



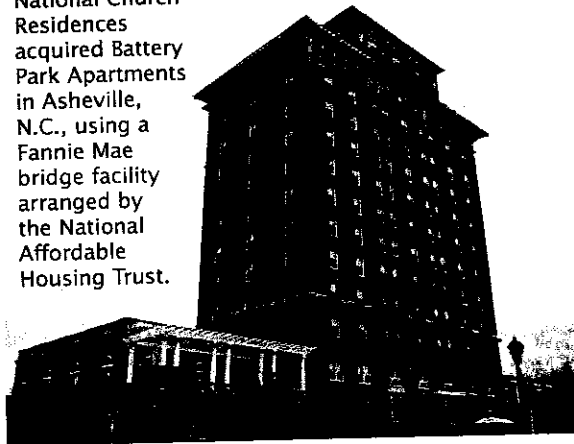
Nonprofits pay market prices to preserve affordability

By William C. Kelly Jr.

A few scattered efforts have become a trend. Genuine nonprofits are paying market value for portfolios of at-risk low-income apartment properties and are committed to keeping them permanently affordable to low-income families and seniors. Neither far-flung locations nor extra zeroes in the purchase prices intimidate them (see sidebar on page 33). Sellers once skeptical about the ability of nonprofits to close large deals are fast becoming believers.

With backing from their boards of directors, these nonprofits are making it their mission to do something about the loss of affordable housing from opt-outs in strong markets and from disinvestment in weak markets. They have scaled

National Church Residences acquired Battery Park Apartments in Asheville, N.C., using a Fannie Mae bridge facility arranged by the National Affordable Housing Trust.



up from the purchase of an occasional property to a focus on portfolios. Learning from their experiences in the 1990s with LIHPRHA properties, they are taking care to assure that all of a property's physical needs are met in connection with each acquisition.

The nonprofits' regulatory and financing expertise at least matches that of others in the industry. Their financing tools include 9% housing tax credits, tax-exempt bonds with 4% tax credits, Sec. 501(c)(3) bonds,

Mark-up-to-Market Sec. 8 contracts, the assignment of Mark-to-Market secondary financing, partial seller financing, soft secondary financing, and payment-in-lieu-of-tax agreements. The typical financing uses several of these tools.

To handle negotiation, due diligence, financing, rehabilitation and property management, the organizations have sharply increased their staffing levels. When in-house staffing is short in a particular location or field, a nonprofit retains third-party for-profit or nonprofit diligence advisers, developers and property managers.

These buyers know they have to be competitive in price and timing. It often takes months or years to obtain the subsidy awards they need to pay competitive prices while maintaining affordability. To make this possible, several nonprofits, including the National Affordable Housing Trust (NAHT), have secured lines of bridge financing from Fannie Mae's American Communities Fund. NAHT administers a \$25 million revolving credit facility and, under its current authorization from Fannie Mae, may make loans only to its members – Retirement Housing Foundation, Volunteers of America and National Church Residences (NCR). NCR made the first use of this facility, borrowing \$4.7 million at 5% to acquire Battery Park Apartments in Asheville, N.C.

Nonprofits also have access to new bridge products from Prudential Mortgage Capital Co., funded in part by the Prudential Foundation, the John D. and Catherine T. MacArthur Foundation and the Fannie Mae Foundation.

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One of Prudential's products, the Preservation Loan Fund, offers nonrecourse subordinate loans that allow qualifying nonprofit borrowers to achieve 97% debt financing. A portion of the interest may accrue, enhancing the ability of nonprofits to pay market value.

