

A Happy Outcome

*RAD Program Helps Rochester Nonprofit
Preserve Subsidized Property*



Pinnacle Apartments, Rochester, New York

Photo: PathStone Corporation

Pinnacle Apartments, an old apartment building in Rochester, N.Y., is getting a new lease on life from a complex \$32.8 million transaction that will preserve affordable rents for its residents beyond mid-century. A new contract will extend federal project-based rent subsidies for all of the tenants in a building where only 25% previously had subsidized rents.

The transaction, which closed in December 2012, is one of the first under the U.S. Department of Housing and Urban Development’s Rental Assistance Demonstration (RAD) program.

Using low-income housing tax credits and other funding sources, local nonprofit PathStone Corporation acquired the high-rise from Beacon Communities Development, LLC and is renovating the property. Completion is expected by March 2014.

“This is a very large development, 407 units,” says Joe Bowes, Senior Real Estate Developer at PathStone Corporation. “It’s 18 stories with a big presence in the neighborhood.”



Joe Bowes

Crunch Time Arrives

Beacon constructed Pinnacle Apartments in 1971 and owned and managed it since. In early 2012, company officials had to begin mulling what to do about the property. “The choice was either to preserve it ourselves or to sell it to someone who would preserve it,” says Pam Goodman, President of Boston-based Beacon Communities Development, a major for-profit developer/owner/manager of affordable and market-rate multifamily housing properties.

Crunch time was due to a couple of factors. In 2016, the existing HUD Section 236 was going to mature and the rental assistance contract from HUD under the Rent Supplement (Rent Supp) program, providing rent subsidies for about 25% of the units, was set to expire. In addition, the development was Beacon’s only asset in New York State and in need of some rehab.

“It’s a challenging site,” says Goodman. “Over the years the resident profile had changed, going from an elderly development to a community comprised primarily of persons with various disabilities: physical disabilities, cognitive disabilities, mental disabilities, and drug and alcohol issues.”

“So when it became time to think about what to do

with Pinnacle,” Goodman says, “we felt that given the nature of the community it would be great if we could find a locally based nonprofit that had experience in working with special needs populations and if we could sell the property to such a group. We also felt it would be good to find someone who also knew the New York systems in terms of both the housing and the support world.”

Deborah VanAmerongen, Strategic Policy Advisor at Nixon Peabody LLP, stepped in to help Beacon – a client of the law firm – meet with city and housing authority officials, social service providers, and potential preservation buyers. One of the latter was PathStone Corporation. “They were very interested in pursuing the acquisition and rehabilitation of that property,” says VanAmerongen.

Enter PathStone

PathStone had a lot going for it. Not only does it develop, own, and manage affordable rental housing properties but it also provides services to residents of its

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Source and Uses Summary

PERMANENT SOURCES

Tax-Exempt Bond Financing (NYS Housing Finance Agency)	\$10,420,000
4% LIHTC Equity (Raymond James Tax Credit Funds, Inc.)	\$10,519,127
NYS Housing Finance Agency Subsidy Loan	\$1,329,600
NYS Housing Finance Agency Short-Term Loan (Decoupling of 236 Interest Subsidy)	\$2,170,000
City of Rochester Soft Loan (HOME, Cash Capital Funds)	\$2,000,000
Developer Equity	\$2,430,019
Existing Reserves	\$200,000
Interim Income During Construction	\$488,068
Subordination of Existing Section 236 Debt by NYS Empire State Development Corp.	\$1,000,000
Federal Home Loan Bank Funds, Soft Loan (Through First Niagara Bank)	\$2,000,000
NeighborWorks America Funds, Soft Loan (Through PathStone Corporation)	\$200,000
Total Sources	\$32,756,814

USES

Acquisition Cost (Land/Building)	\$8,140,000
Hard Costs	\$13,427,385
Soft Costs and Fees	\$8,421,217
Contingency	\$1,342,738
Capitalized Reserves	\$1,204,337
Working Capital	\$221,137
Total Uses	\$32,756,814

Pinnacle, continued from page 5

properties and low-income households, including special needs populations. "We've developed a little over 3,000 units so far, basically all with 9% or 4% tax credits," says Bowes.

City officials were eager to see Pinnacle Apartments preserved, and impressed by PathStone's work and previous developments, including Andrews Terrace Apartments.

Bowes says PathStone was definitely interested in Pinnacle Apartments, located within a mile from the nonprofit's headquarters in a "transitional" neighborhood.

"We felt it was really important for a local organization like ours that has a history of working in Rochester and lots of experience in managing these types of properties to acquire it and renovate it," says Bowes. "Coming off the success that we had with Andrews Terrace, we felt we were the best organization to do it."

Beacon and PathStone negotiated an acquisition price. Nixon Peabody helped prepare a RAD application to HUD for long-term project-based vouchers for the property; secure necessary approvals from HUD (including for post-rehab budget-based rent increases and to "decouple" the remaining interest subsidies from the Section 236 mortgage); and line up funding sources for the transaction.

Rental Assistance

PathStone ended the Rent Supp rental assistance contract and entered into the new project-based Section 8 contract provided by HUD under the RAD program at the time the nonprofit acquired Pinnacle Apartments.

The Rochester Housing Authority is administering the 15-year contract providing project-based vouchers for 405 rental units. As a result, all tenants will have subsidized rents, paying no more than 30% of their income. Before, the Rent Supp contract provided rent subsidies for only 163 units.

Bowes said HUD agreed to post-rehab rents set at 110% of HUD's Fair Market Rents, which kick in once a tenant moves into their renovated apartment. The post-rehab gross monthly rents will be \$650 for the 71 studio units and \$719 for the 336 one-bedroom apartments. Because of the use of housing credits, the income limit

for tenants is 60% of the area median income.

PathStone is managing the property and providing and coordinating services for the residents, of which 80% have identified themselves as disabled and 20% as elderly.

Rehab Work, Funding Sources

PathStone is spending about \$33,000 per unit in rehabilitation costs. The work includes installing new boilers, roof, flooring, windows, kitchens, electric panels, life safety equipment; new paint; and redesigning and upgrading the entire first floor. Residents are being temporarily relocated to vacant units within the building in groups while their apartments are renovated.

The transaction had more than 10 funding sources. More than half the dollars came from tax-exempt bonds issued by the New York State Housing Finance Agency (HFA) to provide construction and permanent financing and from equity generated by 4% federal housing tax credits. Other sources include two soft loans from HFA, a soft loan from the city, developer equity,

assumed debt, construction period income, existing reserves, and two additional soft loans. The city agreed to provide property tax abatement.

Raymond James Tax Credit Funds, Inc. (RJTCF) syndicated the housing tax credits for 93 cents per dollar of credit. Executive Sam Shupe says Raymond James was attracted to the transaction for several reasons.

"We're comfortable with that geography," he said; Raymond James has syndicated LIHTC properties in Upstate New York for more than 20 years. Secondly, he said, "We like PathStone as a developer. They've got a very good track record and they're active in Rochester."

Lastly, Shupe said, "The fact that this was an extremely large subsidized property that was going to get 15-year project-based vouchers made us very comfortable with the underwriting."

The property has several overlapping use restrictions that will ensure that Pinnacle Apartments remains as an affordable property through the year 2061.

"This is a property that has been in the Beacon portfolio forever," says Goodman. "So when you think about selling a property you want to know that it's going into good hands. This was a sale that I personally felt was the right thing to do." **TCA**

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