Novogradac
Journal of Tax Credits
News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits
February 2019 • Volume X • Issue II
Published by Novogradac & Company LLP

Georgia Public Housing Renovated in Second RAD Transaction

BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC & COMPANY LLP

A former public housing property in Eatonton, Ga., is being renovated through the U.S. Department of Housing and Urban Development's (HUD's) Rental Assistance Demonstration (RAD) program–the complex's second RAD transaction.

Lawson Montgomery Homes, a 114-home complex, converted from HUD's public housing platform to Section 8 via RAD in a 2014 transaction that involved the Eatonton Housing Authority (EHA) making substantial deposits to fund future repairs. Within a few years, a new plan arose to complete a rehab and upgrade of the property using equity from state and federal low-income housing tax credits (LIHTCs).

"Like other housing authorities, we have experienced challenges with reduced funding," said Vonda Gibson, executive director of the EHA.

The opportunity to use RAD to transfer its entire inventory to the Section 8 platform–and then to get funding for needed upgrades–was too much to pass up. EHA teamed with Wisconsin-based Bear Real Estate Group, which served as the developer (Bear Development) and construction company (Construction Management Associates Inc.).

The renovation will be done in six phases. The first started in September 2018 and the final phase will end in November.

Sound Partnership

The partnership among Bear Development, EHA and U.S. Bancorp Community Development Corporation (USBCDC) started with a fourth partner: the Lightengale Group, which works with Bear Development.

"We've done a fair amount of development under RAD and have built relationships with many different professionals in the industry," said Adam Templer, vice president at Bear Development. "This is our first deal in Georgia, but there was a common

continued on page 2

continued from page 1

relationship between the Lightengale Group and a housing consultant working with EHA. This connection led us to building a relationship with EHA."

Introductions were made.

"This transaction fits within our box with RAD deals and partnering with PHAs. We tend to not work with really large agencies, but more with agencies that have 1,000 public housing units or less," Templer said. "We are very relationship-based. These transactions are always difficult and complex, so it is essential that we work with very well-run housing authorities with strong executive directors and boards of directors."

USBCDC, which invested in both state and federal LIHTCs, was comfortable with Bear.

"Starting a relationship with a new client doing their first deal in a new state isn't our typical business model, but as we got to know Bear better, we gained comfort in pursuing this opportunity," said Kyle Kochtanek, business development officer in affordable housing at USBCDC. "On top of Bear's expertise was the Eatonton Housing Authority, which has owned the property since 1949. Together, it makes for a great partnership–both near- and long-term–to drive improvements for a development in need of a revitalization."

RAD Double Deal

Undergoing a transition to RAD in 2014 and using LIHTCs under RAD in 2018 make Lawson Montgomery Homes unusual, but not unique.

"I've seen some [double-up RAD transactions], but it's fairly unusual," Templer said. "To convert to Section 8 with RAD requires that the PHA prove it can meet the physical needs of the development over the next 20 years. It is usually not possible to do this without the use of loan or tax credit proceeds. Without these financing sources, it requires the public housing units that are being converted to be in good physical condition and the PHA to be in a strong financial position, which allows it to make a large reserve deposit to fund future repairs."

That's what happened in Eatonton, where the EHA wanted to get involved in RAD early.

"We wanted to get in fast," Gibson said. "We did a needs assessment and because of the good maintenance, we didn't need a loan. We could maintain our reserves and have a good cash flow under Section 8, which guaranteed funding."

After a few years, EHA decided to fund major rehab work with tax credits and USBCDC was an eager investor.

"We've seen an uptick in RAD deals over the past couple of years and fully expect that trend to continue," Kochtanek said. "In this case, there are 114 units that have a history of being occupied with a waitlist and a subsidy on all of it. We like to invest in deals that demonstrate a history of strong demand and good management practices, both of which are the case with Lawson Montgomery Homes."

Well-Maintained Buildings

Although EHA and Bear Development saw the need for improvement, the Lawson-Montgomery Homes were in good shape.

"I think the housing authority did a good job over the years of maintaining them," Templer said. "They have good management and a professional maintenance staff. The buildings are brick. ... The biggest thing is they needed cosmetic updates–floors, cabinets, appliances, adding washers and dryers."

continued on page 3

continued from page 2

EHA received modernization grants in the 1990s and kept the buildings relatively updated. That was one of the primary factors.

