



HOUSING PRESERVATION NEWS

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Aspen Tenderloin Apartments: A Case Study on Saving California's Older SROs

Editor's Note: In this issue of Housing Preservation News we look at preserving a type of housing that is a critical resource to very low-income people in California's urban areas: Single Room Occupancy (SRO) hotels. For many very low-income workers, seniors and disabled adults attempting to live in our high-cost urban markets, SROs represent the last remaining housing choice that is potentially affordable to them. Even though most SROs are aging and in need of substantial rehabilitation, they are still vulnerable to conversion to market-rate housing by profit-motivated interests. Aspen Apartments, a San Francisco SRO, was such a building before it was acquired and preserved by Tenderloin Neighborhood Development Corporation (TNDC), a community-based, non-profit developer with an impressive track record of having acquired and preserved more than a dozen similar buildings in San Francisco. TNDC owns and operates twenty-five buildings with more than 2,500 apartments, all of them serving very low-income San Franciscans thanks to the efforts of a dedicated group of professional staff who work long hours.

The Property

Aspen Tenderloin Apartments is composed of two mid-rise buildings located in San Francisco's Tenderloin neighborhood, a district well known for its rich stock of SROs as well as its diverse community and economic challenges. Built in 1923 and 1925 and assisted with federal Section 8 rental subsidy contracts first provided to the buildings by HUD in 1983, the properties are typical San Francisco SROs with extremely low-income seniors occupying almost all of its 82 apartments. For these tenants, few or no alternative housing options exist.

Time Pressure and Regulatory Hurdles

TNDC was forced to acquire Aspen Tenderloin Apartments under a very accelerated schedule driven by competition from market-rate developer interest. In May 2006, the San Francisco Redevelopment Agency approached TNDC to discuss strategies for preserving Aspen Apartments, which CHPC was tracking as an "at-risk" property due to the 2010 expiration of the Section 8 contract and the owner's stated desire to sell the property without regard to its continued status as affordable housing. Negotiations with the owner took place in July and August. On September 8, TNDC entered into a Purchase and Sale Agreement ("PSA") to acquire the 77 studio and five one-bedroom apartments at 161-165 Turk Street and 249 Eddy Street for an acquisition price of \$7,500,000. Due to time pressure from the owner, the PSA provided a total of only 81 days to resolve all physical and financial contingencies. CHPC helped TNDC to resolve a host of issues, including:

- Amending the CalHFA prepayment prohibition to allow for new CalHFA financing;
- Guidelines for release of residual receipts, operating reserves, and replacement reserves (HUD allowed use of residual receipts for hard costs; operating and replacement reserves were approved for release to the seller);
- Conflicting lien priority requirements between SFRA and CalHFA;
- Extension of the Section 8 contract for 20 years prior to the contract expiration; and
- Underwriting the new Section 8 rents based upon projected financing needs post-rehab.

By January 1, 2007, all acquisition and construction financing was in place, just six months after TNDC submitted its first letter of interest to the seller. By September 2007, TNDC secured an allocation of 9% tax credits as the final piece of the financing plan. The rehabilitation of the development is scheduled to begin in early 2009, with completion projected for mid-2010.

Financing Details

The total acquisition cost for the Aspen Tenderloin Apartments buildings was \$7,541,185, of which CalHFA provided \$2.4 million in interest-only funds during the preconstruction period, with SFRA financing stepping up to finance the balance. The total development cost for the acquisition and rehabilitation is projected to be \$18,964,400, as follows:

Uses of Funds	Amount	Sources of Financing	Construction Amount	Permanent Amount
Acquisition	3,771,430	CalHFA Construction	12,875,000	0
Rehabilitation	7,789,900	CalHFA Perm Loan	0	3,448,700
Architect/Design/Eng	872,175	SFRA	3,336,250	810,000
Loan Interest/Financing/Title	1,746,675	Affordable Housing Program	0	405,000
Legal/Other Consulting	207,000	Costs Deferred Until Permanent Close	1,348,500	0
Furnishings	160,000	Income from Operations Pre-Construction	426,700	426,700
Marketing/Reserves	1,179,400	Existing Residual Receipts Reserve	298,200	298,200
Developer Fee	1,732,700	Tax Credit Equity	679,750	13,575,800
Relocation	600,000			
Other Soft Costs	905,120			
Total Development Cost	18,964,400	Total Sources	18,964,400	18,964,400

With assistance from CHPC, TNDC negotiated favorable acquisition, construction and permanent financing terms with SFRA, including a long-term ground lease that will ensure affordability at the site for 99 years. Though CalHFA's underlying mortgage had a prepayment prohibition, with assistance from CHPC, TNDC secured a conversion of the mortgage to acquisition, construction, and permanent financing, all at better rates than available in the conventional lending market. Finally, in recognition of the added public benefits that would be brought to the property by TNDC, HUD agreed to extend the Section 8 contract for a 20-year term. The commitment to a 20-year contract renewal was critical to provide the underwriting security required by CalHFA and anticipated for the tax credit investor.

The Critical Role of Government Agencies

The preservation of Aspen Tenderloin Apartments succeeded because local, state and federal agencies worked quickly and creatively together, each motivated by the overriding goal of preserving this critical housing. At the local level, SFRA took the lead in identifying the need to save the property, then identified the resources necessary to make the acquisition possible and most importantly, provided flexibility in its long-term financing plan. CalHFA demonstrated its own commitment to preserving the property by allowing the conversion of the existing mortgage into an interest-only acquisition loan which then converted into construction and permanent financing. HUD ensured that the development could continue its long-term rental subsidy contract, thus maintaining the cash flow necessary to properly operate the building.

In the process of acquiring the Aspen Tenderloin Apartments buildings, TNDC re-named them Turk and Eddy Preservation Properties to mark the transformation of these small but valuable apartments into healthy supportive environments for very low-income individuals. The story of the successful preservation and transformation of Aspen Tenderloin Apartments into Turk and Eddy Preservation serves as an excellent reminder that with creative and flexible thinking, nonprofit developers can acquire and protect critical affordable housing resources, even under extreme time pressure.