MULTI-CREDIT CASE STUDY:

Harbor House

Newport convent preserved as housing for seniors

By Mark Fogarty

Harbor House Senior Housing, Newport, RI

Can you have affordable housing for seniors on the waterfront of one of the most exclusive cities in America? In Newport, RI, where it often seems easier to park a yacht than a car, you can, and if it is a property dating back to the nineteenth century you can use Historic Tax Credits along with Low Income Housing Tax Credits to help preserve it for its elderly residents.

You may need 11 different funding sources to get the rehab of an old Carmelite convent under way, but that's not going to stop developers or investors who always have to tap multiple pots of money to get a project done.

Tony Lyons, vice president and relationship manager for investor National Equity Fund (NEF), was familiar with the Harbor House development in The Point neighborhood of Newport when the deal landed on his desk. That's because it was his second time around financing the 38-unit senior project, having been involved in the original funding of the Church Community Housing Corporation (CCHC) development in 2001. That two-time status was actually one of the many challenges involved in the acquisition/rehab.

That's because many of the same original investors were part of the new syndication NEF assembled for the preservation financing, something that threatened to trip the government's "double dipping" prohibition.

A Unique Structure

"We came up with a unique structure," Lyons told a recent meeting of the National Housing & Rehabilitation Association. "Basically, it's a non-owner managing member structure. The developer would not have any interest in the real estate itself. NEF and any affiliate would own 100 percent of the real estate.

"Clearly it's not something that's going to work for every developer. We were able to get their (CCHC's) board and their attorneys comfortable that this was worth doing," Lyons says, especially as the deal was structured to give the sponsor the same kind of economic benefits they would usually have, like cash flow and a purchase option/right of first refusal after the first 15 years.

Other "hairy details" included the small amount of equity in the four percent LIHTC/tax-exempt bond financing, only $1.5 million. Historic credits added another $750,000. "The low amount of equity was a hurdle we had to overcome," Lyons told the NH&RA meeting.

"The addition of the historic credits got us to a place where we were comfortable the economics made sense and this was worth doing."

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Other financing included $500,000 in Affordable Housing Program money from the Federal Home Loan Bank of Boston, an equal permanent loan from AHP sponsor Bank Newport, a seller loan of $1.2 million and two specialty loans from Rhode Island Housing for $2 million, as part of $8.3 million in total development, including $3.7 million in hard construction costs.

There was significant legacy debt, recalled Christian Belden, executive director of developer Church Community Housing Corp. "Five hundred thousand dollars in HOME funds awarded in 2001 ballooned to $1.5 million with interest. RIHousing (RIH) forgave that debt but we did assume $700,000 in remaining legacy debt. RIH came up with two new gap financing programs, the capital magnet fund and the deferred preservation loan program, providing $2 million in funding. It really made all the difference."

Looking Under Rocks

Still, "We really had to look under every rock to find the funding to do the $3.6 million of renovation that the property really needed, which comes to $90,000 a unit," he notes.

A rehab on 38 apartments for seniors, Newport, RI

"NEF was extremely flexible. This deal only generated not even $2 million of credits, it's really small, and most syndicators wouldn't want to do this."

NEF did decide to go forward. "Once you tell the story of the property, the location, the history, it's a pretty good story and one we were able to get comfortable with," Lyons says.

The story starts with Ade Bethune, an early member of the Catholic Worker movement, who owned a home in The Point, an old Newport neighborhood of colonial homes. Bethune saw the possibilities in turning the abandoned convent into senior housing, according to Belden, who said CCHC has developed 44 properties with nearly 1,000 rental and homeownership units since it started in 1969. It owns more than 600 of those units. Bethune, a founder and director of CCHC, died in 2002, not long after Harbor House was finished.

The complex consisted of two Victorian houses, a chapel, a chaplain's house and a retreat house. An unused space called the Great Hall now will see a build-out of three additional apartments, which will improve cash flow. (Seven market-rate apartments also provide some positive cash flow, with the balance of units going to residents at 50 percent to 60 percent AMI. An unusually high 60 percent of the space is common, with just 40 percent income producing.)

"Ade Bethune was well ahead of her time when it came to micro housing," Belden says. "She felt the apartments should be small. The apartments in this property are about 350 to 400 square feet on average. The idea was they would function just as a bedroom, so the senior residents would get out of their apartments and socialize.

SOURCES	
FHLB Boston AHP Direct Subsidy	$500,000
BankNewport/RIHousing Permanent Loan	$500,000
Capital Magnet Fund	$700,000
Housing Tax Credits (NEF)	$751,296
Preservation Loan	$1,230,000
Low Income Housing Tax Credits (NEF)	$1,511,785
Seller Loan (CCHC)	$1,171,389
Targeted Loan assumed & accrued interest	$699,597
Reserves (CCHC)	$275,115
Community Development Block Grant	$600,000
Deferred Developer Fee	$377,961
General Partner Capital	$100
Total Sources	**$8,317,243**

USES	
Acquisition	$2,400,000
Construction/Rehab	$3,682,854
Soft Costs	$507,888
Miscellaneous	$49,855
Financing Fees	$448,597
Base Developer Fee	$588,046
Incentive Developer Fee	$377,961
Operating Reserve	$212,042
Rep/Lease-up/Other Reserve	$50,000
Total Uses	**$8,317,243**

DEVELOPMENT & OPERATING CHARACTERISTICS	
Total Development Cost Per Unit	$202,860
Average Monthly Rent (Including Rent Subsidy)	$1,006
Range of Household Incomes	50%, 60%, Market

Happy Residents

"From what I've seen it was successful because whenever you go into Harbor House you see residents in the dining room making puzzles or playing cards, they have monthly potluck dinners there. There are also movie nights in the historic living room with the functioning fireplace. It is really a beautiful place. The chapel is intact. It has beautiful stained-glass windows, pews and a church organ."

The original deal, using nine percent tax credits, was done in 2001, but the waterfront exposure has since led to considerable wear and tear on the property.

"After 17 years since the original transaction, the property needed substantial renovation," Belden told the NH&RA meeting. "On April 30, we closed on an acquisition-rehab four percent tax-exempt bond preservation deal."

Construction is under way, says Belden. "When we're done, I think the building will be back to its original glory."

Even before rehab is complete, the development still makes a great impression. "Every person I bring to Harbor House says they want to live here someday," says Belden. TCA

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