June 2011 | Volume XXIII No. 6

TaxCreditAdvisor

PUBLISHED IN ASSOCIATION WITH THE NATIONAL HOUSING & REHABILITATION ASSOCIATION

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Ten Fifty B
San Diego, Calif.
Developer: Affirmed Housing Group
Category Winner, 2011 Edson Excellence Awards (see p. 19)

Part of Riverside Plaza, Minneapolis, Minn.

The Second Time Around

Historic Minneapolis Housing Complex Under Redevelopment With Fresh Tax Credits

As he oversees his biggest project ever, Minneapolis developer George Sherman is living out one of Yogi Berra's old lines – It's déjà vu all over again.

"Our first experience with low-income housing tax credits was on this same project – Riverside Plaza – in 1988. We acquired it through a negotiated sale from HUD, which had foreclosed on it. And we did a bond transaction using four percent credits. We got a whopping 50 cents per credit dollar [in equity], paid over a couple years"

This time around, Sherman's outfit, Sherman Associates, is re-syndicating and redeveloping the massive housing project – 1,303 units in 11 buildings occupying four city blocks – using various tax credits and other resources. "Hopefully we'll be done by October 2012," says Sherman.

The $132 million project will involve more than $60 million in renovations to the complex, which has about 4,500 residents, including a number of college students. Work includes replacing the plumbing, mechanical, and electrical systems; sealing the exterior of the buildings; installing new windows and doors; refurbishing all of the apartments and common areas; and other improvements.

Nearly 90% of the apartments will be LIHTC units; the rest market-rate. Of the 1,303 units, 669 will continue to receive project-based Section 8 rent subsidies. After completion, the projected initial monthly gross rents for the LIHTC units will range from $545 for efficiencies up to $1,295 for three-bedroom apartments. Market-rate rents will range from $795 for one-bedrooms up to $1,595 for four-bedrooms.

The improvements could cut the development's annual utility costs – now nearly $3 million, or 28% of annual operating expenses – by $500,000 to $1 million.

As with other pre-1990 LIHTC transactions, Riverside Plaza wasn't subject to a 30-year extended use commitment, but rather just a 15-year compliance period. After the compliance period expired, in the 2000s, Sherman Associates continued to operate the complex as affordable rental housing. But by now, the development was aging and in need of rehabilitation.


George Sherman

"We had known for a period of time that the property's mechanical systems had to be replaced," says Sherman. "The plumbing, both in domestic and hot water systems, had failed to the point of having routine emergencies and shutoffs and flooding of the buildings, because the pipes had deteriorated." Tenants often wait for 25 minutes to get hot water, letting the water run and driving up the property's water bills.

Sherman planned to seek fresh housing credits for a new acquisition/rehab transaction. But the timing was off.

"About the time we started to put a game plan together for the rehab of the project and the re-syndication," he recalls, "the market for credits evaporated." In addition, the massive size and scale of the development made it even tougher to win an allocation of 9% housing credits and to secure tax credit equity. "But that didn't stop us," Sherman notes.

After considering but ruling out an application for 9% housing tax credits, Sherman Associates pursued tax-exempt financing, which brings 4% credits. The U.S. Department of Housing and Urban Development (HUD) agreed to provide a new FHA-insured mortgage, and the city, state, and others committed to provide $15 million in gap financing. The new HUD Section 221(d)(4) loan, nearly $50 million and funded by bond proceeds, has a 42-year term and fixed interest rate of 5.895%.

But even with all these funds, Sherman still came up short. "That still left us with a thirty to forty million dollar gap. So we took the unusual step of looking at whether a 35-year-old building could be declared historic."

It's rare for a building less than 50 years ago to be certified as historic by the National Park Service. But Sherman Associates succeeded after just six months, and Riverside Plaza was listed on the National Register of Historic Places in December 2010.

Constructed during 1971-73, Riverside Plaza was designed by well-known local architect Ralph Rapson,

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and reflects modernism and brutalist architectural styles. The buildings range from two to 39 stories, and are 70% concrete/30% glass with colored glass panels.

