

CASE STUDY



CBRE's HUD Services/Affordable Housing Group in Seattle, Washington, and Multi-Housing Group in San Diego, California, successfully collaborated to sell the Villa Nueva affordable housing apartment complex in San Diego for \$41.2 million.

VILLA NUEVA

CHALLENGE

Villa Nueva is a 390-unit, Section 8 affordable housing apartment complex in San Diego, California, previously owned by a 501(c)4 non-profit organization and in need of substantial renovation. In February 2006, the owner of Villa Nueva received an unsolicited offer to purchase the property.

However, the owner did not have the means to evaluate the offer price or the buyer's ability to complete the transaction. Consequently, the owner contacted Kevin Mulhern of San Diego's Multi-Housing Group to help evaluate the offer in terms of the U.S. Department of Housing and Urban Development (HUD)'s rental rate restrictions.

In turn, Kevin referred the owner to Jim Lampman of CBRE's HUD Services/Affordable Housing Group in Seattle, Washington. Together, the HUD Services/Affordable Housing Group and the Multi-Housing Group appraised the property and determined that the complex could sell for a higher sale price than the one initially presented in the unsolicited offer. This was due in part to the substantial equity that had accrued in the property during the last 37 years.

The primary challenge in completing the transaction was overcoming HUD's policy restrictions, which impacted non-profit ownership rights. Faced with many affordable properties opting out of the affordable housing program, HUD had recently reinterpreted its mortgage prepayment policy, such that non-profit owners are not allowed to extract equity from a sale.

SOLUTION

To overcome this obstacle, the CBRE team conducted a limited offering to qualified buyers, ultimately connecting the most-qualified buyer with the owner. The team worked closely with the buyer to appeal the new contradictory policy and obtain congressional clarification of existing housing legislation.

Notably, approval of the transaction was discussed in the U.S. House of Representatives in an appeal to reverse HUD's new interpretation of its prepayment and equity release policy.

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RESULTS

CBRE's HUD Services/Affordable Housing Group and Multi-Housing Group successfully collaborated to sell the Villa Nueva affordable housing apartment complex in San Diego, California, for \$41.2 million.

Given HUD Services/Affordable Housing Group's experience in applying Section 42 Low Income Housing Tax Credits (LIHTC) and relationship with an extensive network of HUD-qualified and LIHTC-experienced buyers, the CBRE team was able to select an ideal buyer. Using tax-exempt bonds, city funding and 4% tax credit, Steadfast Properties/Casa Familiar purchased the property at a price that was significantly higher than the unsolicited offer.

This deal was California's second-largest affordable housing transaction to receive state support through the allocation of tax-exempt bonds in 2007. The closing price of \$41.2 million—including a payoff of the HUD-insured 221(d)(3) mortgage—enabled the owner to extract \$39 million of its equity on terms acceptable to all parties.

TEAM

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