PRESERVING AFFORDABLE RURAL RENTAL HOUSING

INVESTING IN A SECTION 515 RURAL RENTAL HOUSING PROPERTY

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The Housing Act of 1949 created the Section 515 program (42 U.S.C. 1485) with the first loans closing in 1963. Under Section 515, housing that serves rural very low- and low-income families, seniors and people with disabilities could be built. Since 1963, over 27,000 loans have produced 550,000 units for a total investment of $15 billion. Peak funding years were 1975-1985 when over 1,000 loans were made each year. The program peaked in 1979 with 38,650 units, more units than constructed between 1994-2009 total.

Production fell to only 805 new units in 2008, and, in the past two fiscal years, few newly constructed units have been placed in service. Attention has shifted from new construction to preservation. Due to prepayments, foreclosures and loan maturities, currently, less than 450,000 affordable rental homes remain in the program. (National Housing Law Project Resource Center)

U.S. Department of Agriculture (USDA) Section 515 Rural Rental Housing program is an irreplaceable housing option for rural renters. Across the country, the portfolio has been in good shape but is aging with underfunded reserves; addressing these concerns sooner than later is more cost-effective. Many Section 515 properties have Project-Based Rental Assistance (rental assistance) tenant subsidies for very-low and low-income families, which pay for the difference between the approved housing cost and the resident contribution.
Preservation of the existing units has been a high priority for the Rural Rental Housing program. The Low-Income Housing Tax Credit (Housing Credit) program has been successful in providing capital for the purchase and extensive renovation of properties. However, the purchase, transfer and assumption of existing debt and program benefits is a slow process and can be at odds with the tight deadlines from the Housing Credit process. USDA Rural Development (RD), recognizing Housing Credits are a critical preservation tool, is streamlining this process.

In the past, typical borrowers were local place-based nonprofits, for-profit entities (limited partnerships, C and S Corporations), and individuals such as farmers, general contractors, architects and developers. Earned profit was allowed through construction contracts, architect and management fees and up to 8 percent return on equity to an owner. The program allowed highly leveraged loans from 95 percent up to 102 percent of total development costs. As the program is intended to house low- and very low-income individuals and families, rental assistance is an important part of the success of a development.

A 2004 Comprehensive Property Assessment Report of the Section 515 portfolio found 58 percent of tenants were elderly, handicapped or both, and the average household income was $9,075. The average property age was 23 years. While there were no immediate life/safety issues, there were insufficient reserves or cash flow to perform repairs and adequate maintenance. The average outstanding Section 515 loan balance was $24,722 per unit. Owners lack the resources and incentives to maintain and upgrade properties. Potential tax consequences associated with owners selling and an inability to receive any return on investment are additional factors.

Ten percent of the portfolio were in great markets and expensive to preserve, and 10 percent were in weak markets and may not be feasible to preserve. Eighty percent were in the middle and feasible for preservation. New cost-effective revitalization tools are needed. USDA pointed to a need for a reinvented program delivery to make this work more efficient and effective.

The report concluded the public interest is best served by revitalizing most of the Section 515 housing as affordable for the long term. However, since 2004, little new federal funding through RD-USDA has been appropriated for rehabilitation; rather, there has been a higher dependence on the Housing Credit program to fully rehabilitate units. A demonstration program was created from the overall assessment work which is called the Multi-Family Housing Preservation and Revitalization Restructuring Demonstration Program (MPR). This program uses existing RD-USDA debt deferral as the main component to allow rehabbing of units. It remains a demonstration program only with limited funding.
INVESTING IN SECTION 515 RURAL RENTAL HOUSING

WHY BUY SECTION 515 RURAL RENTAL PROPERTIES?

Mission motivated buyers are typically local, regional or national nonprofits committed to providing quality affordable rural housing. Other potential buyers are management companies looking to grow their portfolio and for-profit developers looking to create assemblages for syndicating 9 percent or 4 percent Housing Credit projects.

