

# HOUSING PRESERVATION NEWS



May 28, 2015

## Preserving a Historic Hotel with Innovative Financing and the Partial Transfer of a Section 8 Contract

In February 2015, [Christian Church Homes](#) (CCH) celebrated the grand re-opening of the Lorenz Senior Apartments in Redding, California after a major rehabilitation. A historic hotel that had been converted to senior housing, the Lorenz was in need of structural upgrades and repairs and improvements to residential units. The Lorenz had received [Section 8 Project Based Rental Assistance](#) (PBRA) from the US Department of Housing and Urban Development (HUD), which allows CCH to provide deeply affordable homes to extremely low-income seniors. CCH saw the opportunity to enlarge and reconfigure units to provide 60 high quality apartments that better met residents' needs while conserving the resource of PBRA through the transfer of rental assistance to a nearby affordable senior property.

In late May 2015, after more than five years of hard work with HUD, CCH received word that approval will be forthcoming for the partial transfer of the Section 8 contract through [HUD's Section 8\(bb\)\(1\) authority](#), a first in California. CCH hopes that the pioneering work at the Lorenz will help make future Section 8 transfers easier as HUD better defines and streamlines the approval process.

### The Lorenz Hotel: A Historic Community Resource in Need of TLC



The Lorenz was built in 1902 and is one of three historic structures from this period remaining in Downtown Redding. The brick and mortar building was operated as a hotel until 1975, when it was converted to senior housing. In 1995, HUD foreclosed on the property, and through the [HUD Multifamily Property Disposition program](#) sold the Lorenz to a small local nonprofit for \$1 and provided

100% project based Section 8. In addition to offering homes to low-income seniors, the hotel contains seven retail tenants including a restaurant, a hair salon, a law office, a bakery, and a church.

Despite the deeply affordable rents made possible by HUD PBRA and the high need for

affordable senior housing in the community, the former hotel's small room sizes and lack of in-unit kitchens limited the appeal of the apartments and resulted in high vacancy rates. The property's age made a major rehabilitation and seismic retrofit increasingly necessary and offered the possibility of cost savings and increased energy efficiency through green improvements.

### **CCH and California Housing Partnership Develop Recapitalization Plan**

In 2000, the property's small nonprofit owner dissolved and transferred the property to CCH for \$1. HUD had placed restrictions on the property's grant deed after the disposition sale that required HUD receive 75% of the proceeds in the event of a sale. This grant deed restriction made it financially infeasible to sell the property to a new limited partnership as part of a Low Income Housing Tax Credit (LIHTC) recapitalization. An additional barrier to recapitalizing the property was HUD's unwillingness to subordinate its first right to foreclose included in the grant deed restrictions, making it virtually impossible to obtain a loan.

CCH brought in Laura Kobler, the California Housing Partnership's Sacramento Region Director, Scott Barshay of law firm [Gubb and Barshay](#), and Robert Mills of law firm [Goldfarb & Lipman](#) to try to find solutions to these seemingly intractable barriers. Kobler, Barshay, Mills, and CCH determined that contributing the property instead of selling it to the limited partnership was the best course of action, though it took away the ability to use a seller take back note as a source of financing. The property contribution, dating back to HUD's original transfer for \$1, enabled the building's value to be counted as part of the property's 9% LIHTC tiebreaker score, helping to make the project more competitive for a LIHTC award.

CCH decided to take advantage of the Lorenz's historic status by paying for it to be certified as a historic landmark, allowing the Lorenz to receive [Federal Historic Tax Credits](#) (HTCs) that provided an equity investment equal to 20% of eligible basis, or just over \$2 million dollars. Federal rules governing tax credits required that the value of the HTCs be discounted from the eligible basis for LIHTC, however, by reducing the LIHTC eligible basis, CCH simultaneously increased the project's tiebreaker score, contributing to its successful 9% LIHTC application. The Lorenz is now listed on the National Register of Historic Places and has become an asset for the larger community of Redding.

### **The City of Redding, Investor, and Lenders Step Up**

Recognizing the importance of the Lorenz as a community asset and historic landmark, the City of Redding invested \$500,000 in scarce local HOME funds in its rehabilitation. The City cared enough about the project that when costs increased due to unanticipated conditions, it provided an additional \$125,000 in HOME funds.

[Merritt Community Capital](#) served as the LIHTC investor. The [Redding Bank of Commerce](#) sponsored CCH's successful application for a forgivable loan through the Federal Home Loan Bank's Affordable Housing Program. In addition, the Bank invested in

Merritt's pooled equity investment fund that includes the Lorenz.

