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Michigan's Bold Plan

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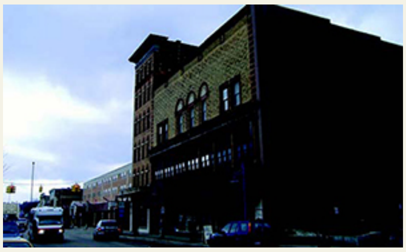
MSHDA directs exchange funds to existing properties

BY DONNA KIMURA

Michigan State Housing Development Authority (MSHDA) officials knew they had an opportunity to take a bite out of the state's housing and economic crisis.



The old Central Savings Bank building, which dates back to around the 1880s, is being turned into affordable housing.

They, along with their counterparts in each state, were charged with implementing several brand-new programs created under the 2009 American Recovery and Reinvestment Act (ARRA).

It was a fresh chance to build and preserve affordable housing. At MSHDA, they even had a motto to remind them to think big: If there are no rules, you can't break them.

MSHDA jumped out of the gate, unveiling a draft of its Tax Credit Assistance Program (TCAP) and credit exchange implementation plan nearly six weeks before federal officials released their initial guidance on the programs.

Not only was it one of the first plans to emerge, it's one of the boldest.

Reinvestment plan

MSHDA officials asked themselves four key questions: What are you going to do about new 9 percent low-income housing tax credit (LIHTC) projects that need gap financing in order to be viable and attract equity? What are you going to do about the stalled pipeline of prior-year credits? What are you going to do about the 4 percent LIHTC pipeline? And, what are you going to do about the existing portfolio? The responses became the cornerstones of the state's plan.

"Even if we can clear the backlog of stalled old deals, the new deals are going to need help," explains Stephen Lathom, development operations and policy manager in the Rental Development and Homeless Initiatives Division. "We also said as much as there is a challenge in getting new deals done, there's also a challenge with a lot of deals that have been done over the years. Given the economy, given the circumstances, there are deals out there in a critical period that are having trouble."

Heart of Downtown

Exchange funds plus three different tax credits assembled

SAULT STE. MARIE, MICH.— Ahistoric bank building is being transformed into affordable housing this year after becoming one of the first tax credit exchange projects to close on its financing in Michigan.

Developer Gerald Haan has been working on the deal since 2007. He received a reservation of low-income housing tax credits (LIHTCs) in 2008, just as the market was turning upside down. That left the small 24-unit project struggling to turn its tax credits into equity.

Instead of giving up, Haan returned his credits to the Michigan State Housing Development Authority (MSHDA) under the new exchange program. Created as

Michigan took ARRA as an opportunity to channel federal resources to the state's specific affordable housing needs, says Ethan Handelman, vice president at CAS Financial Advisory Services (CAS FAS), a firm that works with many affordable housing owners and agencies. "It got funds moving quickly, creatively, and efficiently while being transparent with stakeholders about the uncertain policy environment," he says.

MSHDA officials bounced ideas off the CAS FAS team and attorney Anthony Freedman of the Holland & Knight firm as it developed its plan.

The answer to the authority's last question became the Reinvestment and Innovation Program, the plan's most unique piece. While much of the TCAP and exchange efforts nationally focus on moving shovel-ready projects toward construction, Michigan is also reinvesting in existing developments.

The initial plan allows affordable housing developments that have received a direct investment of MSHDA resources to apply for up to $20,000 per unit in Sec. 1602, or exchange program, funds to pay for needed capital improvements and energy upgrades that can extend the life of a property.

part of the American Recovery and Reinvestment Act of 2009, the program allows states to exchange unused credits for as much as $0.85 per dollar of credit.

Haan also assembled three other tax credits—federal historic, state historic, and state brownfi eld—to make Park Place City Center a reality.

"It means so much to the city," says Haan. "There is no way a city like Sault Ste. Marie could get this kind of economic boost to rejuvenate its downtown without this type of assistance."

Haan adds that he has not heard of any other deals mixing exchange funds with historic credits.

His firm, G.A. Haan Development in Harbor Springs, Mich., is redeveloping the old six-story Central Savings Bank and the adjacent Masonic building into housing and 7,500 square feet of commercial space. The commercial and housing components are distinguished via a condominium arrangement.

One of the buildings has been vacant for more than 10 years, and the other was only partially occupied. The buildings are located in the center of Sault Ste. Marie, a city known for its Soo Locks, which allow freighters and other vessels to traverse a 21-foot drop between Lake Superior and the lower Great Lakes.

"It's a great re-use," says Mayor Anthony Bosbous. "Affordable housing is one of the cornerstones of bringing downtown vitality and prosperity."

Park Place City Center will serve both families and seniors. There is a seniors development in the area, so the new development may get some overflow from that project. Developers have also been working with community groups that may need help housing their clients.

"Each apartment is going to be unique," Haan says, explaining that the buildings' historic designation means that developers have to create the apartments while maintaining much of the existing features.

The $8 million project is receiving about $4.7 million in exchange funds.

The Sault Ste. Marie deal uses $1.5 million from state historic and brownfield credits, while federal historic credits provide $1.3 million. In addition, MSHDA is providing a $650,000 HOME loan.

Tax Credit Capital in New Orleans syndicated the federal credits, and Stearns Bank is providing bridge financing.

It was a tough transaction, involving multiple players and programs, says Haan. He credits attorney David Schon and the Nixon Peabody firm with working through the complexities of the different tax credit programs.

Developers hope the project will open next yea

However, officials will assess the program parameters as they evaluate the applications.

The idea is that it's more cost effective and better to make modest investments now than to wait and force struggling projects through a full-scale recapitalization.

Officials approved the first transaction under the reinvestment program in late February. Sponsored by MHT Housing, Prince Hall Place is a 156-unit family development in Detroit's Elmwood Park neighborhood.

MHT purchased the project in 2008 and has been working to improve the property, which has signifi- cant physical needs. Prince Hall Park is set to receive about $3.2 million in Sec. 1602 funds.

The state has tentatively set aside about $78 million of its $268 million in exchange program funds toward the program. As of the application deadline last fall, 33 developments with more than 3,800 units had applied for more than $74 million in funding, according to Lathom.

"From a regulatory standpoint, we're essentially awarding rehab-only credits to the owner of an existing development," he says.

Applicants must complete a capital needs assessment and an energy audit, with owners having to show the need for an investment of at least 20 percent of a project's adjusted basis or $6,000 per unit, whichever is greater.

Participating projects would get a new 15-year compliance period plus an additional 15-year extended compliance period. The program allows a developer fee of up to 10 percent of hard rehabilitation costs not to exceed $250,000 per development.

Overall, MSHDA has approved TCAP and Sec. 1602 awards to 50 projects, representing nearly $200 million in stimulus funding and nearly 3,500 housing units through the end of January. About six of these deals had closed at the end of January.

MSHDA hopes to strike the right balance with the other goals of the ARRA, including restarting the backlog of new development. However, the reinvestment plan will play a key role.

"We hope to sustain and improve the quality of the existing affordable housing portfolio," Lathom says. "In a broader sense, this is part of our policy focus on preservation and efforts to reposition existing developments to deal with the reality of lower rents and higher expenses."