



## MEMORANDUM

**TO:** AHFC Board of Directors

**FROM:** Rosie Truelove, Treasurer, Austin Housing Finance Corporation

**DATE:** August 31, 2021

**SUBJECT:** AHFC Agenda Items #1 and #6 (September 2, 2021)

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This memo provides an overview of the restructuring of Arbors at Creekside (“Arbors”), an affordable housing development located at 1026 Clayton Lane, Austin, Texas 78723 and in which AHFC is involved as both ground-lessor and as part of the ownership structure.

The development is financed through the Low-Income Housing Tax Credit (LIHTC) and Private Activity Bond (PAB) programs and serves individuals aged 55 and older. The development consists of 176 units, 100% of which are affordable to households with incomes at or below 50% Area Median Family Income (AMFI). Occupancy is currently very low, relative to comparable properties, at less than 80%.

Over the past 19 years, since the Partnership for Arbors was formed, this property has had significant challenges. Over time, ongoing financial issues resulted in significant deferred maintenance, as little, if any, income from the development’s operations remained to maintain the property in good condition. Additionally, that Partnership has seen significant turnover, with old partners exiting and new partners entering.

In March of 2021, AHFC reached an agreement to purchase the existing limited partner’s interests in Arbors for \$1,250,000. This price was largely driven by legal documents associated with the partnership, which specifies how much AHFC will pay in certain situations in which AHFC exercises its option to purchase its partner’s (or partners’) interest(s). AHFC and the existing partner (Alden Torch) closed on the transfer of the interests to AHFC on May 6, 2021. AHFC (through its affiliates) is now the 100%, beneficial owner of Arbors.

AHFC intends to partner with National Church Residences (NCR), a reputable non-profit LIHTC developer with a strong focus on elderly affordable housing. NCR is the largest senior non-profit housing provider in the country, with 340 developments in 25 states, serving 30,000 residents. NCR will formally join the Partnership in the middle of 2022. However, it is important to note that NCR has already stepped in as property manager, effective July 1, 2021. Having NCR in the development as property manager will allow NCR and AHFC to better plan for the re-syndication and will hopefully allow the development to reach a higher occupancy rate in the immediate future.

AHFC has two immediate tasks at hand for Arbors:

1. Stabilize the development, making necessary repairs resulting from Winter Storm Uri
2. Plan for a re-syndication and extensive rehabilitation in 2022

Regarding task #1 (stabilization), the AHFC Board authorized a loan to Arbors for up to \$750,000 to help recapitalize the development and make necessary repairs. Arbors has consistently operated at a loss for the past several years. That operating loss has been compounded in the past year by both Covid-19 and Winter Storm Uri. Therefore, one of the first uses of the \$750,000 loan was paying accrued invoices from the past several months from the development's various vendors. Fortunately, most of the repairs from Winter Storm Uri have been completed, and all repairs should be complete by the end of September 2021.

In addition to storm damage, significant deferred maintenance will also need to be addressed in the coming months. Arbors has received numerous code violation notices from Austin Code. We anticipate that these issues will be comprehensively addressed within the month. NCR's property management team has instituted a new protocol for residents' maintenance requests and has increased responsiveness. NCR plans to have four to five maintenance workers onsite for a full week in mid to late September to address all outstanding work orders.

Regarding task #2 (re-syndication and rehabilitation), AHFC will soon begin pursuing new financing to help recapitalize the property through a re-syndication. As with other developments wherein AHFC is an investor or partner, AHFC will serve as the issuer of the Private Activity Bonds for the re-syndication. On September 2, 2021, AHFC staff will ask the AHFC Board to approve an Inducement Resolution. This will allow AHFC to request Private Activity Bond Volume Cap ("Volume Cap") from the Texas Bond Review Board. Volume Cap is very competitive across the state, but staff is hopeful that Arbors could receive a Bond Allocation in the first half of 2022, resulting in Arbors closing on new financing for the development sometime in mid or late 2022. A target timeline for the development, including AHFC Board future actions, is attached to this memo as Exhibit A.

The new financing will consist of not only the Private Activity Bonds, but also LIHTC investor equity, a subordinate loan from an affiliate of AHFC (commonly referred to as a "Seller Note"), deferred developer fee, and possibly a subordinate loan from the Texas Department of Housing and Community Affairs. The total budget to facilitate this transaction, which will include acquisition of the asset by the new partnership; developer fee; soft costs, such as engineering and permitting fees; and construction costs, is approximately \$40,000,000. The projected construction costs currently include a budget of approximately \$70,000 in rehab to each of the 176 units, or approximately \$12,320,000, with improvements to common areas and the grounds around the development also planned.

As noted earlier, the development currently has an occupancy rate of less than 80%, well below comparable properties and below average in the City of Austin. All 176 units are restricted to 50% AMFI. AHFC staff, in concert with the new development partner, will seek to provide deeper affordability for some units while improving the financial health of the asset. We are currently assessing the possibility of allowing some of the units to become affordable at 30% AMFI, while also raising other units to become affordable at 60% AMFI, with a significant portion of the remaining units still being at 50% AMFI or less. This will allow for greater rent variation across Arbors, provide deeply affordable housing for extremely low-income households, and increase the potential income for the property, which is needed to ensure long-term sustainability.

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Arbors at Creekside is one of AHFC's first partnerships and we take our commitment to this property and to the residents with great humility. AHFC staff has worked closely with the Arbors Residents Association and BASTA to address a variety of concerns at the property. AHFC staff recognizes that the Arbors residents have endured much over the last several years, and we thank them for their patience and tenacity as we have worked collaboratively to find a path toward success. The actions taken by the AHFC Board to assume full control of the property are a true inflection point in the history of this development. Staff is confident that the next phase of this process will lead to an outstanding example of affordable senior housing that the residents are proud to call home.

Please feel free to reach out to me or Mandy DeMayo, Interim Deputy Director at (512) 974-1091 if you have any additional questions.

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