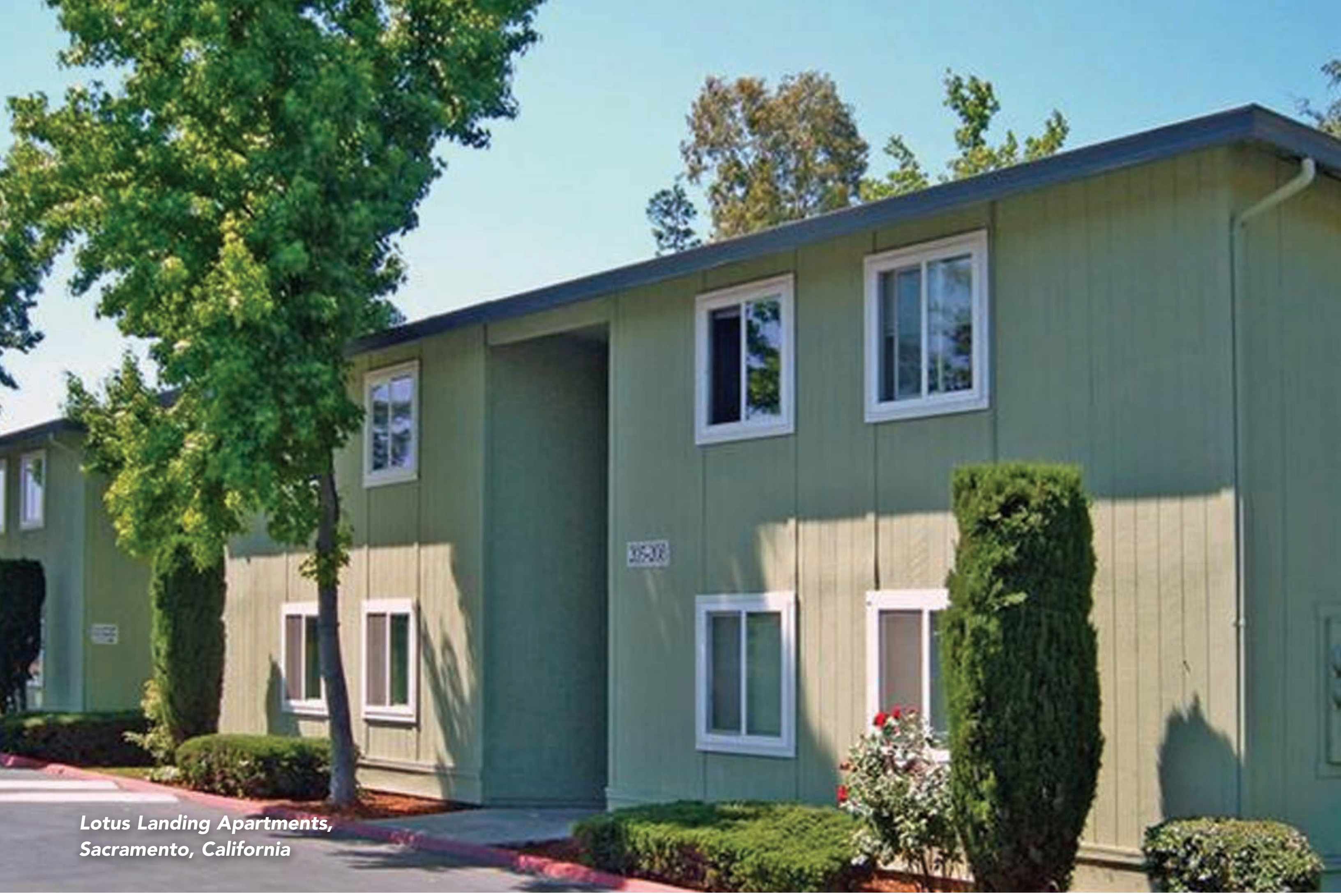
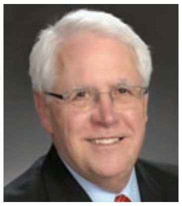


Lotus Landing Apartments, Sacramento, California

The Turnaround

California Firm Repositions Older Tax Credit Property

It's the perfect example of a multifamily repositioning in the works – without new tax credits.