Acquiring and preserving existing rural affordable housing will not bring on any NIMBY (Not In My Back Yard) issues. Properties have been part of communities for many years, often, providing the only subsidized housing in the community. As the communities are rural and small in population, any chances that new units will be created by the Housing Credit program are remote. At the same time, communities welcome a change of ownership particularly if rehabilitation of the property is included.

Properties financed with Section 515 loans can have interest rates as low as 1 percent in addition to project based rental assistance. Many are in good locations. Many have had consistent management that have maintained the properties well. The debt is assumable.

Potential acquisition/rehabs could allow for Housing Credit investments that permit earned developer fees, management fees and community revitalization of neighborhood assets.

WHY WOULD AN OWNER SELL? WHO ARE THE OWNERS?

Many of today’s sellers are the original borrowers who have owned the properties for the past 20 – 30 years. Owners are aging and looking to retire and plan for their estates. Family members are often not interested in assuming ownership.

The return to owner of cash flow is not assured and can be insignificant. An exit strategy is complicated by concerns for potential tax consequences such as exit taxes for sellers and negative capital accounts. All the depreciation has been used up, and there are concerns about phantom income. Refinancing and recapitalization are challenging due to continued restrictions and unrealistic expectations of property values.

IDENTIFYING POTENTIAL PROJECTS: WHERE/HOW TO FIND PROPERTIES?

Properties for sale are listed with realtors, multifamily brokers or directly through the current owner. Rural Development offices in each state can be contacted for a list of properties in a particular county, region or state. Several RD offices maintain a buyer-seller list, for informational purposes only. The RD office is not a realtor but see the dissemination of this information as being beneficial to their program as well as potential buyers and sellers.

Properties may be subjects of distressed sales either through foreclosure or resulting from the death of the owner. The State Office of Rural Development may be a source for this information.
NEGOTIATING A PURCHASE: CRITICAL “TO DOS” BEFORE FINALIZING A CONTRACT OF SALE

- Comprehensive Capital Needs Assessment
- Appraisal of “as is” value with restricted rents and market rate

The first conversation that needs to take place if you are the buyer is to find out what the seller is expecting in the way of a purchase price for the property. A timely question would be whether the seller has had an appraisal completed by a third party independent appraiser. Owners are often the original developers of the properties and have likely managed the properties at some point in time. As the properties have aged, deferred maintenance can be a consideration in your offer. With favorable terms offered by the lender (RD-USDA), the debt is not paid down rapidly plus the rental assistance is a vital component of the economics of the transaction. Owners may believe their properties are worth more than third party appraisals. Due to the time they have spent with the property, they may have an emotional value that overlooks the economic value of the property.

Deferred improvements may call for extensive repairs and could be a drain on cash of unsuspecting buyers if rehab needs aren’t addressed before sale or aren’t included in any anticipated project financing. Replacement reserves are typically underfunded, and a thorough discussion is needed of the current reserves: what gets spent before the transaction is closed and who is entitled to the reserves (are they rolled up in the purchase price).

A comprehensive needs assessment (CNA) is critical to disclosing the physical condition of the property. The CNA is a specific process required by RD-USDA with prescribed forms and qualifications of vendors who can perform the report. The type, format and timing needs to correspond to any expected financing sources for the project in addition to providing the buyer with the detail and facts needed to be fully informed before finalizing a purchase. This is typically performed by an architect or engineer. The financing sources may stipulate use of vendors from a pre-approved list. States require anywhere from 25 – 100 percent of the units to be inspected. Financing sources will review and approve planned renovations and sufficient planning for replacement reserves to fund future capital needs. A green capital needs assessment that evaluates and recommends measures to increase energy efficiency and performance of the properties, water conservation and healthy housing elements would be beneficial to long-term owners looking to reduce operating expenses and provide sustainable housing.

Rental assistance is difficult to obtain if it is not already in place. Thoroughly research the project, the loan and any rental subsidies.

