



MBA's COMMERCIAL REAL ESTATE FINANCE/MULTIFAMILY  
HOUSING CONVENTION & EXPO  
Walt Disney World Swan And Dolphin, Orlando, Fla.

## **Case Studies in Financing Workforce Housing**

**Summerwood Apartments/Verano Condominiums  
Redmond, Washington**

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# Summerwood Apartments/ Verano Condominiums



## Mixed Income Features:

- 112 Rental apartments targeted at 30%, 50% & 60% of AMI and 6 market rate apartments
- 48 For Sale condominium units targeted at 80% - 110% of AMI

## Financing and Equity Sources:

- Rental:
  - LIHTCs
  - FHA Section 221(d)(4) Loan
  - 3 Secondary financing sources
- Condominiums: Sponsor equity and bank loan

## Developer Motivation:

- Sponsor Mission Driven Development
- Preservation of Affordable Housing
  - Property was in bankruptcy and the sponsor competed with condominium converters to purchase the property
- Providing a ladder to homeownership
- Community building and revitalization

## Overview of Project and Financing

- Acquisition and Rehab of 190-unit rental property into 118 affordable apartments and 42 affordable For-Sale condominiums
  - Converted 48 one- and two-bedroom units into 24 three- and four-bedroom units for large families
  - Included 6 units designed for developmentally challenged residents
- Incomes targeted: 30%, 50% & 60% of AMI
- Developers Objectives:
  - Prevent displacement of a vulnerable resident population
  - Preserve affordable rental housing for families in a high income suburban city
  - Provide a ladder to homeownership by offering homeownership within a mixed income continuum

## Overview of Project and Financing (*Continued*)

- Construction/Conversion Goals:
  - Perform life cycle property repairs and correct deferred maintenance
  - Unit mix conversion
  - Implement significant energy saving improvements
- Affordability Restrictions:
  - 32 rental at 30% AMI
  - 44 rental at 50% AMI
  - 10 rental at 60% AMI
  - 23 Project Based Section 8
  - 6 rental at Market
  - 48 condominiums at 80-110% AMI

# Summerwood Apartments/ Verano Condominiums



## Overview of Project and Financing *(Continued)*

- Unique Features of Affordability:
  - Condominium affordability was sponsor defined – no regulatory agreement with city
- Gap between rents:
  - Tight rental market allowed rents to equal LIHTC rents
  - Market rents in area were well above LIHTC limits
- Source of permanent financing:
  - Rental apartments:
    - FHA Section 221(d)(4) Loan
    - Soft second financing from State of Washington, King County, ARCH and King County HA Weatherization Program
    - 9% Low Income Housing Tax Credit Equity

# Summerwood Apartments/ Verano Condominiums



## Overview of Project and Financing (*Continued*)

- Source of permanent financing (*con't*):
  - Condominiums:
    - Individual bank loans to purchasers
    - Soft second mortgages from sponsor – 15 yr @ 3% simple interest
- Underwriting guidelines for permanent debt
  - FHA Section 221(d)(4): 1.15 DSC (per LIHTC investor), 40 years fully amortizing, fixed rate
- Closing Date: November 30, 2005
- Cost Per Unit: \$195,594
- Total Development Costs: \$32,468,525
  - Rental Apartments: \$22,709,525
  - Condominiums: \$ 9,759,000

## Strategic Goals:

1. Preserve affordable rental housing in rapidly inflating market
2. Strategically introduce mixed income/mixed use model (rental & for sale)

- Why was this development model selected?
  - The high costs of preserving workforce housing required drawing on multiple funding sources
  - This development model supported mixed income and mixed tenure housing in response to local needs
- Why was this financing selected?
  - The FHA Section 221 (d)(4) Loan provided the highest loan proceeds and most stable long term financing
  - The larger permanent loan meant less gap financing was needed from other public funding sources – a significant local political issue
  - The LIHTCs on the rental housing component helped fund the development overhead costs which minimized the development cost on the condominium portion

# Summerwood Apartments/ Verano Condominiums



**Pool, Cabana Units**

## Financial Overview – Sources and Uses of Funds

• Project Use of Funds	
• Land acquisition	\$ 2,320,507
• Building acquisition	\$10,853,986
• Hard Costs	\$ 4,454,509
• Soft costs	\$ 4,765,997
• Subtotal Development Costs	\$22,394,999
• Initial Deposit to Replacement Reserves	\$ 70,000
• Lease up reserves	\$ 244,526
• Total Project Costs	\$22,709,525

## Financial Overview – Sources and Uses of Funds

- Project Sources

• Permanent first mortgage	\$ 8,591,300
• Private Equity – Sponsor Loan	\$ 777,042
• LIHTC/NMTC Equity	\$ 7,206,360
• Secondary Public Loans (State, County, Cities)	\$ 4,427,804
• Grant (source, eg housing trust fund)	\$ 0
• Deferred Developer Fee	\$ 1,500,000
• Development Cash Flow	\$ 207,019
• Total Project Sources	\$ 22,709,525

## Lessons Learned

- Lesson 1: Unit conversion proved more costly and complicated than anticipated.
- Lesson 2: Complexity required an unusual level of coordination between owner, contractor, management and all funding sources
- Lesson 3: Decision to convert the project to gas heat and hot water was made during construction. This decision should have been made during project development.

## Who Was Involved?

- Sponsor/Developer: Downtown Action to Save Housing (DASH)
- Mortgage Banker: Prudential Huntoon Paige Associates, Ltd.
- Perm debt source: FHA Section 221(d)(4) Loan
- Equity sources: 9% LIHTCs and DASH
- Local government tools: Soft second financing from the State of Washington, King County, ARCH, (a consortium of 15 suburban cities), and King County Housing Authority Weatherization Program
- Contractor: Synergy Construction
- Architect: Kovolenko Hale Architects