AFFORDABLE HOUSING NEWS
America's Affordable Housing Resource

Finding the Right Strategies

Real estate investor brokers complex deals to preserve affordable housing throughout the country

Jones Lang LaSalle

Managing Director :: Tim Leonhard | **Managing Director** :: C.W. Early
Location :: Various U.S. Locations

Starting in 1990, the federal government began requiring developers that received Low-Income Housing Tax Credits (LIHTCs) to fulfill their Extended Use commitments and maintain their properties as affordable for at least 30 years. At the time, the law extended the previous compliance period of 15 years, which had been in place since 1986.

The expiration of the Extended Use periods for those properties developed in the early 1990s is quickly approaching. As a result, many low-income individuals and families could find themselves with rapidly increasing rents as their residential communities transition from affordable to market-rate housing.

Jones Lang LaSalle (JLL), a Chicago-based real estate services firm, partners with various investors, institutions and nonprofit organizations to promote the long-term preservation of affordable housing assets nationwide. It employs innovative strategies and emerging

technologies to successfully complete deals in dynamic markets ranging from New York City to Los Angeles.

"The list is long and illustrious when it comes to the people we work with whose primary goal is the creation and preservation of affordable housing," says Tim Leonhard, Managing Director at JLL. "We have done many deals with organizations like Community Preservation Partners and the Domain Companies. We've worked with various local, state and federal subsidies, as well as firms who have raised socially conscious sources of funding."

JLL leverages its vast experience to respond to changing markets. The firm's list of clients is extensive—and some of its most recent deals are especially reflective of its collaborative work with prominent financial institutions Freddie Mac and Fannie Mae.

FRESH STRATEGIES

In Indio, California, JLL partnered with Freddie Mac on Summer Field Apartments, a 268-unit affordable housing community. Affordable housing developer and owner Community Preservation Partners (CPP) acquired the Summer Field property to execute a $73 million rehabilitation.

JLL engaged Freddie Mac to create a specific financing product to fit the needs of the multifamily property's developer, ensuring its long-term preservation as affordable housing stock.

"JLL looked to respond to a very specific need in the affordable housing industry," Leonhard says. "Many affordable housing communities were being sold to non-affordable housing owners and operators because the people selling them do not have a vested interest if they stay affordable or not—they just want to cash in and move on."

In response to this need, JLL worked closely with Freddie Mac in late 2015 to develop and implement the first Bridge to Resyndication Loan product, which is the structure used to finance Summer Field Apartments.

Working directly with Freddie Mac, JLL secured a $30.6 million Bridge Loan and a $38 million Freddie Mac Tax-Exempt Loan. The Bridge to Resyndication loan has an 18-month, interest-only term with an 85 percent loan-to-value (LTV) ratio. The Tax-Exempt Loan has an 18-month forward rate lock followed by a 16-year term with a fixed interest rate of 4.52 percent.

The structures of these loans make it possible for affordable housing sponsors to rapidly acquire LIHTC properties at or near the end of their compliance periods, preventing them from being sold to market rate owners.

Summer Field's renovation will dramatically improve both features within the units and its shared community amenities. Built in 1970, it's the largest LIHTC property in Indio. It saw its most recent renovation in 2001.

The CPP-sponsored rehabilitations include improvements to landscaping, energy-efficient retrofitting, new community amenities, security technology and upgraded plumbing. CPP also intends to provide more robust resident services, such as computer literacy training, employment services, after-school programs and homework assistance.

A BROAD IMPACT

On behalf of real estate investment firm Lakeside Capital Advisors, JLL secured $65 million of Fannie Mae financing for the purchase of 1,000 units of affordable housing in four different communities in Arizona, Florida and Colorado. Like the structure of JLL's Summer Field deal, the financing for Lakeside Capital's acquisitions permit the firm to secure long-term financing with a fixed interest rate and an extended interest-only period.

"The structure for these four properties was long-term executions that were 12-year, fixed-rate Fannie Mae financing with a defined prepayment premium that goes

down every year," says C.W. Early, Managing Director at JLL. "The sponsor knows what it costs to get out of that debt, and so it gave them a little more optionality than they would otherwise have without subjecting them to interest rate risk. It met their goals as long-term holders to provide some flexibility and lock in a long-term interest rate while getting them some interest-only [time] to help their yield in the earlier years."

Through its experience-based negotiation and intuitive deal making, JLL offered Lakeside Capital a financing structure conducive to the company's goal of preserving affordable housing in markets across the country.

"Lakeside is focused on preserving affordable communities for the long term, and so they look for existing assets in strong growth markets that they can maintain, preserve, improve and hold long term," Early says. "It made a lot of sense to them to choose a longer-term execution. They were able to benefit from four years of interest only on the acquisitions, maximizing leverage."

THE FIRST OF ITS KIND

In Brooklyn, New York, JLL was responsible for arranging the first Freddie Mac Tax-Exempt Loan transaction closed in New York City. Eleven33 is a 210-unit LEED® Gold-certified mixed-income development owned and operated by the Domain Companies, a real estate investment and development firm based in New York.

JLL closed a $61.2 million refinancing loan for Eleven33 thanks to its close relationship with Freddie Mac and other prominent financial partners.

"JLL has a long-standing relationship with Freddie Mac and the bond issuer, as well as a great relationship with the developer and all the other financing team participants," Leonhard says. "It came down to experience, relationships and really understanding what the overall goal was and who was willing to play a role in making the transaction happen. We were able to manage each party's needs and expectations, ultimately guiding everyone to a position where we could make the deal happen."

JLL's background in structuring deals among many different entities with distinct roles and interests makes it possible for the firm to secure creative funding solutions. Although these large deals with complex loan structures are challenging to orchestrate, the firm has demonstrated a knack for negotiating deals in which everyone involved wins.

"It is really all about understanding the overall strategy, the pecking order and what is feasible from each party, and then putting all those pieces together," Leonhard says, "It's brutally complicated to get a deal like this done, and that's what we are really good at. We can take multiple parties with somewhat competing agendas and get them in line to a closing."

Eleven33 is a contemporary apartment community with high-end features and striking architecture. It's in the Greenpoint neighborhood, a creative haven and vibrant entertainment hub on Manhattan Avenue. The property has 105 market-rate units and 105 rent-restricted units, with a combined occupancy rate of more than 98 percent.

JLL works to bring this model of mixed-income housing to new markets to more effectively respond to a community's needs.

"We are thrilled to play a role in underwriting and originating mixed-income housing," Leonhard says. "We are now financing a similar mixed-income model in Salt Lake City, which they have not yet seen there. You're going to start seeing it recur and see it breaking into new markets. Just understanding the deal structures and how they work and being able to explain it to lenders, developers, investors, issuers and municipalities is a major value add of ours."