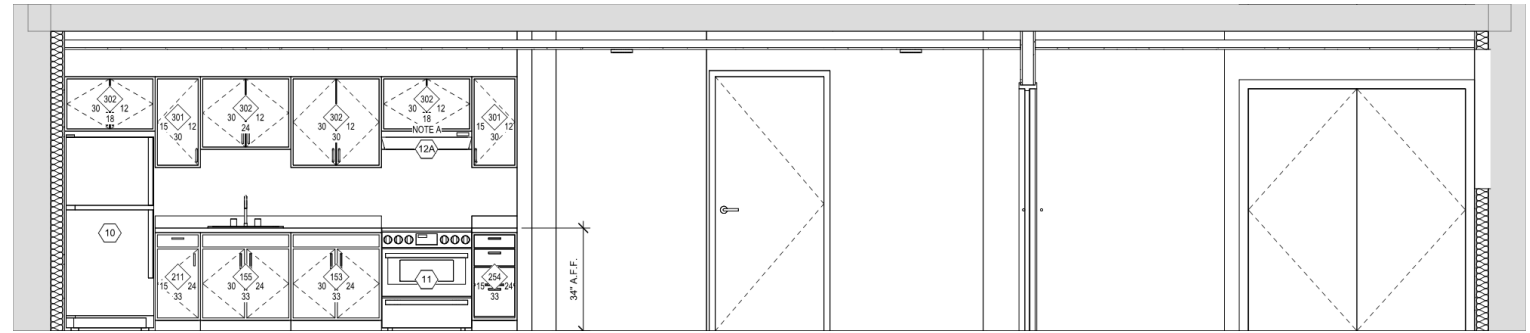
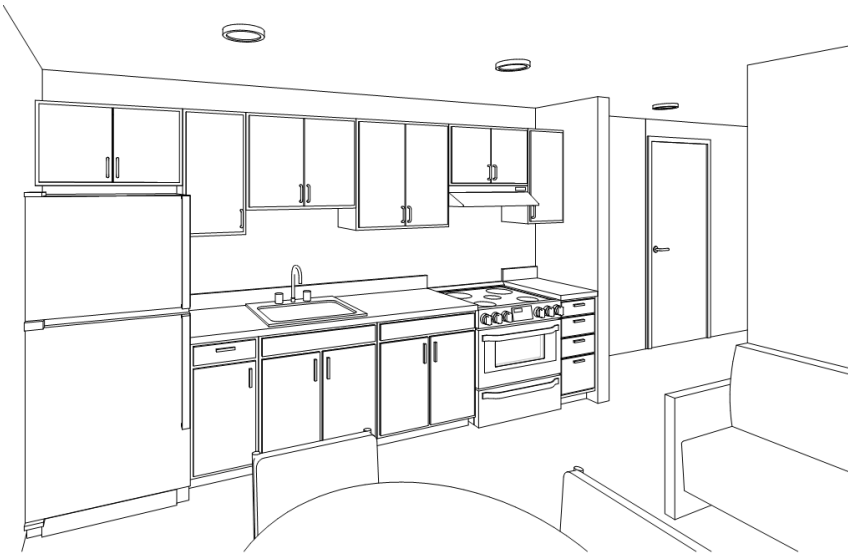
Existing 1-Bedroom Floor Plan