Build in sufficient time and contingencies for ordering and reviewing third party reports like appraisals and capital needs assessments before finalizing contracts of sale.
Obtaining USDA Rural Development approvals and the process for the transfers can be arduous and lengthy. Staff are stretched, and the regulatory requirements and paperwork are extensive. Keep USDA Rural Development apprised of your interest and negotiations. Understand their process and requirements, and allow for at least a year to consummate the transaction.

Know your seller. Assess whether your seller is knowledgeable, has a capable team and understands all the potential tax consequences of the sale. The seller should have been discussing the sale with their accountant and attorney and have realized their obligations and responsibilities long before discussing the sale with a buyer.

**IDENTIFYING SOURCES OF FINANCING FOR ACQUISITION/REHAB**

Potential sources include:

- Assumption of existing USDA Loan
- Assumption of the Rental Assistance contract
- Obtaining a new USDA Loan
- HOME Funds
- Affordable Housing Program (AHP) Federal Home Loan Bank
- Low-Income Housing Tax Credit Equity
- Preservation Revolving Loan Funds (PRLF)
- Owner Equity
- Private Bank Loans (USDA Rural Development will consider subordinating their loan in certain cases)
- Local dollars

**MANAGING THE EXISTING USDA SECTION 515 LOAN AND TRANSFER PROCESS**

- Establish rapport with the local and state office of RD-USDA
- Develop a realistic budget for acquisition/rehab and operating the property
- Establish a project timeline and get buy in from all team members and stakeholders
- Allow for sufficient time and unexpected challenges – build in at least a year
ASSEMBLE YOUR PROJECT TEAM

- Legal counsel
- Accountant
- Property manager
- General contractor
- Architect
- Engineer

USDA’S ADVICE FROM THE “SCHOOL OF HARD KNOCKS”

Communicate

- What’s the plan?
- Who are the key players?

Developer, seller, buyer, lender, Housing Credit agency, other financing, mortgage broker, credit enhancer and bond issuer

- What are the deadlines?
- Important goal – one CNA and one appraisal
- How will capital needs be determined?

Full CNA, 3rd party requirements, scope of work, post rehab CNA

- When and what appraised values?
- What is the impact of key RD underwriting issues?

Conventional Rents for Comparable Units (CRCU), seller equity, reserves, rental assistance, tenant impact

- What are the limitations of specific loans?

1 FY 2009 Presentation by Larry Anderson, Director, MFH Preservation and Direct Loans (MPDL) Housing and Community Facilities Programs.
Pre-92, post-89 Restrictive Use Provisions

- What are subordination expectations?
- For portfolio transactions, run a trial one through first
- Agree to a scope of work
- First CNA – full review of needs
- Add third party requirements – to get tax credits, what must you do?
- Revised CNA to reflect post rehab per scope of work
- Expect and schedule a series of meetings with all parties
- Issues will rise throughout the process
- Establish a positive effective working relationship
- Establish realistic underwriting expectations
- Seller equity and RTO increase must fit within CRCU
- The gap between current rents and CRCU is a pivotal feasibility measure
- Some projects may not have the market position to satisfy all expectations
- MPR team leader available for fast tracked help advice and solutions!
- Big deals need BIG TIME team work
- Coordinate developer, financial and RD resources (loan/servicing and technical)
- Focus on critical times – application, underwriting, obligation, closing and construction

SOME BEST PRACTICES FOR TAX CREDIT FINANCING\(^2\)

Underwriting must be watertight

- Financially strong sponsor with experience in Housing Credits and Rural Development
- Scope of work must be robust and strongly reposition properties for the next 15 years; $30,000 – $40,000 per unit in hard cost is toward low end to attract investor interest
- Sites and markets should demonstrate strength; strong occupancy history and waitlists are helpful evidence

• If adding new bond debt, debt coverage ratio must be 1.20 without dropping below 1.10 during the 15-year compliance period