"We have an excellent maintenance crew," Gibson said. "We had an excellent architect who worked with us with competitive grants and scheduled modernization over the years. We got all-new roofs [in 2013 with insurance funding] after a hailstorm. I feel like everything fell in place."

For USBCDC, that was important.

"We know this isn't a deferred-maintenance issue–the housing authority took good care of it," Kochtanek said. "In addition to modernizing the interiors, the budget allowed us to tackle some bigger-ticket items to ensure the long-term viability of the project."

The upgraded homes will still be managed by the EHA.

"The housing authority has always managed the property and part of our agreement with EHA is for it to continue with property management," Templer said.

Gibson said it was a natural fit.

"We've got a great staff of long-term employees," Gibson said. "I feel like we have a good team that does a great job. Our board of commissioners and staff take pride in our property and care about our community."

Better Homes, Better Infrastructure

Lawson Montgomery Homes is spread across 48 buildings on two sites, primarily made up of duplexes. The renovation will add new flooring, insulation, exterior façade upgrade and more, including standard washers and dryers. There are also significant water and sewer upgrades being made to replace a substantial portion of the laterals due to deterioration. In addition, there will be a new wellness center and a new pavilion with a grilling area.

Part of the construction will be to make more units accessible and to improve access for the seniors who live there.

Residents Moving

Construction will be done in six phases, with the first lasting 90 days and subsequent phases lasting 60 days. Residents whose apartments are being renovated will be moved into apartments that were left vacant and remain there until their home is ready–allowing, for instance, children to stay on the same transportation plan for school.

At press time, the first set of residents hadn't moved into their upgraded apartments.

"I don't know if [residents] realize the full impact of the new appliances and new amenities provided," Gibson said. "I think they're going to like it a lot better. The first set of moves will be exciting. We will work with all the residents on taking care of the new units to be sure they are maintained properly."

Templer acknowledged that residents are anxious about the changes.

"They are excited about the improvements, but there's always apprehension for change and disruption," Templer said. "A lot of that is alleviated by staying on the site [for the temporary relocation]. People will go back to their units and they have flooring that's replaced, new cabinets, appliances, washers and dryers. It's definitely an upgrade."

Financing

USBCDC invested $5.2 million in federal LIHTCs and $4.1 million in state LIHTCs.

continued on page 4

continued from page 3

"We have a strong appetite for state and federal credits," Kochtanek said. "We like to be on both sides. While state credits require a bit more effort and expertise, USBCDC is well-equipped to handle this, given our long history of investing in both federal and state credits."

Other funding includes mortgages for $6.7 million and a deferred developer fee of $500,000.

"Like any other deal, the difficulty is securing adequate financing for the rehabilitation work and also the improvements you want," Templer said. "The housing authority wanted the rehabilitation to make an impact on the surrounding community."

Bear Development previously closed six other RAD transactions with about 500 units and $85 million in total development costs and is working on four others with 400 units and another $85 million in costs. Since 2016, Bear has closed on or been granted 21 LIHTC awards covering 1,475 apartments and $300 million in total development costs.

That made it simple for USBCDC.

"We don't like to leave things to chance," Kochtanek said. "Experience means a lot to us and we feel great about this team. We see Georgia as a growth state because of the state LIHTCs. In a world where capital stacks are tightening, having state resources dedicated to projects goes a long way in helping states fight against their affordable housing shortage."

Lawson Montgomery Homes

FINANCING

- $5.2 million in federal low-income housing tax credit (LIHTC) equity from U.S. Bancorp Community Development Corporation (USBCDC)
- $4.1 million in state LIHTC equity from USBCDC
- $3.4 million seller note from Eatonton Housing Authority (EHA)
- $1.7 million first mortgage from Chase Bank
- $900,000 third mortgage from EHA
- $750,000 Federal Home Loan Bank of Chicago Competitive Affordable Housing Program Grant
- $508,000 deferred developer fee

This article first appeared in the February 2019 issue of the Novogradac Journal of Tax Credits.

NOVOGRADAC & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS
Alex Ruiz
alex.ruiz@novoco.com
415.356.8088

ADVERTISING INQUIRIES
Christianna Cohen
christianna.cohen@novoco.com
925.949.4216

ISSN 2152-646X