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

Case Studies in Financing Workforce Housing

Monday, February 4
2:00 – 3:15 pm



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Case Studies in Financing Workforce Housing

Muriel Watkins

**Housing Opportunity & Concepts
Housing Opportunities Commission
of Montgomery County, Maryland**

Preserving Affordable and Workforce Housing



- **Mixed Income Features:** Acquisition and rehabilitation of 157-unit mixed-income, mid-rise apartment community
- **Financing and Equity Sources:**
 - **Mixed financing:** tax exempt and taxable financing, low income housing tax credits, agency contribution and deferred developer fee.
- **Developer Motivation:** To maintain mixed-income tenancy.
 - Montgomery County has had a longstanding focus on creating mixed-income developments.
 - Having up to 50% of most rental properties market rate has helped assure a project's financial viability and community acceptance of affordable housing in a high cost urbanized suburb.



Overview of Project and Financing

The Barclay Apartments

Number of units: 157

Incomes targeted:

- Number units targeted affordable: 81 LIHTC units
- Number of market rate units: 76 units

• Developers Objectives:

- Preserving existing affordable housing
- Avoiding displacement of existing residents with low and moderate incomes



Overview of Project and Financing (Continued)

- **Construction Goals:** Renovation of an older mid-rise apartment
- **Changes to Layouts:**
 - Include contemporary interior design features in the units, halls and exterior to attract market rate tenants
 - Add amenities, including updated laundry room, gym, and new landscaping
- **Unique Features of Affordability:** Condominium Regime with two ownership entities:
 - Barclay One Associates Limited Partnership, a tax credit partnership with M&T Bank as the Limited Partner with 99.9% interest and HOC as the General Partner – owner of 81 LIHTC units
 - Barclay Apartments Development Corporation (BADDC), an entity wholly owned by HOC – owner of 76 market rate units



Overview of Project and Financing (Continued)

- **Source of primary financing:** Loans insured under the FHA Risk Sharing Program secured by 2 notes (“Primary Financing Notes”)
 - \$6,775,732 for 81 tax credit units
 - \$10,557,738 for 76 market rate units
 - Primary Financing Notes provided for “interest only” payments during the 18 month renovation construction period.
- **Gap between rents:**

Apartment Size	No. of Occupants	Tax Credit Rent	Market Rent*
Studio (423 sq. ft.)	1	\$850	\$1,100
1 Bedroom (614 sq. ft.)	2	\$890	\$1,250
2 Bedroom (766 sq. ft.)	4	\$1,063	\$1,425

*Rent prices do not include electricity. Parking is also paid separately at \$60 per month.



Overview of Project and Financing (continued)

- **Closing Date:** Loans closed January 2005
- **Renovation completed:** September 2006
- **Cost Per Unit:** Approximately \$50,000 per unit renovation that included the modernization of kitchens, bathrooms, halls and upgrades to the heating and cooling system, new windows, and electrical and plumbing upgrades.
- **Total Development Costs:**
 - Acquisition Cost: \$12.1 million
 - Renovation cost: \$ 8 million.



Financial Overview – Sources and Uses of Funds

Project Use of Funds

❖ Acquisition	\$12,100,000
❖ Construction	\$ 7,897,986
❖ Design & Engineering	\$ 370,315
❖ Development Fee	\$ 2,232,412
❖ Financing Fees & Interest	\$ 1,838,477
❖ Other Costs	\$ 2,281,322
Total Project Cost	\$26,720,512

Project Sources

❖ Tax Exempt Financing	\$10,557,738
❖ Taxable Financing	\$ 6,775,731
❖ Tax Credit Equity	\$ 4,382,267
❖ Interim Income	\$ 266,538
❖ Deferred Developer Fee	\$ 257,412
❖ HOC Contribution	\$ 4,480,826
Total Project Cost	\$ 26,720,512



Strategic Goals:

- Preserve affordable rental housing in rapidly inflating market.
 - Contribute to County efforts to ensure long term affordability of housing for existing tenants and new residents moving into the County.
 - High cost of for-sale housing and a condominium market in flux has turned would-be homeowners into longer term renters.
 - Housing that is affordable for residents and workers in the County is critical to maintaining an income balance and retaining qualified employees and local businesses.



Nestled within a serene residential area, the Barclay Apartments offer a unique living experience in the heart of Bethesda. Location, amenities, and exceptional resident services make our community an inviting place to call home.



Why was this development model selected?

❖ Location! Location! Location!

- Property located near an older and now revitalized commercial business district, that can be characterized as early “new urbanism.”
- Apartments convenient to major transportation corridors and the Bethesda Metro transit station.
- Residents are within 100 yards of the Capital Crescent Trail, an 11 mile walker, jogger, biker recreational trail developed along the abandoned railbed of the B&O Railroad from D.C. Georgetown to Bethesda.

Why was the financing selected?

- The market would have allowed rent increases exceeding 25%.
- HOC wanted to minimize rent increases for existing tenants.



Lessons Learned

- Lesson 1 – To maintain mixed-income tenancy, renovation of an older property must add design features to make the property competitive with other market rate properties.
- Lesson 2 - New residents moving from outside the metropolitan area choose garden apartments with contemporary modernization.
- Lesson 3 – Stabilized occupancy levels of 100% are achieved for mixed-income mid-rise and garden apartments with contemporary features close to public transportation and a vibrant commercial business district (CBD).



Who Was Involved?

- Sponsor/Developer: **Housing Opportunities Commission (HOC)** of Montgomery County, Maryland
- Bond underwriter: **Merrill Lynch**
- Financial Advisor: **Caine Mitter**
- Equity sources: **M&T Bank**
- Architect: **EDC Architects**
- General Contractor: **Hamel Builders**
- Property Manager: **Gables Residential**



HO&C as a Real Estate Development Partner

- HO&C has the depth and breadth of experience in creating mixed income workforce and affordable housing in a high cost area.
- Recent developments offer affordable and market rate units within walking distance of transportation hubs that meet state and county smart-growth strategies.
- Consulting team experienced in the use of innovative and layered financing and sophisticated analytical tools to structure deals optimally.
- Positioned to provide the full range of services required to advance mixed-income, mixed-use development projects.
- **Contact: Muriel Watkins**
Phone: 240 773-9118 / E-mail: muriel.watkins@hocmc.org