

# ***Westward Ho Apartments***

***Phoenix, AZ***

***Innovative Preservation***

***Cathedral Development Group***

***February 2016***

# Introductions

## Jonathan Bentz - Cathedral Development Group, Inc.

- Cathedral Development Group & Property Advisory Group (PAG-CDG) is a fully integrated real estate development company that includes: acquisition & development, construction management and asset/property management. We have the experience and expertise to execute complex transactions in a timely manner. Our experience includes working with organizations that vary in size from National Financial Institutions (i.e. National Banks, Insurance Companies) to mid-sized private investment management firms to Local Community Banks. We have also successfully worked with Federal, State & Local Agencies in order to accomplish investment objectives specific to each asset. We own and operate property in 7 states. This experience and our disciplined approach allow us to maximize the economics of each asset.
- The company is based in Providence, RI with offices in Denver, CO and South Beach, FL.

## David Twombly - Twombly Consulting

- Twombly Consulting specializes in planning and real estate development in both the public and private sectors with a special focus on historic preservation and affordable housing. Over the course of his consulting career, David has been responsible for the development of a variety of residential and commercial developments for *Cathedral Development Group* in eight states;
- Past projects have included: the *Portland “Old Port” Waterfront District in Maine*, *Shadow Farm in Rhode Island*, *Westward Ho in Arizona* and the *Knox Hotel* in Maine. These projects now stand as they did many years ago, with extended life and a new sense of vitality, still marking their place in history.

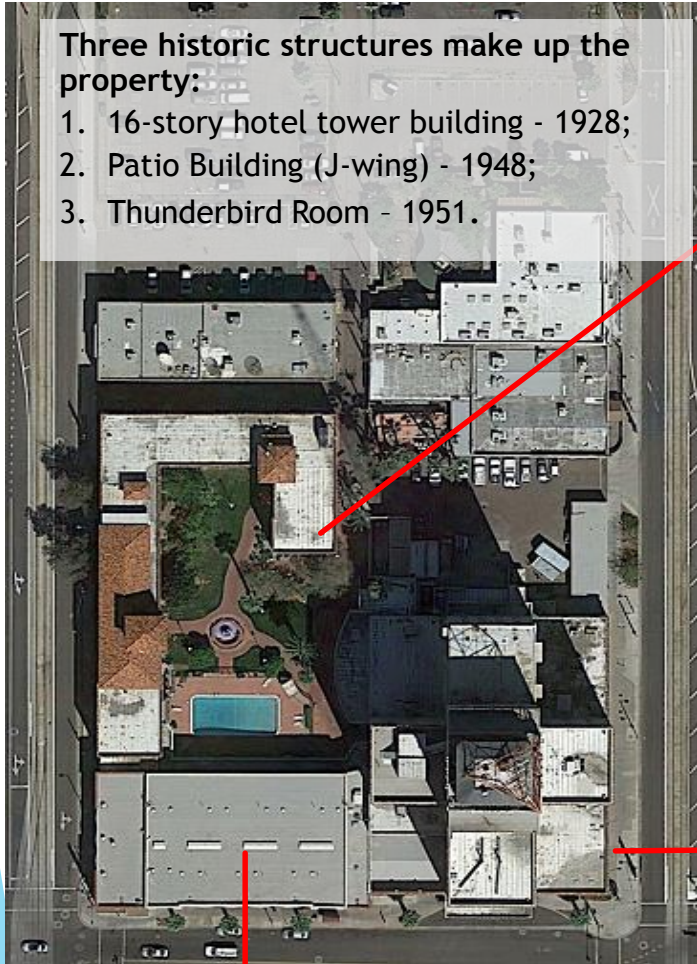
## Rick Price - Berkadia Commercial Mortgage LLC

- Berkadia, a joint venture of Berkshire Hathaway and Leucadia National Corporation, is an industry leading commercial real estate company providing comprehensive capital solutions and investment sales advisory and research services for multifamily and commercial properties. Berkadia is amongst the largest, highest rated and most respected primary, master and special servicers in the industry.
- As a Freddie Mac Program Plus lender, Fannie Mae DUS® Multifamily Seller/Servicer, insurance company correspondent, and HUD, MAP and LEAN originator and servicer, Berkadia provides access to capital and flexible, customized lending and servicing solutions for the acquisition, construction, rehabilitation and refinance of multifamily and commercial properties. Berkadia also provides interim and short-term financing through its Proprietary Bridge Lending Program.