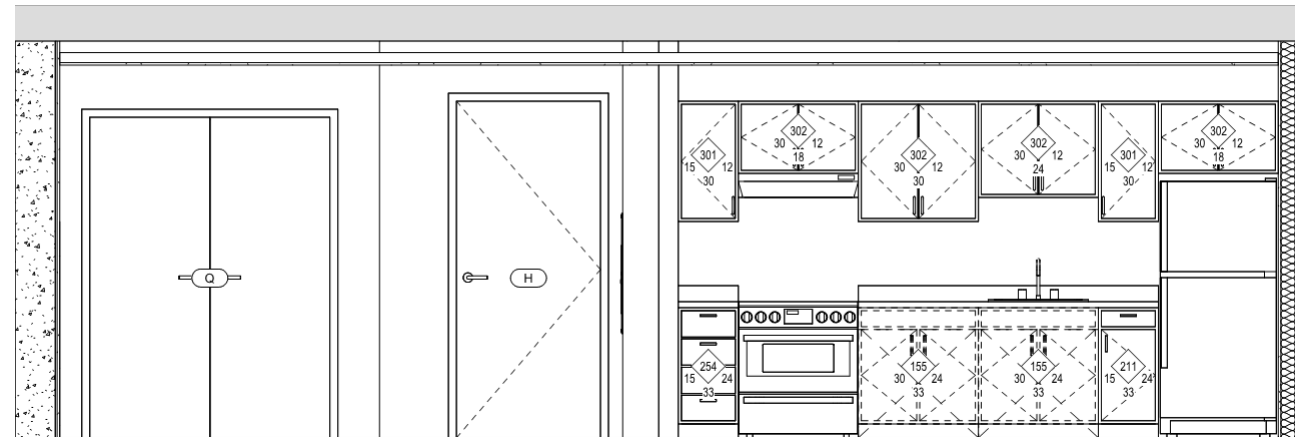
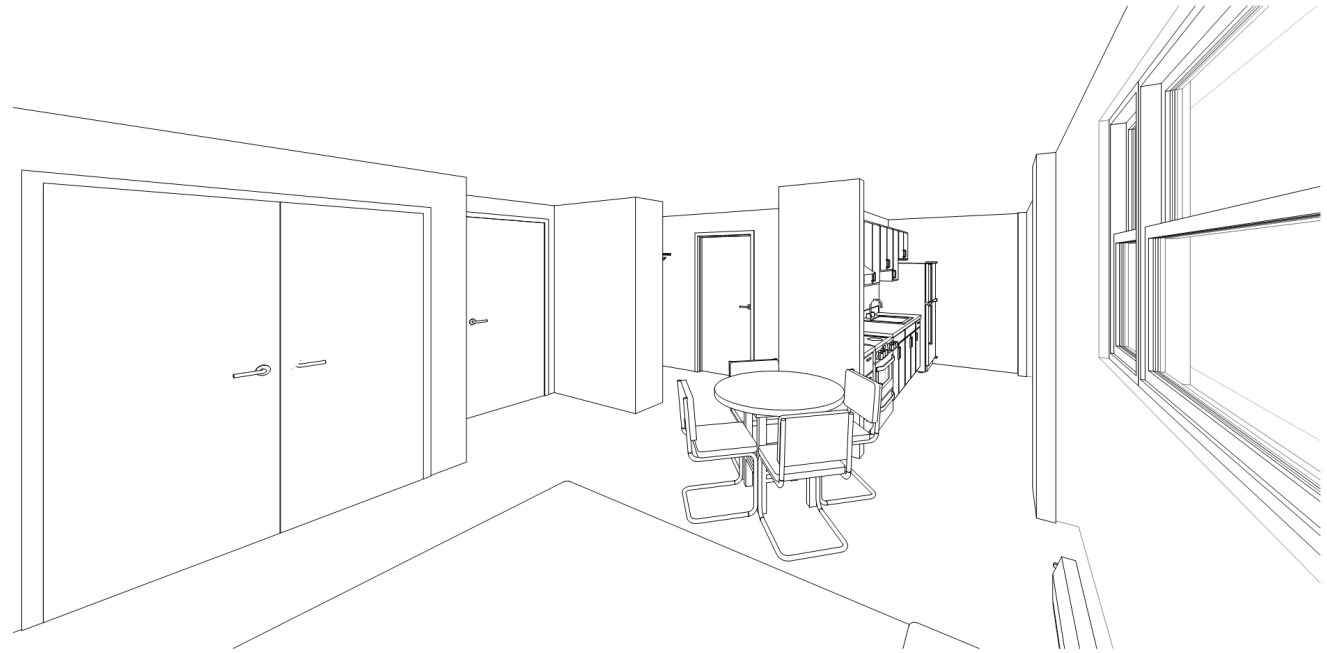
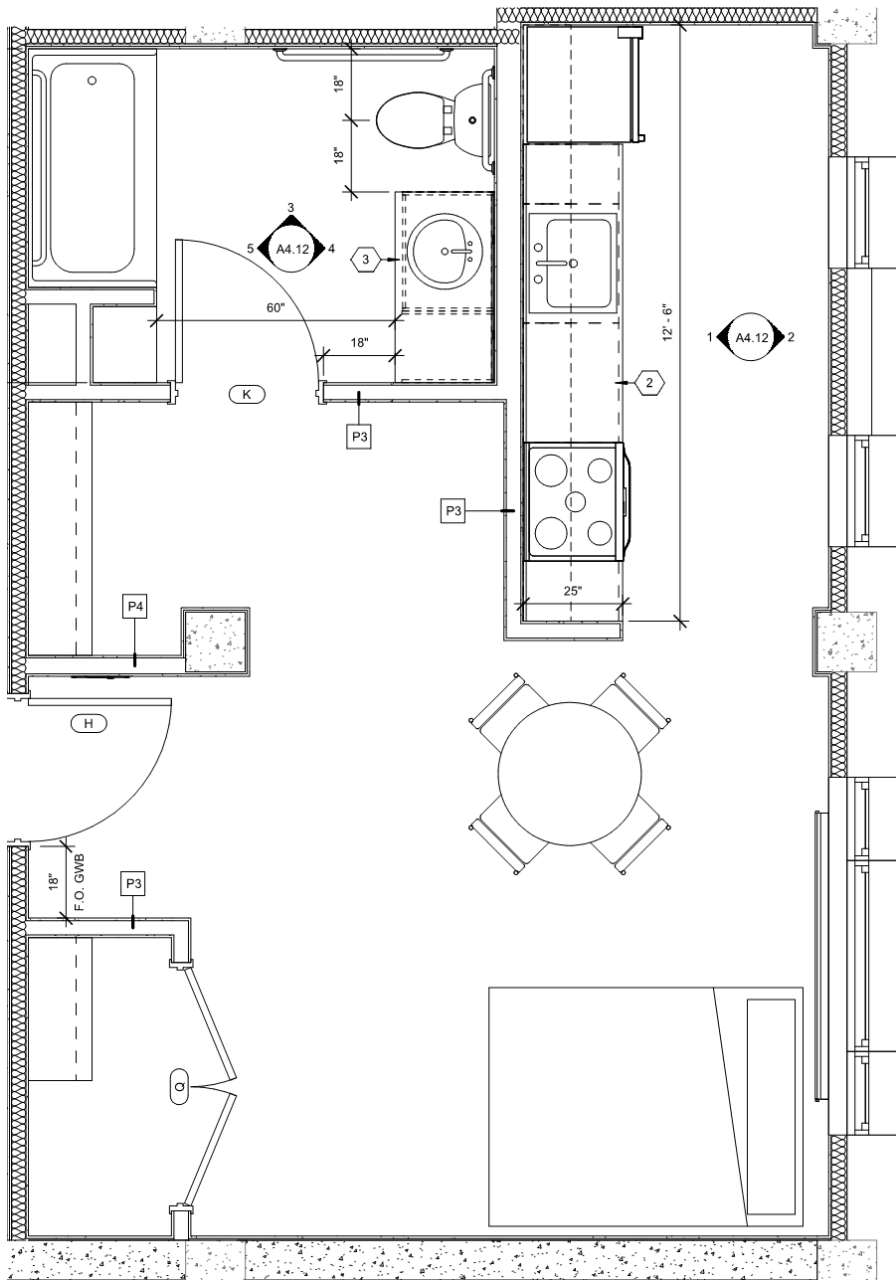
Existing Studio Floor Plan



Devonshire – 1 Bedroom Units



Devonshire – Studio Units





Example of Recent Renovations at “The Bremer” Apartments (Completed by CRH in 2021)



Example of Recent Renovations at “The Bremer” Apartments (Completed by CRH in 2021)

DEVONSHIRE APARTMENT - BUDGET

Uses	
Acquisition	4,900,000
Construction	18,552,000
Soft Costs	4,227,000
Reserves	345,000
Financing Costs	1,631,000
Syndication & Developer Fee	2,720,000
TOTAL	32,375,000

Sources	Construction	Permanent
Const Loan (Bond)	16,654,000	
Perm Loan		2,575,000
LIHTC Equity	1,332,000	13,316,000
Seller's Note	4,044,000	4,044,000
Office of Housing	7,500,000	10,275,000
Sponsor Loan	500,000	651,000
Deferred Dev Fee		1,516,000
TOTAL	30,030,000	32,377,000

QUESTIONS?



COMMUNITY ROOTS
— HOUSING —