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FHA Loan Preserves Senior Housing in Santa Barbara

By Teresa Garcia, Staff Writer, Novogradac & Company LLP

Santa Barbara, Calif. has been called “The American Riviera” because of its variety of cultural offerings, Mediterranean climate and red tile-roofed properties dotting miles of scenic Pacific coastline. The city’s location just 90 miles northwest of Los Angeles and its postcard vistas make it a popular and expensive place to live.

Santa Barbara has one of the lowest housing affordability indexes in the nation, according to the Housing Authority of the City of Santa Barbara (HACSB). With more than 6,500 households on HACSB’s public housing waitlist and 4,300 households on its housing choice voucher waitlists, it’s vital to preserve the city’s existing affordable housing, said Rob Fredericks, deputy executive director and chief administrative officer at HACSB.

Affordable housing demand is especially high among seniors, who make up more than a quarter of Santa Barbara’s population. One senior property, HACSB’s Villa Santa Fe Apartments, will undergo extensive rehabilitation and will preserve its affordability with the help of an \$18 million Federal Housing Administration (FHA)-insured loan from Bellwether Enterprise Real Estate Capital and a \$9.8 million low-income housing tax credit (LIHTC) equity investment from Union Bank.

Villa Santa Fe Apartments

One of Villa Santa Fe Apartment’s greatest assets is its location, said Drew Robison, Bellwether Enterprise’s



Photo: Courtesy of Housing Authority of the City of Santa Barbara

The Housing Authority of the City of Santa Barbara (HACSB) will use an \$18 million Federal Housing Administration-insured loan and \$9.8 million in low-income housing tax credits to refinance and renovate Villa Santa Fe Apartments in Santa Barbara, Calif.

national director of FHA lending. “Santa Barbara is one of the most beautiful places in the continental U.S.,” he said. “You couldn’t pick a better piece of real estate for the deal.” Villa Santa Fe Apartments consists of 167 units in two Santa Barbara locations: SHIFCO (named after its original developer, the Senior Housing Inter-Faith Corporation) and Villa La Cumbre. HACSB combined them to form Villa Santa Fe Apartments LP, a new single-purpose entity for rehabilitation. SHIFCO and Villa La Cumbre are now called Villa Santa Fe I and II, respectively.

Villa Santa Fe I was originally developed by the Senior Housing Inter-Faith Corporation in 1975. HACSB began

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Photo: Courtesy of Housing Authority of the City of Santa Barbara

The former SHIFCO site of Villa Santa Fe Apartments was operating in a negative cash flow under the U.S. Department of Housing and Urban Development (HUD) Section 221 (d)(3) restricted rent supplement structure, but was later moved to the Rental Assistance Demonstration program, which doubled the property's monthly revenue.

managing the property in 1976 and acquired the title in 1988. The 8-acre site overlooking the Pacific Ocean consists of 106 one-bedroom units, one two-bedroom manager's unit, a community room and a manager's office. HACSB receives project-based vouchers from the U.S. Department of Housing and Urban Development (HUD) for all units and has paid off the existing Section 221 (d)(3) loan.

Six miles inland from Villa Santa Fe I, the 4-acre Villa Santa Fe II was built in 1987 and includes 60 one-bedroom units with full kitchens, bathrooms, washer and dryer hookups and private patios or balconies. Common amenities include laundry facilities, carports, storage, community garden space and a recently refurbished recreation room. HACSB purchased the property in 2000.

HACSB said that while both sites have been well maintained, some of the aging facilities needed major updates. About \$5.6 million in planned renovations include new kitchen cabinets, countertops, appliances, kitchen and bathroom plumbing, lights, outlets, windows and sliding glass doors. The interior and exterior of both sites will also be repainted.

The property updates, scheduled for completion by October 2014, are expected to extend the useful life of the property significantly. "The refinancing and rehabilitation of Villa Santa Fe is the key to keeping this housing affordable in perpetuity for low-income seniors," said Johanna Gullick, senior vice president and

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Photo: Courtesy of Housing Authority of the City of Santa Barbara
Each of the two Villa Santa Fe sites will have its own onsite management office.

Southern California market manager at Union Bank's Community Development Finance (CDF) division.

Refinancing Villa Santa Fe

California dissolved the state's 400 plus redevelopment agencies (RDAs) in 2012, so in lieu of RDA funding, Villa Santa Fe used \$20.5 million cash collateralized tax-exempt bond loans issued by HACSB and loaned to the project from Citi Community Capital, \$18 million from Bellwether Enterprise's HUD FHA 223(f) LIHTC pilot program loan, \$9.8 million in LIHTC equity from Union Bank, \$5 million in construction financing from HACSB and \$12.5 million in permanent subordinated loans from HACSB.

HACSB decided to refinance Villa Santa Fe because the former SHIFCO site had been operating in a negative cash flow for years under the Section 221(d)(3) restricted rent supplement structure. "It was the only property [in HACSB's portfolio] that has been a real financial loser for us," Fredericks said, explaining that the Section 221(d)(3) structure didn't allow HACSB to keep pace with property expenses, such as maintenance and landscaping. HACSB moved SHIFCO to HUD's Rental Assistance Demonstration (RAD) program and received 106 tenant protection vouchers, which doubled the property's monthly revenue.

"We could have stopped there, but knowing that the SHIFCO property was in need of major rehab ... we began exploring how we could couple this property with another senior property that also had rehab needs," said Fredericks.

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HACSB partnered SHIFCO with Villa La Cumbre, another senior property and one of California's oldest LIHTC developments. This allowed HACSB to manage both under the same program rules and it made Villa Santa Fe eligible for HUD's LIHTC pilot program, which requires that part of the property be a former tax credit development.

Because the properties are more than 5 miles apart, they couldn't qualify as a scattered site development under California Tax Credit Allocation Committee (TCAC) regulations. HACSB had to submit separate 4 percent LIHTC and bond applications for each property, but was able to use one HUD pilot loan for both.

After a commitment with Villa Santa Fe's original equity investor fell through, HACSB asked Union Bank to step in and close the deal. Union Bank did so within a matter of weeks. "I think the key aspect to any closing is the team that's on the deal. In this case, the HACSB and their development team are extremely experienced and were able to quickly produce the material we needed to complete due diligence and close the transaction," said Jessica Mackenzie, vice president of Union Bank CDF.

Development partners said that the successful refinancing of Villa Santa Fe did more than just provide for property upgrades. "This transaction created a win-win-win in that it provided the housing authority the capital proceeds to expand its mission, while completing needed repairs and upgrades to the existing communities, and providing solid returns for equity investors and lenders," said Russell Hirsch, principal at DH&G, Villa Santa Fe's financial consultant. "We call this sound, socially-conscious real estate development."

Robison agreed, saying, "It validates that the pilot program works for HUD. We're learning from that and we'll have to develop best practices to help model future transactions." ❖

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