• Must-pay Rural Development debt subordinated to new bond debt makes transaction difficult in terms of feasibility; cash flow RD debt preferred

• Coordination among multiple parties/interests

• High transaction costs such as bond underwriting/issuance fees, lenders’ fees (interest, origination, legal, etc.), developer legal, third party reports and updates, and coordination of cost cert/50 percent test for multiple sites

Finding an investor

• Equity capital remains somewhat limited

• Investors prefer 9 percent Housing Credit transactions over 4 percent bond transactions

• Rural deals can face difficulty in finding investors

• Community Reinvestment Act (CRA) focused investors (higher pricing)

• Non-CRA focused investors (typically lower pricing)

• If “story” is too long, investors lose interest

• Is the project designed with green features?

• Underwriting, deal structure and team must be impeccable

• Scattered site projects present some level of discomfort to investors

• Guarantor must guarantee all obligations of the general partner including:
  • Construction completion
  • Operating deficits prior to stabilization
  • Operating deficits after stabilization for a five-year period capped up to a negotiated dollar amount
  • Tax credit adjusters
  • Repurchase
  • Environmental indemnification
SUMMARY

The Section 515 Rural Rental Housing program has generated thousands of affordable rental homes in rural areas and provided the core of the affordable rental housing for rural low- and very low-income residents. It is unlikely, especially in today’s resource-constrained environment, this housing could be replaced with comparable affordability. Much of this housing is accompanied with rural rental assistance that allow low- and very low-income tenants to be housed at reasonable rents.

The portfolio is aging and in need of upgrades and improvements and, without proactive preservation, will continue to deteriorate and fall into disrepair. Current owners are also aging and ready to transfer but are trapped with concerns about tax consequences and phantom income while others are unrealistic about acquisition expectations. The rural rental assistance was threatened by the last sequestration, and owners had to manage with loss of rental assistance. While it has been restored, future risk of loss is a serious concern.

Proactive outreach by interested mission-motivated owners are critical to preservation of this rural rental portfolio. They can only be successful with the appropriate tools and support from the public and private stakeholders. Strategic identification of portfolios with the greatest chance of success will be critical to maximizing success in preserving rural rental Section 515 properties.
Summary: Moderate rehabilitation and consolidation of nine separate USDA Section 515 Rural Rental Housing properties into a single project with a new single owner. This will preserve 283 units of rural affordable housing for seniors and families built from 1983 to 1989 through Section 515 and Housing Credit programs. Projects were well-managed and in good condition with history of strong occupancy of 97 percent or higher.

Location: The nine projects are located in eight scattered rural and suburban communities in central Pennsylvania within a 45-mile radius. The southernmost part is just north of Harrisburg (the state capital, in south-central Pennsylvania); the northernmost is near Williamsport, and the westernmost is just outside State College, the home of Penn State University. The area includes many small towns, ranging from 1,000 to 13,000 residents, separated by agricultural land. Some of the communities are former mill towns, with dense housing (e.g., row houses built up to the sidewalk, with yards behind), while others are typical rural communities.

Sponsor: An affiliate of Leon N. Weiner & Associates, Inc. (LNWA), a for-profit organization, was the project sponsor. LNWA is an experienced for-profit development company and an award winning organization. The firm and its principals have been named National Multifamily Builder of the Year by the National Association of Home Builders, twice named Builder of the Year by the Home Builders Association of Delaware as well as the recipient of various awards from HUD, National Housing Conference, the State of Delaware and City of Wilmington. LNWA has developed a variety of housing, from high-rise and garden apartments to a full range of townhouses and single family homes. In recent years, LNWA has focused on preservation of existing affordable housing.

Five of the acquired projects were owned and managed by Pursel Management. Pursel took over management of the entire nine-property portfolio as part of the recapitalization but did not retain an ownership interest. This is a small for-profit with three principals and staff of ten.

