



CASE STUDY THE TOWER ON 19TH

*A Reiner Communities
Acquisition, Rehabilitation & Preservation*

The Tower on 19th, formerly known as Bethel Towers, is a 270-unit senior affordable high-rise community, located in Costa Mesa, California. The building was originally constructed in 1967 under the HUD 202 loan program. The loan was locked out to prepayment and not scheduled to fully amortize until 2017. The Southern California Assemblies of God developed the property as part of a ministry initiative, but after 46 years of ownership and operation, the single asset non-profit did not have the experience, capacity or desire to undertake the extensive recapitalization and renovation that the property required. A transaction was the preferred course of action. However, it was very important to the Assemblies of God that the purchaser be an organization that shared their concern for the well-being of the residents and their dedication to providing quality, safe affordable housing. Assemblies of God found such an organization in Reiner Communities. The equity Assemblies of God received from the transaction allowed them to substantially address financial needs elsewhere in their ministry.



**PRESERVES
ENHANCES
CREATES
AFFORDABLE HOUSING**

PROJECT DETAILS

Location: Costa Mesa, CA

Total Units: 270 Senior Units

Year Built: 1967-1968

Building Type: Concrete - 18 Story

Original Financing: HUD Section 202
Loan Program

Total Project Cost: \$55,000,000

Financing: FHA Mortgage, Tax
Exempt Bonds & 4%
Tax Credits

Financial Partners: Union Bank, Pruden-
tial, Citibank, Orange
County Housing
Authority

RECAPITALIZATION CHALLENGES

The Tower on 19th represented a significant recapitalization challenge as a result of the antiquated original HUD financing structure, practically non-existent life safety systems, and a very fragile tenant population.

Some of the major hurdles included:

- Significant life safety upgrades needed, including: seismic retrofit, fire sprinkler system installation, fire alarm system modernization, pressurized stairwells, and back up generators
- Significant renovation needed to replace major mechanical systems, repair a failing plumbing system, modernize the common areas and unit interiors
- Long-term off-site relocation was not a viable option considering the frail senior population
- Only two elevators (both requiring major retrofit) available to residents, construction team and relocation team
- Up to 64 temporary relocations required within the building every four to six weeks
- Maintaining a peaceful, safe, and enjoyable quality of life for residents during construction
- Section 202 loan requiring HUD authorization to prepay
- No existing rental subsidy
- Tenants paying an average of \$315 per month in rent

REINER COMMUNITIES RECAPITALIZATION PLAN

The recapitalization and preservation of the Tower on 19th was a complex endeavor that required a very coordinated execution to be successful.

There were 5 major components to the recapitalization:

- Prepayment of existing financing
- Securing new financing
- Securing new rental assistance for all tenants
- Complete property renovation
- Temporary relocation of the residents within the building during renovation

PREPAYMENT OF EXISTING HUD SECTION 202 LOAN

The Tower on 19th was financed with a HUD 202 loan that greatly limited the owner's options. The 50-year loan was locked out to prepayment and any equity that the non-profit owner had earned over the course of their ownership would have been subject to HUD's trust fund requirements.

Reiner Communities successfully navigated HUD's extensive prepayment requirements, which included:

- Tenant notification and commenting requirements
- Budget approval
- Construction scope of work and design review approval
- Rent Comparability Study (RCS) and a Physical Needs Assessment (PNA)
- Relocation plan approval

Reiner Communities was able to secure prepayment approval from HUD within the contract timeline. The seller was also allowed unrestricted use of the sales proceeds. A new HUD Section 202 Use Agreement was signed as a condition of prepayment.

SECURE NEW FINANCING

Affordable housing properties are by their very nature complex, making the selection and structuring of the new debt and equity components vitally important. Reiner Communities, along with capital partners, developed a plan which utilized a new FHA mortgage, tax-exempt bonds, equity from the sale of Low Income Housing Tax Credits, and developer equity to fund the nearly \$55,000,000 in acquisition and renovation costs of the project.

SECURE NEW RENTAL ASSISTANCE

The rent had previously been calculated based on the budget of the project. As a result, rents were approximately \$315 per month, significantly below market. In connection with the prepayment, Reiner Communities was able to secure tenant protection Section 8 vouchers for all of the units. Working closely with the Orange County Housing Authority and the residents, 75% of the tenant protection vouchers were Project Based, increasing annual rental income from \$1,000,000 to \$3,300,000, which had a dramatic impact on the sizing of the new debt. Further, the issuance of new project-based vouchers ensured current and future residents' rent would remain affordable. In fact, this was achieved without increasing the rent burden on the residents.