# Property Overview

Three historic structures make up the property:

1. 16-story hotel tower building - 1928;
2. Patio Building (J-wing) - 1948;
3. Thunderbird Room - 1951.



**Patio/J-Wing Bldg.**

Pocket Money - Paul Newman threw a TV from the 2<sup>nd</sup> floor balcony onto the pool deck.

**Tower**

President Kennedy stayed in the Tower, Jackie Gleason performed in the Concho room of the Tower building.



**Thunderbird Room**

Reagan and Nixon held speeches here. Liberace performed here.



# Original Conversion - 1980-81

## Development Opportunity - The journey begins:

- 600-room Hotel converted into 289 Section 8 for low-income elderly and mobility impaired apartments utilizing a \$12 million FHA 221 d4 loan backed with a 20-year HAP contract. Equity was raised through the sale of federal historic tax credits;
- \$5.7 million in construction improvements barely funded the costs of conversion.



7-B MAIN BLDG. SE VIEW OF UNIT 832  
FLOOR PLAN

Tower windows – Exterior and Interior 1980

## *Unfunded/Underfunded Improvements:*

- Thunderbird Room Building (14,000 sf vacant)
- Patio Building Windows, unit improvements (life/safety improvements only)
- Major mechanical/electric/plumbing - all structures
- Ground-floor commercial space (15,000 sf underutilized).



Thunderbird – Exterior and Interior 1980

# Summary of Refinance - 1999-2003

## Capital Stack:

- 1st M2M (Mortgage Restructuring Note - MRN) refinancing under new “additional funds” model (additional funds: 4% LIHTCs, City of Phoenix Loan and federal historic tax credit equity);
- 4% LIHTC structured with tax-exempt bond financing - Series A and Series B bonds. Permanent 1st mortgage of \$6.8M with a 10-yr credit enhanced LOC through a National Bank;
- Federal Historic Tax Credit Equity.



New Tower windows – Exterior and Interior 2003

## Construction Improvements - \$9.5M:

- Replaced Tower window heat pump units with new (historic period) windows and installed new central HVAC system;
- Converted vacant Thunderbird Room space/Conversion to 32 new 1-BR units;
- Merged 64 small efficiency apartments in the Tower Building into 32 rehabilitated 1-BR apartments.



## Unfunded/Underfunded Improvements:

- Patio Building Windows, unit improvements;
- Major mechanical/electric/plumbing - all structures;
- Tower ground-floor commercial space (15,000 sf vacant).



New Thunderbird Room units and Exterior View - 2003

# Refinance Considerations - 2012-2015

## Owner's Challenges & Refinancing Considerations:

- Compressed timeline;
- Unwinding complex in-place financing from the previous deal;
- Generate enough proceeds to complete the rehab. - est. \$15M;
- Resolve basis issues for federal historic credits;
- Execute 1<sup>st</sup> floor commercial space lease;
- Identify optimal loan program.

## Solution:

- Secure short-term debt financing - buy time;
- Determine long term financing including submitting 9% LIHTCs application - 3/2014.

## Lender & HUD Challenges and Considerations:

- 2012 loan analysis begins - Final path early 2015 ;
- Coordination of final 3<sup>rd</sup> party reports must meet strict HUD standards (new d4 Pilot Program Guidelines);
- 3<sup>rd</sup> Party reports, final construction contracts, disbursement agreements, HUD forms, borrower and Syndicator - *within 60 days*.

## HUD:

- Recognition and accommodation of secondary financing. Approval required HUD Phoenix, SF staff and Office of Recap in Washington, DC;
- Sophisticated relocation plan developed: budget and personnel;
- Asked if there was enough rehabilitation being done?
- Last minute archeological issues raised by HUD.



Original pipe – J-wing



Original kitchen – J-wing

# Closing & Construction - 2015

## Results:

- **Record setting approval times from HUD:** closing within 3 weeks of firm commitment;
- Exceptional teamwork - all parties. Closed in Phoenix HUD office 7/21/15 - 10% Test met with 22 minutes to spare:
  - \$14.1M new 221 d4 1<sup>st</sup> mortgage with Berkadia;
  - \$10M subordinated M2M Debt (HUD Notice H 2012-10);
  - \$1.8M City of Phoenix Amended, Restated and Re-subordinated loan;
  - \$17.5M - Equity for 9% LIHTC and FHTCs.
- Secured lease of 1<sup>st</sup> Floor comm. space with ASU - An “as is” property lease to occupy. Lease was approved by HUD (HUD Notice H 2011-10) and was executed with ASU in February 2015.