Number of Units: The combined project consists of 283 apartments in 32 buildings comprised of 146 one-bedroom units and 137 two-bedroom units. Three of the properties (97 one-bedroom units) serve an elderly population, ages 62 or older. The remaining six communities house families. The six family properties include 49 one-bedroom units and 137 two-bedroom units. All units will be restricted to residents earning up to 60 percent of the area median income.
**Total Project Cost – $25,500,000:** The existing projects were in good condition and had been well managed over their operational lives. The scope of the rehab of approximately $25,000 per unit included: new vinyl siding; new roofs with 30-year architectural shingles; new low-E windows; interior flooring; packaged air conditioning units; new cabinets, countertops, appliances, flooring, vanities, toilets and tub surrounds in bathrooms; and site work.

**Sources of Financing:** The revitalization strategy uses tax-exempt bonds and 4 percent as of right Housing Credits on both acquisition and rehab components. The existing Section 515 loans of $9.7 million were consolidated and subordinated to the new Fannie Mae credit-enhanced tax-exempt bond financing. At closing, the Section 515 loans were recast with a new 50-year amortization schedule and an effective interest rate of 1 percent. Additional financing included $1.6 million of deferred fees and $500,000 of cash from operations during the construction period and $78,000 of general partner capital. Post closing, the project was awarded $250,000 of AHP funds from the Federal Home Loan Bank of Pittsburgh and received MPR approval, which allowed the previously subordinated Rural Development debt to be deferred for a 20-year period.

Project-based RD Section 515 rental assistance contracts existed on 179 units (63 percent). With the consolidation, USDA allowed the rental assistance to float among all 283 units and used wherever it is needed. This flexibility allows the owner to respond to stronger or weaker markets by moving the rental assistance as needed. RD has exhibited a strong history of renewing and adding rental assistance contracts to these properties.

**Factors for successful 515 preservation:** The buyer was willing to pay a fair price to the sellers who were compensated sufficiently to address their concerns about tax consequences upon sale along with some cash incentive. The seller, with five projects, was able to stay on as property manager and expanded their portfolio to include the four additional projects involved in the transaction. The buyer/developer had the vision and patience to realize a model for preserving Section 515 properties through bundling smaller ones using tax exempt bonds and 4 percent as of right Housing Credits. This model also demonstrated cross collateralization of the USDA RD loans, reserves for the portfolio of properties along with floating rental assistance. It took three years to bring this to fruition. The support of the local USDA Rural Development staff and the patience of a sympathetic syndicator was critical to this success.
COMMUNITY HOUSING INITIATIVE’S PRESERVATION OF SECTION 515 PROPERTIES

Summary: Acquisition and moderate rehabilitation of three occupied USDA Section 515 Rural Rental Housing projects scattered through three counties in Iowa. Community Housing Initiatives, Inc. (CHI), a premier affordable housing nonprofit developer, property manager and service provider in over 25 Iowa counties sponsored their acquisition from T&L Properties and bundled them into one syndication. CHI sponsors 46 operating projects, 44 of which are Low-Income Housing Tax Credit (Housing Credit) properties.

Background: T&L had acquired these Section 515 properties as part of a larger portfolio. As a property manager, the scattered nature of the properties didn’t allow for efficient operations, and the potential tax consequences for the for-profit owner were worsening. The aging properties needed rehabilitation. As a CHDO approved to work statewide, CHI was approached about taking on these developments. Simultaneously, the Iowa Finance Authority (IFA) and USDA Rural Development joined together to create a noncompetitive tax credit demonstration set-aside, HOME program funds and revolving loan funds specifically to preserve Section 515 affordable housing.

Location: Columbus Junction, Forest City & Sheldon, Iowa, three projects in widely scattered communities in Louisa, Winnebago and O’Brien Counties.