Basel Rallis

Azure Park Apartments, an affordable garden apartment community in Sacramento, Calif., was singing the fiscal blues when Oakland-based Bayside Communities LLC came along in the spring and saw opportunity beneath the asset's faded veneer.

The 220-unit property, built in 1973, was in receivership, verging on foreclosure, saddled by a 16% vacancy rate, and looked "tired," says Basil Rallis, President and Chief Operating Officer of Bayside Communities LLC. Although the buildings were renovated in 2003-2004 using 4% low-income housing tax credits, the rehab work "didn't go as far as it should have," he notes.

Flash forward to the present, where Bayside Communities has begun a repositioning of the community to increase its value while enhancing conditions for residents.

"Our view is that about a million dollars can take care of some [physical improvements] that we think were missed or would enhance the property to enable it to compete in the marketplace," Rallis says. "Our market study showed that the overall occupancy in the area is very close to 94%. We feel that's a number we can achieve within the next calendar year."

Bayside Communities is turning the property around by making modest physical improvements, expanding the services offered to residents, and creating a new image. In fact, the development was renamed Lotus Landing Apartments after Bayside acquired the property in September 2012.

The 158,000-square-foot development consists of 26 two-story apartment buildings, a one-story clubhouse, a

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Lotus, continued from page 2

leasing office, and an after-school center.

Variety of Improvements

The company is renovating and upgrading a number of the apartments, replacing large warped or rotted wood panels on the exterior of buildings, enhancing security features, and making other physical improvements that should be mostly complete by next spring. In addition, a local nonprofit, Asian Resources, has enlarged the menu of services provided to residents, which includes an on-site Head Start center open to children from the property and the neighborhood.

Having purchased the real estate, and with it the right to the tax credits, Bayside Communities is claiming the remaining stream of housing tax credits (about $630,000) generated by the 2003-2004 tax credit transaction. The original syndicator is no longer part of the ownership entity. In the new partnership, Bayside is a 99% administrative general partner and a nonprofit is a 1% managing general partner.

The property is 100% low-income, with some units rented to households at 50% of the area median income, but the vast bulk rented to households at or below 60% of AMI. HUD's annual income limit for a four-person family at 60% of AMI is currently $45,660.

Lotus Landing Apartments has 136 one-bedroom apartments ranging from 590 to 627 square feet; 72 two-bedroom units of 760 to 910 square feet; and 10 three-bedroom townhomes of 1,050 square feet each. The townhomes are in high demand with rents at maximum allowable tax credit rents; the remaining units below maximum LIHTC rents. The company expects to be able to raise rents for the latter once the property is fully repositioned. Currently, monthly gross rents at the development range from $599 to $950.

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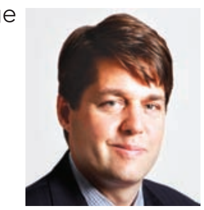
Quick Closing Critical

Bayside Communities, which owns and (through affiliate EPMI) manages other multifamily properties in the Sacramento market, learned of the availability of Azure Park Apartments last spring. The original general partner had already been replaced and the property was underperforming financially, operated by a conventional management company, and had been languishing in receivership for 18 months with the lender about to foreclose.

"Several buyers had fallen out and we came to the table in June with a proposal to close very quickly without the contingency for financing," says Rallis. The key to a rapid closing, he explained, was a two-year, $5.35 million bridge loan that Bayside obtained through New York-based Pembrook Capital Management. Patrick Martin, President of Pembrook Multifamily Capital LLC, says the bridge loan closed in about 40 days. "This was a transaction that needed some more work to be repositioned before it could ultimately be financed on a more permanent basis," he notes.