## Construction Improvements \$15.1M:

### Plumbing:

- Full plumbing replacement in Tower and J-wing Buildings to reduce on-going maint. & repair costs and increase efficiency.

### Mechanical Systems

- Elevators in Tower;
- Chillers and Cooling Towers in Tower and Patio buildings.

### Unit improvements:

- Kitchen cabinets;
- Appliances;
- Flooring and painting;
- Window replacement in the Patio Building while maintaining Historical features.

### Relocation Plan

- Extensive budget and resources to meet standards.



Firestop b/w floors – J-wing



New Pex piping – J-wing



New Kitchen – J-wing

# Sources and Uses Summary

Sources		Uses	
First Mortgage	14,200,000	Acq. /Mortgage	10,000,000
HUD/City assumed mortgages	11,800,000	HUD/City assumed mortgages	11,800,000
TC Equity	13,800,000	Developer Fee*	2,300,000
Historic TC Equity	3,600,000	Reserves	2,100,000
Owner Equity	450,000	Construction	15,100,000
Tax/Insurance Reserve	150,000	Capital Interest	1,200,000
		Financing/Fees	1,500,000
<b>Total</b>	<b>44,000,000</b>	<b>Total</b>	<b>44,000,000</b>

**Notes:**

\* Balance of HUD M2M assumed mortgage include pay down from Developer fee and acquisition proceeds;

Above does not include additional work being done for the 1<sup>st</sup> floor commercial space for the “As-is” lease - ASU is funding roughly \$3M in additional work to occupy the space;

Construction includes \$540K of relocation related expenses;

Financing/Fees include: Tax credit fees, financing fees, 3<sup>rd</sup> Party costs, legal, accounting and miscellaneous expenses.



# Innovative Results

*Rare Continued ownership* and prop. mgmt. by *related developer entities* since 1979 including the original transformation from an historic luxury hotel to a 289-unit project-based HUD Section 8 apartment complex.

## 2003 highlights:

- ***Catalyst and First project*** for HUD to develop “Additional Funds” model under the newly-adopted M2M mortgage restructuring program;
- Adaptive reuse of long vacant Thunderbird room on the property.

## 2015 highlights:

- 3<sup>rd</sup> time using federal historic tax credits;
- 9% credits added during 4% compliance period as needed equity sources;
- 3<sup>rd</sup> version of an ***adaptive reuse*** with the lease on the 1<sup>st</sup> floor commercial space with ASU. This lease will create the ***availability of valuable tenant supportive services*** through ***ASU’s College of Public Programs***;
- Un-funded/Under funded needs - While a 90 year old building will always have needs this refinancing takes care of the last of the major components of rehabilitation and puts it on a solid foundation for the future.

## Summary of Accomplishments:

Element	1980-81	1999-2003	2012-2016
FHA 221 d4 Loan program	X		X
4% LIHTC -Series A & B Bonds structured		X	
9% LIHTC			X
Federal Historic Credits	X	X	X
Marked-to-Market		X	X
City of Phoenix loan		X	X
Adaptive reuse	X	X	X
Supportive Services Program			X
Relocation - Residents in place		X	X
Construction Improvements	\$5.7M	\$9.5M	\$15.1M
Un-funded/Underfunded Improvements	X	X	

# Contacts

## Jonathan Bentz, Vice President

*Cathedral Development Group, Inc.*

Email: [jonathanbentz@pag-cdg.com](mailto:jonathanbentz@pag-cdg.com)

Ph: 720-891-8377

Company Website:

[www.pag-cdg.com](http://www.pag-cdg.com)

## David F. Twombly, Principal

Twombly Consulting

Ph: 401-932-3260

Email: [david@twomblyconsulting.com](mailto:david@twomblyconsulting.com)

## Richard “Rick” Price, Managing Director

Berkadia Commercial Mortgage, LLC

Email: [richard.price@berkadia.com](mailto:richard.price@berkadia.com)

Ph: 301-202-3578

Company Website:

[www.berkadia.com](http://www.berkadia.com)