Small rural communities in stable neighborhoods. The 24-unit Columbus Junction site serving families is two miles from the downtown area and less than a quarter mile from retail and newly expanded local high school with park facilities open to the public. The Forest City property is less than one mile from downtown, which has retail, services and schools, and the surrounding area includes single-family homes and another multifamily property. The Sheldon site is a mile from the downtown area and less than a mile from local schools and the city’s newly built park featuring ball fields, picnic area, pavilion and skate park.

Unemployment is lower in Iowa than the national average, and each of the market conditions are strong. All three properties have rents above the market but well below Housing Credit maximums. All are currently well leased with stable operations. After renovation, each property should continue to perform well with rental subsidies in place.

Number of Units: Seventy-two rental homes for families, affordable to households at or below 50 percent of area median income. The units include a mix of 44 one-, 20 two-, and eight three-bedroom units in three 24-unit projects encompassing 12 buildings.
**Total Project Cost** – $9,235,112: including nearly $50,800 per unit of physical improvements

**Sources of Financing**: The preservation strategy uses Housing Credits, USDA Rural Development, HOME and RD rental subsidy.

Each site has a must-pay Rural Development loan, and one has a must-pay HOME loan. Two others have HOME loans with accruing interest with a balloon due at the end of the term. HOME loan proceeds, cash transferred from project accounts and equity funded development costs during the rehab period with tenants in place. USDA modified the existing Section 515 loan on each property to be replaced with new 50-year amortization and 30-year terms at 3.5 percent interest rates, requiring payments based on a 1 percent note rate. The loans were not cross-collateralized. One HOME loan will be assumed with the transfer, modifying it from cash contingent to must-pay. The new HOME funds for the others are cash flow contingent.

T&L Properties managed the operating properties during rehabilitation, and CHI assumed property management afterwards. Rehabilitation occurred with tenants in place, or they were relocated for brief periods of time (10 – 15 days).

Rehabilitation scope of work included new siding, windows, interior upgrades including flooring, kitchens and bathrooms, updated HVAC systems and plumbing, new roofing and repaving, as needed.

Operating expenses are under $4,400 per unit per year, net of annual contributions to replacement reserves of $410 per unit per year.

**Factors for successful Section 515 preservation**: Committed and cooperative partners at the state housing finance agency and the local USDA are critical. Patience and persistence over a 16-month timeframe from initial conversations yielded a funding award. IFA coordinated with USDA to ensure its approval of the transfer prior to allocating tax credits and funding. The buyer’s willingness to structure an acquisition price that addressed the seller’s tax consequences and could be approved by USDA and IFA was essential to making the deal. USDA’s rules about transfers, restructuring financing and not permitting any additional debt service requirements could have easily derailed the transaction. The close coordination with IFA, carefully structuring the acquisition price and financing ensured a positive outcome. The package ensured affordable rentals for very low-income families could be preserved as quality housing that would be physically and financially viable. The Housing Credit equity provided a decent developer fee for CHI to cover staff time and expenses over a lengthy period of negotiation and predevelopment.
LENA APARTMENTS, WAYNE COUNTY, WEST VIRGINIA

Summary: Acquisition of a failing Section 515 Rural Rental Housing (Section 515) project by Coalfield Development Corp. (CDC), a mission-driven nonprofit. Through a short sale, CDC acquired Lena Apartments in rural Wayne County, West Virginia for the appraised value. The new owner is assembling the financing for rehabilitation and new construction of units on the site.

Background: Lena Apartments was purchased from a limited partnership that had fallen behind in debt payments, real estate taxes and maintenance for less than the face value of the USDA outstanding loan. The acquisition by a new owner and the rehabilitation of the units and grounds make the development an asset to the community. Losing this 18-unit development with a Section 515 loan and rental assistance would have put very limited affordable rentals at risk for existing residents of Wayne County. This Section 515 development had been owned by an architect and his wife, who had developed several projects of this type in Ohio, Kentucky and West Virginia. Lena Apartments received a Low-Income Housing Tax Credit (Housing Credit) investment through a private syndicator specializing in small rural projects whose portfolio was acquired by a larger syndicator. The property completed its initial 15 year compliance period in 2013. With the death of one of the general partners, the property cycled through a couple of property managers as the property continued to deteriorate due to lack of cash flow and physical issues causing some units to be uninhabitable.