Patrick Martin

Rallis said Bayside didn't have enough time to obtain a conventional loan to finance the acquisition and didn't want to make an all-equity purchase. "The bridge loan, from a return on investment standpoint, was the best execution for us," he says.

Discharge of Debt

Bayside Communities closed on the acquisition of the property on September 14, buying Azure Park Apartments for $6.3 million. As part of the arrangement, the Sacramento Housing and Redevelopment Agency, the lender, agreed not to foreclose and instead discharged its existing loan on the property during receivership in exchange for Bayside Communities agreeing to maintain the 50% of AMI set-aside units.

The sole funding sources for the acquisition were the bridge loan and owner equity. No new housing tax credits were sought, says Rallis, noting the property is still in its original 15-year LIHTC compliance period.

Better Days Ahead

Rallis is optimistic about a successful turnaround at Lotus Landing Apartments. While the Sacramento mar-

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Lotus, continued from page 3

ket saw job losses and declining rents from late 2008 even into early 2012, "we've been seeing a slow uptick in rental rates over the last six months," he notes. "So we feel pretty good about not only being able to improve the occupancy but also to grow the rent."

By improving the property and the living experience for residents, Rallis says, "we think we're going to be able to command more rent than the existing operation because the property will compete very well in the marketplace." TCA

President Signs Bill Extending EB-5 Program

On September 28, President Obama signed a law (S. 3245, P.L. 112-176) extending the EB-5 Regional Center Program for three years, through September 30, 2015. The program provides visa leading quickly to green cards to foreign citizens investing a certain minimum amount in qualified projects (e.g., real estate) located, in eligible census tracts.

(http://tinyurl.com/3jpp926)

Bridge Loans

Pembrook Capital Management offers bridge loans that enable owners and purchasers to carry affordable rental and other multifamily housing properties while they are being repositioned or going through some other type of transition period, such as reaching to achieve stabilization.

According to Patrick Martin, President of Pembrook Multifamily Capital, LLC, Pembrook's bridge loans have terms that range from 12 months to five years and a fixed or variable interest rate.

Pembrook also offers a second product for similar purposes: either mezzanine debt or a preferred equity investment. According to Martin, the factor that determines which of these is provided is usually whether a loan and security interest in the real estate is permitted. Possible uses for preferred equity capital would be a general partner buying out his or her limited partner in an existing property or a new owner buying out the current general and limited partners. TCA

People in the News

Jeff LaRosa has joined WNC & Associates, Inc., Irvine, Calif., as Director, Construction Risk Management. In this position he is responsible for strategically evaluating and implementing WNC's development and construction projects in accordance with the company's overall objectives. Before joining WNC, LaRosa was with Makar Properties, ultimately serving as Vice President, Development & Construction

Columbia Residential, a leading affordable housing developer headquartered in Atlanta, has hired **Barry Weaver** as President of Property Management. Previously he served as Vice President of Property Management at Westlake Housing in Austin, Texas.

Trey Phillips has joined Great Lakes Capital Fund, a Lansing, Mich.-based nonprofit syndicator of low-income housing tax credits, as Asset Manager in its Chicago office. A decorated U.S. Army veteran, Phillips oversees a portfolio of multifamily assets located throughout the Midwest.

The Riley Area Development Corporation (RADC), a nonprofit organization in Indianapolis, Ind., recently presented its annual Robert D. Beckmann Neighborhood Leadership Award to **Fred Hash**, outgoing President of RADC's Board of Directors and Vice President of the Capital Group at Great Lakes Capital Fund, a tax credit **syndicator.**

Oak Grove Capital, a national multifamily mortgage lender headquartered in St. Paul, Minn. has announced the addition of three new underwriters to its growing team. They are: **Brian Harris**, Deputy Chief Underwriter, GSE Lending, based in Birmingham, Ala.; **Adam Roberts**, Deputy Chief Underwriter, FHA Lending, based in Columbus, Ohio; and **Heath Coryell**, Senior Underwriter, Seniors Housing, based in Bethesda, Md. TCA