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HTCs, LIHTCs Preserve Affordable Housing in Salem, Mass.

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North Shore Community Development Coalition (North Shore CDC) purchased 11 buildings in Salem, Mass.' Point neighborhood and transformed them into affordable housing using low-income housing tax credits (LIHTCs) in the late 1980s. Now, more than a quarter-century later, the affordable housing owner and developer will completely renovate these 77 units using federal and state historic tax credits (HTCs) and 4 percent LIHTCs.

"It's a chance to recapitalize the whole portfolio and modernize the buildings," said Mickey Northcutt, CEO of North Shore CDC. "And, it improves the quality of life for the residents."

The 11 buildings are scattered throughout Salem's Point neighborhood. Each building has between three and 16 units. There will be 48 two-bedroom units and 29 three-bedroom units. In addition, seven of these units will be project-based Section 8 units while 20 of the units will be reserved for residents earning 50 percent of the area median income (AMI) and below and 50 units will be reserved for tenants earning 60 percent of the AMI and below.

Northcutt said that the redevelopment of these affordable housing units is particularly difficult because the property will be occupied during rehabilitation. During construction, two units will be rehabilitated at a time. Those families will be relocated for between one and two weeks while work is being done, said Northcutt. Because the buildings

are all nearly 100 years old and have not been renovated since the organization first acquired the properties, project partners said that extensive work has to be done on each building. This includes installing new mechanical systems and boilers in each building. Most units will receive new kitchens and bathrooms. Kitchen renovations will include new appliances, cabinets, flooring and countertops while the bathrooms will receive new flooring, cabinets, tiling and low-flow fixtures, said Northcutt. In addition, high efficiency windows were installed in each building and extensive masonry work was done on the exterior of the buildings. Northcutt said that an estimated 94 construction jobs will be created by the renovation.

To reduce utility costs for tenants, Northcutt said that North Shore CDC has designed a solar thermal system for each building and will install them, budget permitting. If these systems can't be added during the rehabilitation, the development will be made "solar ready," he said. "We are a long-term owner of affordable housing. We want to build our properties efficiently and have them perform well for a lifetime." The last three LIHTC developments completed by North Shore CDC each included either solar thermal or photovoltaic systems.

Breaking Down the Deal

The \$18 million redevelopment was financed primarily using 4 percent LIHTCs and federal and state HTCs. Institution for Savings provided a \$5.3 million 4 percent LIHTC equity investment and a \$1.88 million federal HTC equity investment. "We are comfortable working

continued on page 2



Photo: Courtesy of North Shore Community Development Coalition

These 11 buildings are scattered throughout Salem, Mass.' Point neighborhood. Each building has between three and 16 units.

continued from page 1

with North Shore CDC and Massachusetts Housing Investment Corporation,” said Rob LeGallo, senior vice president and chief financial officer at Institution for Savings. “We were also interested because this deal was within our lending area.”

“These buildings are the bedrock of the surrounding community. This is our mission: to protect, preserve and invest in affordable housing,” said Bruce Ehrlich senior investment officer at Massachusetts Housing Investment Corporation (MHIC). MHIC is providing closing and asset management services and was key in acquiring the transaction and getting it underwritten. “This project provides quality low-income, urban housing in a region with very high housing costs. It is very important to keep the affordable housing stock in Eastern Massachusetts.”

In addition, Eastern Bank provided a \$7.7 million construction bridge loan and a \$2.1 million permanent loan. “We liked the sponsor and the structure of the deal. It qualifies for CRA credit within our assessment area,” said Gary Leach senior vice president and head of the community development lending group at Eastern Bank.

The development also received a \$1.35 million state HTC equity investment from Dorfman Capital, which was the broker for the state HTCs. “CDCs do very important projects in the communities they serve that would not get done otherwise,” said Bob Dorfman, president of Dorfman Capital. “The state credit business is our niche. It is where we add a lot of value.” Dorfman added that the biggest challenge was maximizing the value of the state credits while keeping them at a competitive price.

Finally, this rehabilitation received a \$400,000 grant from the Federal Home Loan Bank of Boston and \$400,000 in U.S. Department of Housing and Urban Development (HUD) HOME funds from the North Shore HOME Consortium. The development also received \$950,000 in Housing Innovation Funds from the Commonwealth of Massachusetts, \$350,000 in Community Development Block Grant funds from the city of Salem, \$100,000 in Weatherization Grant funds from the city of Salem, a \$5 million seller’s note and a \$55,000 Massachusetts Development Brownfields grant.

Historic Rehabilitation

Northcutt said that 100 years ago a large fire burned down a majority of the Point neighborhood. All 11 of the Salem Point development buildings, along with much of the surrounding neighborhood, were subsequently rebuilt between 1915 and 1917. In order to qualify for HTCs and preserve the early 20th century architecture of the neighborhood, North Shore CDC is in the process of getting the entire Point neighborhood listed as a National Historic District on the National Register of Historic Places. Northcutt said that this was the lengthiest part of the development process. The Massachusetts Historic Commission board will vote on the approval of the Salem Point neighborhood qualifying for the National Register in September, said Northcutt. “Getting the entire district listed on the National Register of Historic Places would make every historic structure in the Point neighborhood eligible for historic tax credits,” said Northcutt. The state and federal HTCs will be used to preserve the original exterior masonry work, restore the large entryway doors of each building and replace the windows with historically accurate replicas.

continued on page 3

continued from page 2

Timeline

Northcutt said that construction began in mid-July 2014, and he anticipates a six-to-seven month construction timeline with the last unit being completed in early 2015. ❖

Salem Point FINANCING

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- \$5.3 million 4 percent LIHTC equity investment from Institution for Savings
- \$5 million seller's note
- \$2.1 million permanent loan from Eastern Bank
- \$1.88 million federal HTC equity investment from Institution for Savings
- \$1.35 million state HTC equity investment from Dorfman Capital
- \$950,000 in Housing Innovation Funds from the Commonwealth of Massachusetts
- \$400,000 grant from the Federal Home Loan Bank of Boston
- \$400,000 in U.S. Department of Housing and Urban Development HOME funds through the North Shore HOME Consortium
- \$350,000 in Community Development Block Grant funds from the City of Salem
- \$100,000 in Weatherization Grant funds from the City of Salem
- \$55,000 Massachusetts Development Brownfields grant

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