[Citi Community Capital](#) played a key role as construction and permanent lender for the project. The bank was willing to lend despite the HUD deed restriction being in a superior lien position with an ability to foreclose on the bank's interests should the project fail. To help CCH close the remaining financing gap, Citi provided a loan with a 17-year term based on the amount of time remaining on the Section 8 Housing Assistance Payment (HAP) contract, but with a more favorable 25-year amortization. The longer amortization allowed CCH to obtain a larger first mortgage and fill the remaining funding gap. While this practice has since become more common, it was new at the time and provided an additional boost to the financial feasibility of the project. Laura Kobler notes "Despite the many obstacles we faced in financing this development, the entire lending and investing team got behind the project and worked in innovative ways to provide deep affordability and rehabilitate the units, greatly improving the quality of life for the residents of the Lorenz."

Sources	Amount
Citi Community Capital Perm Section 8 Increment Loan	\$ 1,790,000
City of Redding HOME Funds	\$ 625,000
Redding Bank of Commerce FHLB AHP Loan	\$ 590,000
General Partner Contribution from Existing Reserves	\$ 454,414
Merritt Capital LIHTC Equity Investment	\$ 7,624,985
TOTAL	\$ 11,084,399

Uses	Amount
Rehabilitation	\$ 6,362,298
Relocation	\$ 500,415
Design and Engineering	\$ 691,546
Developer Fee	\$ 1,079,602
Financing Costs and Capitalized Interest	\$ 524,206
Other Soft Costs (Marketing, etc.)	\$ 1,926,332
TOTAL	\$ 11,084,399

### **S8 PBRA Transfer A Long Journey with a Successful Outcome**

When CCH realized that the remodel would be most effective if the apartments were enlarged and the number of units reduced, they initiated a conversation with HUD to allow for the transfer of 18 PBRA units to a nearby affordable senior property owned and managed by CCH, the Hotel Redding. A transfer would preserve the rental assistance for extremely low-income senior households in the Redding area. CCH knew that similar transfers had been proposed in the wake of Hurricane Katrina under Section 318. In theory, HUD also had the authority to transfer PBRA from one property to another under Section 8(bb)(1). In late 2014, HUD issued formal guidance on Section 8(bb)(1) PBRA transfers. However, given the rarity of these transfers and lingering procedural questions, HUD struggled to find the appropriate path to facilitate the transfer of PBRA from the Lorenz to the Hotel Redding. Five years after initiating discussions, CCH finally received word this month that approval from HUD headquarters would be forthcoming for the partial

transfer of the Section 8 contract under Section 8(bb)(1). The successful completion of this process will be a first for California and represents an additional tool for preservation of HUD-assisted affordable housing.

### **Updating "the Lady Lorenz" While Caring for Vulnerable Residents**



As the rehabilitation proceeded, the building's distinct character and history became more prominent for project staff and they began to refer to the hotel as "The Lady Lorenz", the name of a bar that at one time had occupied the building's basement. Construction revealed surprises large and small- from a supporting truss that had been added in the past but did not appear in architectural drawings, to the discovery of matchbooks

from the bar dating back to the 1930s that had been sealed into a wall. CCH staff consistently worked with the architectural and construction teams to respond to unexpected problems that came up during the renovation. Despite the challenges of working on a historic building, the Lorenz's historic status allowed for use of the California Historic Building code, which permitted a performance-based approach to rehabilitation that provided greater flexibility than the normal prescriptive requirements under California codes. The building received a million dollar seismic retrofit, new sprinklers, and upgrades to units and common areas, while ensuring that the exterior of the building retained historic details.

Given that the residents of the Lorenz are very low-income seniors who are often frail and with few social and financial supports, CCH felt it was important to allow as many residents as possible to remain on site during the rehabilitation. Units were remodeled in groups so that residents could be moved within the building. For those residents who needed to be housed off-site, CCH found lodging at a nearby tourist hotel, allowing residents to return during the day to spend time with friends in the lobby and remain close to familiar surroundings and services.

### **A Greener, More Livable Lorenz**



As a result of the rehabilitation, the building is now seismically sound, its exterior has been beautified, and interior modernized throughout. For the first time, all residents have kitchens in their apartments as well as expanded unit sizes, updated bathrooms, and improved common areas. All appliances are Energy Star certified and toilets and showerheads are low flow. The Lorenz now has a solar energy system on its roof that will

help reduce energy costs by 20%. Kathleen Mertz, Vice President of Real Estate Development at CCH, recounts meeting a resident who was carrying a number of pots and pans up the stairs to his apartment "He was so excited to have a kitchen that he had gone out and bought a bunch of cooking supplies -- it was his first time cooking for himself in years. It's moments like that, when you see the happiness in a resident's eyes that make the complicated financing and two-year construction all worthwhile."

### **CHPC Services for Nonprofit and Local Government Staff**

CHPC provides technical assistance and training to help nonprofit and government agencies build and preserve affordable homes for California families and seniors. For more information about our preservation program, please contact Housing Policy and Preservation Associate, James Pappas at [jpappas@chpc.net](mailto:jpappas@chpc.net) or (415) 433-6804 x 320. For information about CHPC's technical assistance services, contact Richard Mandel at [rmandel@chpc.net](mailto:rmandel@chpc.net).

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