AFFORDABLE HOUSING FINANCE

Pembrook Funds Ohio Deal

By

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A 114-unit affordable housing development in Lebanon, Ohio, is getting a fresh start.

Built through the low-income housing tax credit (LIHTC) program, Hunters Run was recently purchased by The Millennia Cos. shortly after the property's 15-year tax credit compliance period had expired.

Although the property had been falling short of its potential, Millennia recognized its upside, says Nico Bolzan, president of Millennia Housing Capital, a division of The Millennia Cos.

"Lebanon is a market that has good trends, a nice economy," he says. "We studied other comparable properties in the local area and we felt really good about our investment into the community and into Hunters Run."

The firm, which recently ranked No. 5 on AHF's list of companies completing acquisitions and No. 4 on the list of companies completing substantial rehabs, has put new management in place and has invested about $1 million in improvements, including replacing roofs and renovating the community building.

The growing company also ranks among the Top 50 affordable housing owners.

Financing for Hunters Run included a key $5.1 million bridge loan from Pembrook Capital Management.

The three-year, 90 percent nonrecourse loan-to-cost deal was important because it helped allow Millennia to have funds remaining to put the necessary money into the property. It was also unusual because bridge loans are usually based on a purchase price and are not nonrecourse.

Pembrook is led by president and CEO Stuart J. Boesky, a familiar name in affordable housing circles. Prior to founding the firm in 2006, he was a senior managing director and principal of Related Capital Co. and executive vice president of The Related Cos., and CEO of CharterMac.

The loan to Millennia is a good example of some of the work that Pembrook is doing.

Although the initial LIHTC period had expired at Hunters Run, the property remained subject to extended-use restrictions requiring 100 percent low-income tenants.

"We've done something innovative by marrying bank CRA (Community Reinvestment Act) capital with institutional private equity capital in a single investment vehicle, through which we provide financing in the affordable housing space," Boesky says. "I don't believe this has been done before. At the same time, we believe we provide safe, geographically targeted CRA investments that may help banks fulfill their regulatory requirements, and we provide attractive risk-adjusted performance for institutional investors while utilizing little or no external leverage."

As a result, Pembrook is pooling together capital from two different arenas—bank investors and institutional investors. This creates a new vehicle for institutional investors, like pension funds, which might not normally be in the affordable housing arena.

For affordable housing developers, the funds are flexible capital to fill a variety of needs, according to Boesky.

Banks became much more confined in what they would do after the financial crisis, but Pembrook is the opposite, he says.

The New York City-based firm provides different forms of financing, including first-mortgage, mezzanine, bridge loans and preferred equity. The one area it has not entered is buying low-income housing tax credits.

Pembrook has completed 68 investments totaling about $800 million.