

HOUSING PRESERVATION NEWS



September 30, 2014

University Avenue Homes, A Critical Housing Resource In Need of TLC



Post-renovation view from 10th Street and University Avenue in Berkeley (Adam Newacheck photo courtesy of RCD)

Built in 1926, University Avenue (UA) Homes is a Single Room Occupancy (SRO) property with 74 units located in Berkeley, California. UA Homes is one of many aging SRO properties in California that provide an important affordable housing resource for low-income people who would otherwise be homeless. However, at nearly 90 years of age and with complicated layers of restrictive financing, UA Homes badly needed a major physical and financial rehabilitation. Luckily for its low-income residents and the community, [Resources for Community Development](#) (RCD) was committed to giving UA Homes new life, even if it meant getting the U.S. Department of Housing and Urban Development (HUD) to provide something it had never provided before in California.

City, State, and Federal Programs Provide Key Early Funding

RCD faced several financing challenges, including the need to combine older California state loan programs with new state funding sources and somehow convert a short-term rental assistance contract through HUD's [SRO Moderate Rehabilitation \(Mod Rehab\)](#) program into a long-term renewal, for which there was no guidance and scant precedent.

The City of Berkeley provided early funding through its Affordable Housing Trust fund that allowed RCD to assemble the various funding sources necessary to complete the rehabilitation. This new City funding was in addition to a prior City loan to the property that helped fund a seismic retrofit.

UA Homes assumed this earlier loan as part of its recapitalization.

In addition to City funds, the California Housing Partnership assisted RCD in obtaining a competitive funding award from the state [Multifamily Housing Program](#) (MHP) as well as an additional subordinate loan through the state's [Mental Health Services Act](#) (MHSA) program. To secure the MHSA funds, RCD agreed to devote seven of the project's apartments to serve homeless individuals with mental health needs.

The recapitalization of UA Homes required modifications to an existing state [CHRP-R](#) loan (used to complete a seismic retrofit in the early 1990s) well prior to HCD's issuance of guidance authorized by AB 1699, forcing RCD and the California Housing Partnership to spend significant time negotiating terms with HCD to secure approvals for those changes. In addition to the state funds, the Federal Home Loan Bank of San Francisco provided a deferred loan through its [Affordable Housing Program](#) (AHP) sponsored by [Union Bank](#) that injected additional capital into the project.

The Key to a Renewed UA Homes: Obtaining a 20-Year SRO Mod Rehab Housing Assistance Payments Contract

For decades UA Homes had received project-based rental assistance through HUD's Mod Rehab program, administered by the Berkeley Housing Authority under an annual contract. In order to attract new long-term private capital, RCD needed to find a way to convert the annually renewing Mod Rehab rental assistance to a 20-year housing assistance payment (HAP) contract. The only problem was that HUD's official policy was that this was impossible, and no one in California had ever heard of this being done.

However, California Housing Partnership President & CEO Matt Schwartz learned that Boston-based The Community Builders Inc. had just obtained approval of a 20-year contract renewal of an existing Mod Rehab HAP contract on an SRO property that also served homeless individuals. RCD was then able to use this information to work with HUD and the Berkeley Housing Authority to obtain a 20-year HAP contract renewal for its existing Mod Rehab rental assistance.

Community Reinvestment Act Investor and Lender Complete the Puzzle

With the 20-year Mod Rehab contract in hand along with commitments of local, state, and AHP funds, RCD was now in an excellent position to secure a competitive 9% Low Income Housing Tax Credit award, which it did with the expert assistance of the California Housing Partnership's Director of Financial Consulting Richard Mandel. Mandel worked closely with RCD Project Manager Jessica Sheldon to position UA Homes to compete in the state [Tax Credit Allocation Committee's](#) Nonprofit Homeless Apportionment, where it obtained \$7.5 million worth of 9% Tax Credits.

To realize the value of the tax credits, Mandel helped Sheldon and RCD select an investor to purchase the credits and a lender to make the construction loan through a competitive bidding process. The winners of the process were Enterprise Community Investment, Inc. and Union Bank, respectively. Mandel comments, "We were extremely pleased that both Enterprise and Union Bank showed a strong interest in UA Homes from the get-go. It's no secret that banks and investors must do intensive underwriting and due diligence to secure credit approval for a property that is an occupied acquisition/rehab of an SRO serving homeless individuals and combining a patchwork quilt of new and existing local, state and federal financing. In light of these underwriting challenges, they demonstrated a true commitment to RCD, the residents and the community by investing in UA Homes."