Location: Lena Apartments is located in Wayne County, W. Va., east of Huntington, the closest urban area in the southwestern part of the state which is 65 percent rural. The rental vacancy rate is 1 percent, and the need for subsidized housing in this very rural part of Appalachia is critical for the 22 percent of households who rent. The median contract rent is $392 with the median monthly housing costs for units without a mortgage at $253. Given the county’s small population, low incomes and high poverty, it is not likely that any new Housing Credit development will be built in the area anytime in the near future.

Sponsor: Coalfield Development Corporation was formed on February 19, 2009 as a nonprofit 501(c)(3) with the mission to provide employment training and housing and craft a strategy for the overall reduction of poverty in Wayne County. CDC had limited experience in multifamily housing. Their initial purchase of a seven-unit apartment complex, later converting one unit for their office space, has been successful. After becoming aware of the potential loss of affordable housing in Wayne County, through the foreclosure process by Rural Development-USDA, CDC performed their due diligence and confirmed through a market study that the units were needed in Wayne County. The seller was motivated to negotiate a sale, and the investor/syndicator was supportive. The property, although needing rehabilitation and work, was worth saving - in a good location, serving resident needs.
**Number of Units:** Currently, Lena Apartments consists of 18 two-bedroom, one bathroom apartments. The site includes four buildings, three buildings with six residential units each and a separate building with the housing office, laundry and maintenance. Built in 1975 and purchased and rehabbled with equity from Housing Credits in 1997, an appraisal was commissioned that found the current value at $315,000, less than the total debt and obligations following a partnership default with RD-USDA. At the time of purchase, one building had extensive water infiltration in the basement, and three of the units had become uninhabitable. A thorough engineering report along with a comprehensive needs assessment determined that the building should be demolished, and the water issue corrected. After demolition, the available site can accommodate an additional eight one-bedroom units. Once all improvements are completed, the total site will provide eight one-bedroom apartments and 12 two-bedroom apartments.

**Total Project Cost: – $1,313,000:** $830,000 of the total project cost is targeted for physical improvements with $175,600 for rehabilitation and $654,400 towards new construction. Other projects costs include funding reserves of $20,000, third party reports and other professional and financing fees.

The project has USDA rental assistance for seven of the two-bedroom units, and rents will be set at $475. Additional eligible households are receiving tenant-based vouchers from the Wayne County Housing Authority as will the eligible renters who will reside in the newly constructed one-bedroom units. Currently, the property is managed by an experienced third party Section 515 property manager that eventually will be replaced by CDC.

**Sources of Financing:** CDC acquired the property through a short sale for $315,000, a discount of the face value of the total outstanding debt confirmed by third party appraised value, reduced from over $400,000. CDC secured grants from the West Virginia Trust Fund totaling $215,000, a $500,000 Federal Home Loan Bank-Pittsburgh AHP Program grant and a West Virginia HOME grant of $150,000. A private bank loan of $85,000 and owner’s equity of $48,000 completed the project financing.

**Factors for successful 515 preservation:** A committed and mission-driven nonprofit valued the importance of preserving rare, decent, affordable rental housing in this rural Appalachian county. The local housing authority, who had been providing vouchers to some residents, was concerned about losing these rental homes from the affordable inventory and reached out to CDC. Through a staged and continuing process, CDC stepped in with support from Enterprise, researched the background and history of this project and overcame the obstacles – including negotiations with the inexperienced heirs of a deceased owner, unprofessional property management, deferred maintenance and uninhabitable units. Supportive elected and public officials willing to step up with state and local resources for the physical improvements and rental assistance were critical to the demonstrating to USDA that preservation was a viable alternative to foreclosure for this important Section 515 development in Wayne County, W. Va.