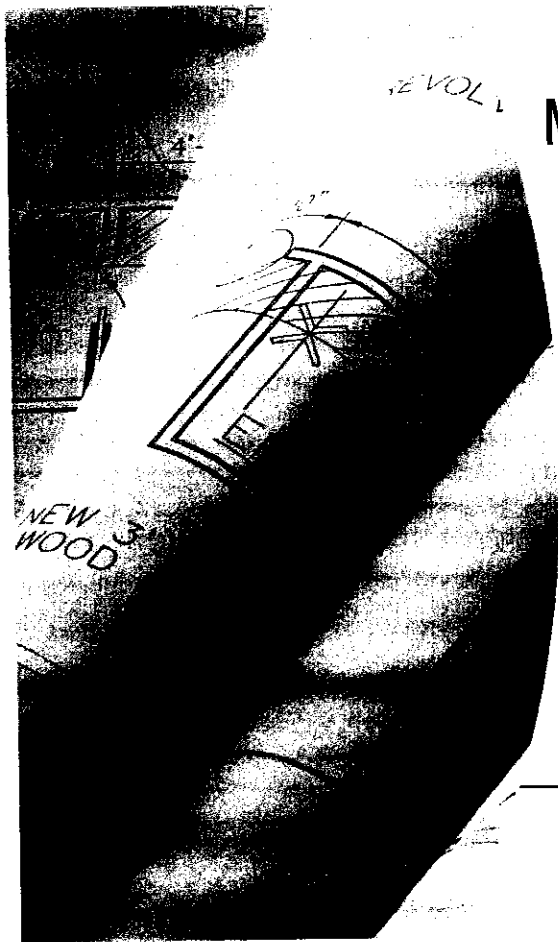
Government agencies at all levels have begun to seek sophisticated nonprofits as their preservation partners. When Pacifica, Calif., faced the loss of scarce affordable seniors apartments, the city condemned the housing to avoid its conversion to market rate and it subsidized NCR to buy and preserve it. The Department of Housing and Urban Development (HUD) field offices have brought in nonprofits to take over neglected or otherwise troubled portfolios. State housing finance agencies have been generous in awarding tax-exempt bond cap for nonprofit preservation and have modified their tax credit allocation plans to give greater emphasis to preservation. On selected topics, HUD, the Office of Multifamily Housing Assistance Restructuring and the Rural Housing Service have shown policy flexibility.

Of course, challenges remain. Among them are public policy obstacles. Archaic housing program rules designed to protect "mom and pop" nonprofits can hobble sophisticated

Nonprofits ride to the rescue

Here's a sampling of what some of the larger nonprofits have been able to accomplish so far to preserve permanent affordability for low-income properties around the country:

- Retirement Housing Foundation acquired a portfolio of eight subsidized properties in the Boston area in financings that totaled nearly \$200 million and is working to overcome regulatory barriers to buy the rest of the seller's 21-property portfolio.
- Mercy Housing purchased a group of 17 rural housing properties in Washington state.
- National Church Residences took over portfolios in Georgia, North Carolina, and Wisconsin.
- Preservation of Affordable Housing, Inc., acquired a 19-property portfolio in Missouri and two properties from a Michigan portfolio.
- NHT/Enterprise Preservation Corp. has made acquisitions in seven states and the District of Columbia.
- Volunteers of America secured a 500-unit portfolio in St. Louis.
- The NHP Foundation bought affordable unsubsidized properties in 13 states.



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Nonprofits

nonprofits by treating them as if they were inherently less competent than for-profit developers.

Other regulations ban "distributions" from nonprofits, adopted to prevent individuals from misusing the nonprofit form to enrich themselves. As applied, though, the ban has the effect of bottling up operating cash flow and recapitalization proceeds in the single-purpose owner entities required by the Federal Housing Administration or other lenders. The result is that funds cannot be "upstreamed" to parent nonprofits, even where there is no issue of personal enrichment. Collectively, these policies retard the nonprofits' accumulation of capital for acquisition and preservation.

In 2002, the eight nonprofits whose acquisitions are noted in the sidebar (page 33) formed Stewards of Affordable Housing for the Future (SAHF, pronounced "safe"). Among them, they own or manage more than 60,000 apartments in 41 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. Half of them are faith-based. The John D. and Catherine T. MacArthur Foundation has provided start-up funding to SAHF, partially matched by the nonprofits themselves, who are also seeking additional grant funding.


SAHF's research agenda ranges from the special issues

that affect nonprofits to broader issues such as the appropriate standards for exit-tax relief. In addition to its research and policy agenda, the members use SAHF as a forum for sharing acquisition expertise and, in some cases, aggregating their capacities to enable them to acquire larger portfolios.




Other challenges include developing a better understanding of the needs and goals of various types of sellers, being strategic about when and where to invest diligence resources on widely marketed properties, and building greater awareness among owners and concerned public officials of the nonprofits' capacities to handle large transactions.

Even in the face of these continuing obstacles, the transactions that have actually closed show the emergence of a new class of nonprofit portfolio buyers for preservation. And their commitment to permanent affordability means that in 15 or 30 years from now, scarce public subsidies will not have to be used once again to pay for appreciation of the underlying real estate. ■

For 25 years, Bill Kelly was a finance and real estate partner at Latham & Watkins, LLP, in Washington, D.C., where he represented housing nonprofits. He took early retirement recently to focus on the acquisition and preservation by nonprofits of portfolios of affordable housing and serves as an adviser to Stewards of Affordable Housing for the Future and its members.



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