



# TaxCreditAdvisor

*News, Ideas and Information for  
Tax Credit Developers and Investors*

## Atlanta Project for Homeless Enhanced, Preserved Through Resyndication

**WELCOME HOUSE, AN AGING** affordable apartment building in downtown Atlanta, was far past its prime and headed for an uncertain future when developer Progressive Redevelopment, Inc. (PRI) decided to repeat history.

The three-story property, which contains 210 units of single-room occupancy (SRO) housing, was built in 1993 by PRI to serve the formerly homeless using the federal low-income housing tax credit. With the property showing its age and nearing the end of its original 15-year tax credit compliance period, PRI officials had a choice to make.

PRI thought about continuing to operate Welcome House as is, but figured its remaining life would be only three years in its worn state. PRI also considered a sale, but felt few developers would be interested in the property.

### Resyndication Transaction

The solution, according to Jonathan Toppen, project manager for PRI Development Services, LLC, was to keep and renovate the building through a new tax credit transaction using federal and state housing tax credits and belowmarket rate debt financing.

The total development cost is roughly \$10.6 million. Rehabilitation work began in August 2008 and completion



*Welcome House, Atlanta, Georgia*

is expected in July 2009.

The rehabilitation includes replacement of all major systems, additional common space, noise mitigation, improved wheelchair accessibility, and energy-efficiency improvements to reduce utility and maintenance costs. The development is pursuing green certification under the EarthCraft Homes program, with such sustainable amenities as a rooftop water collection system.

Upon completion, Welcome House's remodeled apartments will have a homier, less institutional feel. And new lighter-colored flooring, new paint, and new exterior siding will give the building a residential look.

Bruce C. Gunter, president and chief executive of PRI, said his group's affordable housing mission includes

operating supportive housing developments. "This kind of housing is near and dear to our hearts," he says, "because it's more needed, and it adds value to the community to provide this type of housing."

About 50% of Welcome House residents have been homeless. Many lived on the streets after institutional care, Toppen said. About 50 residents have mental illness, substance abuse, or are wheelchairbound due to a chronic physical disability. About 20% are veterans.

Gunter said about 25% of Atlanta's population lives below the poverty line, and that homelessness remains an issue, particularly because of the warm climate.

He noted Atlanta Mayor Shirley Franklin's office was instrumental

in renegotiating the ground lease for Welcome House for the new deal. Also very helpful in negotiations with the city was Councilman

Kwanza Hall. Mayor Franklin said Welcome House is an important part of the city’s affordable housing plan to support SRO development. “At the time Welcome House was developed,” she explained, “the city and the community did not recognize the full range of challenges working people face in finding affordable safe and convenient housing. It is an example of a different type of housing that serves many working people in our city.”

**Continuation in Deal**

Enterprise Community Investment, Inc. (ECI), based in Columbia, MD, syndicated the federal housing credits for Welcome House in the original transaction and in the new resyndication. Steve Smith, director of acquisitions at EMI, said Enterprise was pleased to be a part of the new transaction because the property addresses Atlanta’s critical need for housing for the homeless.

“Welcome House has had a strong performance history, and we are now reinvested in the property for another 15 years,” he stated. “PRI is exactly the type of partner you would want to do this type of development.”

To facilitate the resyndication, Enterprise agreed to dissolve its limited partner interest in the original partnership, provided it was the limited partner in the new partnership.

The state housing credits were syndicated by Atlanta-based Stateside Capital, LLC. The federal credits generated about \$6 million in equity; the state credits, nearly \$2 million.

**Deal Challenges**

Toppen said PRI had issues with investors, and wasn’t sure even at the closing whether the deal would fall apart. While Enterprise and Stateside were easy to work with, the upper-tier investors wanted much more scrutiny that in previous deals, due to the current unsettled market conditions.

**Welcome House – Source and Uses Summary**

**Permanent Sources**

Federal LIHTC Equity – Enterprise Community Investment .....	\$6,020,603
State LIHTC Equity – Stateside Capital LLC.....	\$1,952,811
Seller’s Note (30 years, 7%).....	\$1,600,000
Loan – Mercy Loan Fund (10 years, 6.75%) .....	\$375,000
AHP Loan (20 years) – SunTrust Bank.....	\$550,000
Property Operations/Deferred Fee .....	\$100,586
<b>Total Sources .....</b>	<b>\$10,599,000</b>

**Uses**

Purchase Price.....	\$3,200,000
Hard Construction with Contingency .....	\$4,750,000
Developer Fee and Reserves .....	\$1,500,000
Architectural and Engineering .....	\$250,000
Furniture, Fixtures and Equipment .....	\$250,000
LIHTC Fees.....	\$188,000
Financing Fees and Interest .....	\$150,000
Legal.....	\$150,000
Other Soft Costs .....	\$161,000
<b>Total Uses.....</b>	<b>\$10,599,000</b>

Enterprise wanted a six-month operating reserve, he said.

Toppen noted a bright spot was that Enterprise honored its original pricing commitment for the federal credits, made back in 2007, even as the economy began to decline. The federal credits sold for 90 cents on the dollar.

“The underwriting was intense,” Toppen said. “Because we’re a nonprofit, there was no well-heeled individual to draw on. Enterprise worked hard to get investors to understand that a nonprofit doesn’t have a lot of liquidity to draw on.”

One issue that concerned upper-tier investors was that the SRO units have shared rather than individual bathrooms. That concern was ameliorated by Welcome House’s 15-year history of stable operation, Toppen noted.

The transaction used multiple funding sources. The \$3.2 million acquisition cost was covered by PRI with a seller’s note and deferred developer fee. Additional sources for the deal were a loan from Mercy Loan Fund, a community development financial institution, and a loan from SunTrust

Bank that was capitalized by a \$500,000 grant from the Federal Home Loan Bank of Atlanta’s Affordable Housing Program.

**Composition, Rent Structure**

Welcome House contains 209 housing credit units and one manager’s unit, measuring between 110 and 160 square feet in size. Monthly rents for the tax credit units range from \$373 to \$425. Units are reserved for tenants from 30% or less of area media income (AMI) on up to 60% or less of AMI.

In the Atlanta metro area, 60% of AMI is about \$30,000 for an individual and about \$43,000 for a four-person household. The average income of Welcome House residents is between \$8,000 and \$10,000.

Welcome House provides a full range of services for residents, including case management, AA meetings, job placement, and life skills development.

To measure success, PRI looks at case manager reports on tenants to check their length of residency, length of sobriety, and employment income, Toppen said.

– Stephen K. Cooper