

AFFORDABLE HOUSING

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FINANCE

Rural Tennessee Properties Pooled in \$88.6 Million Deal

BY DONNA KIMURA



Suncrest Apartments in Newport, Tenn., is among the 20 properties involved in a pooled bond transaction by developer and owner Hallmark Cos.

Approximately \$88.6 million in financing has been arranged to preserve 20 affordable housing communities.

The transaction involves a set of U.S. Department of Agriculture (USDA) Rural Development Sec. 515 properties, comprising 793 apartment homes serving low-income households in 16 counties across the state.

The Hallmark Cos., a large affordable housing owner headquartered in Atlanta, acquired the developments from multiple sellers, making it a complicated transaction.

The closing of the financing was announced by Greystone, a provider of affordable housing recapitalization and rehabilitation services, which worked closely with the Tennessee Housing Development Agency (THDA) as well as both USDA's Rural Housing Service (RHS) national office and Tennessee state office to coordinate and secure the financing needed to acquire and rehabilitate the housing.

The deal involved many people working together and extensive coordination, according to Will Eckstein, vice president of development at Greystone.

The partners pulled together for “the greater good for the state of Tennessee, for the properties, and for the residents, making it all come together under one transaction,” he said.

“This is a formidable model for preservation going forward,” Eckstein said, pointing to the large need for affordable housing. Instead of potentially losing developments to age, rehabbing existing properties is an efficient way to help meet the housing demand, he said.

The majority of the properties involved in the deal are between 25 and 35 years old and in need of rehabilitation.

“The preservation of aging RD Sec. 515 properties is a challenging segment of the affordable housing industry. Thousands of properties face maturing mortgages in the next several years and are also at the end of their original restrictive-use periods,” said Don Harris, state housing program director for USDA Rural Development, in a statement.

Greystone has completed similar portfolio transactions in Georgia and other states. In these deals, the company has pooled smaller, rural deals into one large bond transaction. It would otherwise be very difficult to finance the acquisition and rehab of each property individually.

The result is a replicable preservation model that addresses the complex challenges faced by affordable housing property owners across the nation, according to Tanya Eastwood, head of Greystone's affordable housing preservation group.

The latest financing package combined both public and private funding and included:

- **Tax-Exempt Bonds**—Single issuance of \$28 million in multifamily private-activity tax-exempt bonds by The Health, Educational and Housing Facilities Board of Sevier County, Tenn. The short-term bonds were issued as a public offering facilitated by Stifel, Nicolaus & Co. and received an A-1+ rating from Standard & Poor's.

- **Low-Income Housing Tax Credits**—Purchase of 4% federal low-income housing tax credits by Boston Financial Investment Management, generating over \$16 million in equity.
- **RHS 515 Debt** —Assumption and subordination of \$21.8 million of original Sec. 515 debt. The Sec. 515 program is a direct loan program designed to provide subsidized loans to developers of affordable housing in rural markets. In addition, 84% of the 793 apartment units continue to receive Sec. 521 Rental Assistance provided by the USDA Rural Housing Service.
- **Senior Debt** of \$21.9 million—Long-term debt comprised of a combination of \$19.3 million in USDA guaranteed 538 loans, provided by Greystone Servicing Corp., and \$2.6 million in newly-issued USDA 515 loans.
- **Other**—Other funding sources included additional financial support in excess of \$830,000.

“Preserving 20 communities in small towns across rural Tennessee is a significant achievement as deals of this nature are typically harder to finance. The project will provide quality rental units for low- and moderate-income individuals and families,” says Ralph Perrey, THDA executive director. “The multifamily tax-exempt bond program proved to be a critical tool in the success of this deal and THDA is proud to have worked closely with Greystone on this first-of-its-kind transaction in Tennessee.”

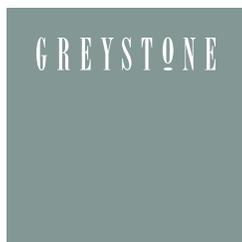
The rehabilitation plan includes a fast-paced construction process, estimated to be complete within 12 months, during which no residents will be permanently displaced. Substantial renovations will include both interior and exterior improvements, with particular emphasis on promoting energy efficiency, thermal comfort, and overall health of the residents.

The deal team included:

Architect	Wallace Architects (Sedalia, Mo.)
Bond Counsel	Dinsmore & Shohl (Cincinnati)
Bond Issuer	The Health, Educational and Housing Facilities Board of Sevier County (Tennessee)
Borrower’s Counsel	Coleman Talley (Atlanta)
Developer	Hallmark Development Services (Atlanta)
Developer Consultant	Greystone Affordable Housing Initiatives (Raleigh, N.C.)
Equity	Boston Financial Investment Management (Louisville, Ky.)
Equity Counsel	Gallagher, Evelius & Jones (Baltimore)
General Contractor	Formula Construction Group (Roswell, Ga.)
Issuer’s Counsel	Sharp & Ripley (Sevierville, Tenn.)

Permanent Lender	Greystone Servicing Corp. (Warrenton, Va.)
Permanent Lender’s Counsel	Ballard Spahr (Washington, D.C.)
Rating Agency	Standard & Poor’s (Chicago)
State Housing Finance Agency	Tennessee Housing Development Agency (Nashville, Tenn.)
Subordinate Lender	USDA (Washington, D.C.; Nashville)
Trustee	U.S. Bank National Association (Atlanta)
Trustee’s Counsel	Butler Snow (Atlanta)
Underwriter	Stifel, Nicolaus & Co. (Montgomery, Ala.)
Underwriter’s Counsel	Eichner Norris & Neumann (Washington, D.C.)

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