Also significant is that Riverside Plaza (originally Cedar Square West) is one of only two projects (the other is Roosevelt Island in New York City) built and funded under HUD's "New Town, In Town" initiative. Under legislation enacted in 1968 and expanded in 1970, the U.S. government provided funding to encourage the development of four types of "new communities" across the U.S. The "New Town, In Town" communities, one of these, were to be very large self-contained mixed-use rental communities or "urban villages" with tenants of low to high incomes.

"This was just to be the first phase of a 10,000-unit project," says Sherman. "They only built the first 1,300 units before both the funding stopped and the financial model stopped working." Underwritten for the larger, ultimate size, Riverside Plaza struggled financially from the start and HUD foreclosed on its mortgage in 1987.

AEGON USA Realty Advisors LLC purchased the federal housing and historic tax credits, placing the investment in a proprietary fund for investor Google and providing nearly $44 million in equity. The developer elected to receive about $14 million in cash from the state in lieu of claiming the state historic credits.

The city of Minneapolis issued $69.9 million in tax-exempt bonds, of which nearly $50 million funded the HUD mortgage, and provided nearly $2 million in affordable housing trust fund monies. Other sources of soft funds included the Minnesota Housing Finance Agency (two loans), the Family Housing Fund, and the Greater Metropolitan Housing Corporation.

Tom Streitz, of the City of Minneapolis Department of Community Planning and Economic Development, praises the Riverside Plaza renovation project and says it is needed, estimating the local affordable rental housing vacancy rate at around 1%. "It's absolutely fantastic; it's something that needed to happen."


Tom Streitz

He noted, "The city's investment and the other investment that's going into this building is a huge statement about what we see as the future of this neighborhood being a transit hub, being a place where affordable housing and market-rate housing meet, and an important architectural symbol and an important symbol to the immigrant community of Minneapolis. There's a lot of value embodied in those buildings."

Riverside Plaza and the surrounding neighborhood are home to many East African immigrants. The neighborhood already has a station on one existing light rail line, and a second light rail line will be coming through in the near future. TCA

Riverside Plaza – Source and Uses Summary

SOURCES	
Tax-Exempt Bond Proceeds / HUD 221(d)(4) Mortgage - City of Minneapolis, AFL-CIO Housing Investment Trust	$49.950,000
4% Low-Income Housing Tax Credit Equity - AEGON USA Realty Advisors LLC	$29,106,635
Federal Historic Tax Credit Equity - AEGON USA Realty Advisors LLC	$14,767,244
State Historic Tax Credit Equity	$14,126,603.04
MHFA - PARIF Loan	$7,016,350.00
MHFA - EHDC Loan	$5,083,650.00
Family Housing Fund Loan	$200,000.00
CPED - AHTF Loan	$1,900,000.00
Met Council - LHIA Loan	$575,000.00
GMHC Loan	$1,300,000.00
Seller Note	$2,000,000.00
Rebates (Xcel/CenterPoint)	$400,000.00
Cash Flow from Operations for Development	$2,962,909.48
Deferred Developer Fee	$3,000,000
Total Sources	**$132,388,393**

USES	
Acquisition Cost	$41,300,000.00
Construction + Construction Contingency	$65,030,914.00
Architectural/Engineering/Legal Fees	$2,640,000.00
Construction Interest	$4,300,000.00
Other General Development/Financine Fees	$3,728,479.00
Relocation	$2,250,000.00
Reserves	$5,139,000.00
Total Development Cost	**$132,388,393**

MHFA – Minnesota Housing Finance Agency
CPED – City of Minneapolis Department of Community Planning and Economic Development
PARIF - Preservation Affordable Rental Investment Fund
EDHC - Economic Development and Housing Challenge Program
AHTF - Affordable Housing Trust Fund
GMHC – Greater Metropolitan Housing Corporation
LHIA- Metropolitan Council Local Housing Incentives Account - Metropolitan Livable Communities Act