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AFFORDABLE HOUSING: A FOCUS ON PRESERVATION

The latest trend in affordable housing in the Midwest has been an emphasis on the preservation of existing properties as opposed to ground-up development.

"Many states' qualified allocation plans are focusing on — instead of paying for new construction, which is very expensive — using their resources to take existing projects and provide the borrower with financing resources to do a major rehabilitation on the project," says Mark Wiedelman, president of St. James Capital. "We're still seeing some people try to do new construction, but I see more acquisition rehab than new construction in the Midwest."

Another factor leading to the popularity of preservation is the abundance of older properties in the Midwestern states.

"In some of the older cities in the older states, like Michigan, Ohio and Illinois, there is a lot of existing affordable housing," Wiedelman says. "So, generally, the trend is to find a way to preserve the property and to keep it updated, as well as keep it from converting from affordable to market-rate."

The Department of Housing and Urban Development (HUD) came up

with a program several years ago that encourages the preservation of affordable housing properties. If the borrower agrees to keep the project affordable and do a set amount of rehabilitation, HUD will allow it to keep the remaining interest reduction payments, bringing the interest rates down to 1 percent.

"Basically, if you agree to keep the property affordable, HUD will continue paying you the subsidy on a monthly basis, which should be used to help you borrow more money to do the necessary rehab," he says.

Refinancing remains a popular option as well. A lot of affordable housing projects are getting older, several with Section 8 contracts on them, and until a few years ago there was no way for these projects to be refinanced and preserved, according to Wiedelman.

"During the past couple of years, HUD has come out with announcements and policy memos that tried to outline how you might be able to refinance these properties," he says. "A lot of the interest rates on these jobs are 8.5 and 9, and they are 20 to 25 years old. Because of the loan constants (the total principal and interest payment divided by the outstanding principal), the rate is 14 to 15 on some

of the projects. We can literally refinance these projects with today's interest rates and cut debt service by 30 percent to 50 percent."

Another trend is the sale of affordable housing projects to limited partnerships.

"On a number of transactions, these projects are actually sold to a newly formed limited partnership," Wiedelman says. "Then, that limited partnership combines new financing with either 9 percent or 4 percent tax credits to accomplish the same thing to rehab the property."

Because of the new HUD policies, it is becoming easier to refinance and rehabilitate existing affordable housing properties, and the availability of funds is looking more positive every day.

"There's plenty of investors and there's plenty of debt money available," Wiedelman says. "And there's plenty of capital available. If anything, there's more capital today chasing deals than I've seen in a long time."

— Lindsey Walker

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