RENOVATION

One of the larger hurdles for this project was the significant amount of seismic life safety improvements needed to address the concerns of Reiner Communities, the city, and the lender. It was revealed that the 18-story non-ductile concrete building, constructed in 1967, was clearly prone to damage during an earthquake. An initial probabilistic seismic loss study suggested the expected loss would significantly exceed the thresholds placed by most lenders, making the building difficult to refinance or sell. In order to maintain the viability of the building from both a life safety and economic perspective, a seismic retrofit would have to be undertaken. Complicating matters, it was essential to develop a retrofitting scheme that would allow the building to remain occupied during the course of the work.



Essentially, Reiner Communities was challenged with completing an entire 18-story building renovation, including significant seismic and fire life safety system improvements, while replacing all major building mechanical systems and all cast-iron drain piping. Asbestos abatement would also be required during the gut rehab of all residential units, which received new cabinets, countertops, lighting fixtures, plumbing fixtures, appliances, flooring, windows, and paint. Plans also included site accessibility upgrades, green and energy enhancements, while fully modernizing all common spaces to be more indicative of a luxury, class-A building than institutional Section 8 housing. Some of these common area improvements included a new lobby, media room, piano lounge, offices, 18th floor sky lounge, and two Apple computer labs. All of which was to be achieved on a very tight timeline, while keeping the building occupied, with only two elevators, both requiring retrofit.

RELOCATION

The combination of a sensitive senior tenant population and the extent of the renovation needed, created a temporary relocation challenge that required a high level of creativity, compassion, and coordination. Previous to this project, Reiner Communities had renovated thousands of affordable units requiring temporary relocation and was able to draw upon those experiences to navigate the many unique relocation challenges associated with the Tower on 19th renovation.

To execute the renovation team's plan while achieving the ownership's financing requirements for tenant relocation, a stringent 12-month timeframe for completing the renovation of all 270 residential units was established with a plan and schedule to work on each floor, while coordinating all tasks and trades. In order to meet this timing demand while minimizing the number of residents that would be required to temporarily relocate off-site, 32 residents on the upper 3 floors volunteered for off-site relocation. Those 32 vacated units were then partially renovated and furnished as temporary "hotel" units. Tenants from the lower floors could then occupy the "hotel" units while their units were being renovated. Working up the building, starting with the second floor (2 floors at a time), the team had approximately 4-5 weeks to complete each floor.

A comprehensive tenant relocation plan was developed so that Reiner Communities could provide the care that a sensitive senior population would require during a very disruptive renovation. Some of the plan's highlights included:

- **Resident Coordinators** - Reiner Communities hired, trained and managed four resident coordinators and a relocation supervisor to care for the residents throughout the construction and relocation process. Additionally, an outside relocation specialist was enlisted to assist with the temporary off-site relocation of a small number of volunteer residents to allow for special "hotel" units to be used as part of relocating tenants within the building during construction.
- **Costa Mesa Senior Center** - Reiner Communities purchased each resident an annual pass to the Costa Mesa Senior Center located directly across the street from the property. Approximately \$50,000 was contributed to the Senior Center to provide special programs and daily hot meals to Tower on 19th residents during construction. A customized golf cart was purchased to provide a shuttle service to and from the senior center for those residents who had difficulty walking to the senior center.
- **Quiet Rooms** - Several units throughout the building were held vacant during construction and converted into "quiet rooms" that residents could access if the construction noise was noticeable within their unit.
- **Social Hall** - Reiner Communities opened up the social hall adjacent to the Tower, for residents to congregate without having to leave the grounds. Here, residents were provided with daily snacks and refreshments while the resident coordinators and staff hosted daily activities, field trips, raffles and games.
- **Moving, Packing and Storage** - Reiner Communities hired a highly experienced and specialized moving, packing and storage company to manage and care for all of the resident belongings that needed to be moved around during temporary relocation. Residents incurred no out of pocket expenses associated with the construction or temporary relocation.
- **Laundry Service** - Reiner Communities contracted a laundry service to take care of all the residents laundry for the duration of the renovation.

RESULTS

The acquisition, renovation and preservation of the Tower on 19th was an overwhelming success that demonstrated Reiner Communities ultimate commitment to affordable housing in California. In the end Reiner Communities:

- Successfully navigated HUD regulatory and finance processes while closing at the originally negotiated purchase price
- Preserved affordability for an additional 55 years
- Provided for an extensive renovation including vital life safety and seismic improvements
- Maintained affordable rent for all residents through the issuance of new tenant protection vouchers
- Created a comprehensive relocation program that minimized the construction impact on the residents
- Expanded the social services and amenities available to the residents
- Continued the original Non-profit's legacy at the property while providing a market purchase price, which the seller was able to redeploy throughout other areas of their ministry
- Received Mayor's Award along with a video presentation produced by the City of Costa Mesa honoring Reiner Communities for "enhancing the quality of life for seniors, preserving affordable housing and supporting our senior population"



LOBBY



PIANO LOUNGE



LOBBY



MEDIA ROOM



MAILROOM & LEASING OFFICE



18TH FLOOR "SKY LOUNGE & COMPUTER LAB"

**PRESERVES
ENHANCES
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