Sources and Uses of Financing for UA Homes

Construction Loan	Amount
Union Bank Construction Loan	\$8,358,291

Permanent Sources	Amount
Berkeley 2010 Housing Trust Fund Loan	\$793,816
Existing Berkeley HTF Loan	\$1,031,229
Existing HCD CHRP Loan	\$2,558,685
HCD Multifamily Housing Program	\$3,270,890
MHSA Loan	\$758,600
AHP Loan Sponsored by Union Bank	\$740,000
Deferred Developer Fee	\$92,000
General Partner Contribution from Existing Reserves	\$655,426
Enterprise LIHTC Equity Investment	\$7,711,000
TOTAL	\$17,611,646

Uses	Amount
Land/Acquisition	\$4,307,983
Rehabilitation	\$7,543,225
Relocation	\$600,000
Design, Engineering, Local Permits	\$926,770
Reserves	\$1,904,061
Financing Costs	\$515,397
Legal, Consulting, Dev. Fee, Other Soft Costs	\$1,814,210
TOTAL	\$17,611,646

Working with Tenants to Successfully Complete an Occupied Rehab

Nearly three years before construction began, RCD laid the groundwork for the rehabilitation through meetings with residents. These meetings informed residents and staff about emerging plans and collected feedback about needed improvements. Leading up to and during construction, RCD held monthly meetings to inform residents about the schedule and progress. RCD installed a white board in the building's common area that showed the schedule and location of work each week and made a point of giving residents early notice of any interruption in utility services. Given that UA Homes also has ground floor retail tenants, RCD had an additional set of stakeholders to inform and accommodate during the rehabilitation.

Due to that fact that all of the residents had been homeless and therefore had already experienced significant housing instability in their lives, RCD wanted to avoid moving residents from their homes during the rehabilitation. In the year prior to construction, RCD took advantage of naturally occurring resident departures to create a reserve of vacant units that allowed RCD to relocate remaining residents within the building while their apartments were renovated, thus reducing disruption to residents and lowering relocation costs. Jessica Sheldon, Project Manager at RCD notes, "The temporary relocation at UA Homes was very smooth due to the combined efforts of many partners. Our contractor developed a schedule that accommodated relocation needs, our relocation staff oversaw the details, and the on-site property manager and services staff eased residents' anxiety. And for the most part, residents responded to the process with patience and understanding."

More Livable Homes, Better Services, and a Greener Building

For the first time in the building's history, each apartment at UA Homes has a new kitchenette with a two-burner range, sink, refrigerator and microwave, making it easier for residents to prepare healthier and less expensive meals on their own. RCD also installed new cabinets, carpeting and flooring, all made of non-toxic, sustainable materials.

RCD improved common areas including the lobby and community room and added planters and a shed in which to park bicycles, all while retaining critical historic details of the building. RCD was also able to use the renovation to expand space for on-site property management and social and medical services provided by its partner, Life Long Medical Care. The improved office areas include more room and increased privacy for one-on-one and group meetings and on-site medical check-ups for residents.



Renovated lobby. Photo by Adam Newacheck, courtesy of RCD



Renovated apartment interior. Photo by Adam Newacheck, courtesy of RCD.

The renovation of the building included installation of solar hot water and solar photovoltaic systems to help meet a substantial portion of the building's energy needs. In addition, installation of double-paned windows in all residential units has improved resident comfort while lowering the building's heating and cooling costs. As an SRO, UA Homes covers all energy costs for residents so these energy saving improvements make it more financially stable over the long term improving the odds that it will remain a resource for Berkeley's most vulnerable residents for many years to come. Dan Sawislak, RCD's Executive Director, says "UA Homes is the foremost resource in Berkeley that provides affordable, supportive housing to individuals moving directly from homelessness. We are thrilled to have completed this challenging rehab, which dramatically improved the property and will maintain this important housing far into the future."

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 or (415) 433-6804 x 320. For information about CHPC's technical assistance services, contact Richard Mandel at rmandel@chpc.net.

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