

FLEXCAP

Towne Gardens Reimagined: Financing a Community Comeback



HPF was fabulous to work with. They tailored their underwriting to the specifics of our deal. They also dug deep into our turnaround strategy and provided key metrics we used to determine whether to move forward. They were, and are, a true partner.

Tim Pryor
Vice President, Acquisitions
The NHP Foundation

The National Housing Partnership Foundation (NHPF) and BFC Partners purchased an aging 360-unit affordable housing development near downtown Buffalo to revitalize and preserve the apartments for renters with low incomes. The 18-acre site, known as Towne Gardens, has had a difficult financial and operating history, with 60 units becoming uninhabitable in recent years along with rising levels of on-site crime. Following a 2021 foreclosure, Fannie Mae took over as receiver, made modest improvements to mitigate further decline, and put the property up for sale.

Built in 1972, Towne Gardens includes 36 two- and three-story buildings that include a mix of one-, two- and three-bedroom apartments in the Willert Park community—with 302 units subsidized by a Section 8 Housing Assistance Payment (HAP) contract. The median income in the surrounding area is just under \$28,500, and more than 33 percent of residents live below the poverty line. There is a wait list for units that includes more than 400 households.

In 2024, NHPF and BFC stepped up with a major renovation plan for the

property so it could offer quality affordable units—including bringing distressed units back online. Both organizations—one a nonprofit and the other a for-profit—have strong track records of success. NHPF has developed or preserved more than 18,000 units of affordable housing. BFC's work has spanned more than 11,000 units. The property was in need of a quality owner and operator and both organizations have proven to be that.

THE FINANCING CHALLENGE

As joint project sponsors, NHPF and BFC sought a three-year \$20.6 million acquisition loan to help finance the \$26.7 million acquisition of Towne Gardens, make improvements and protect affordability under the HAP contract.

The sponsors provided \$6.1 million to advance the effort. Repayment strategies currently include state low-income housing tax credits, a soft loan from the state housing finance agency, and traditional debt from the Department of Housing and Urban Development (HUD) or other agency, supported by the HAP contract.

LOAN AMOUNT

\$20.63M LOAN ORIGINATED BY HPF IN TWO TRANCHES: 75% (\$15.47M) PURCHASED BY WNB; TRANCHE B HELD BY HPF (\$1.29M) AS LEAD LENDER, WITH MERCY COMMUNITY CAPITAL OWNING \$3.87M.

LOAN-TO-VALUE

85%

DSCR

1.05:1

LOAN FEES

1% OF LOAN AMOUNT

INTEREST RATE/TERM

7.4% BLENDED RATE; TERM: EARLIER OF TAKE-OUT FINANCING CLOSE OR 3 YEARS FROM CLOSING

OTHER BENEFITS

IN RECEIVERSHIP WITH 60 OF 360 UNITS OFFLINE, WAS HOUSING OF LAST RESORT. HPF UNDERWROTE TO YEAR-ONE STABILIZATION AS NHPF ADDRESSED SAFETY, SECURITY, AND UNIT REHAB THROUGH IMPROVED MANAGEMENT. TO SUPPORT DSCR DURING LEASE-UP, HPF ALSO ALLOWED AN OPERATING RESERVE.

The uncertainty surrounding take-out, the project's operating history, and the complexities of revitalizing a distressed asset make Towne Gardens a high-risk venture for many conventional capital providers.

THE SOLUTION

The Housing Partnership Fund (HPF) provided more than \$20.6 million in financing for the Towne Garden acquisition through its FlexCap loan product. Mercy Community Capital took \$3.9 million and HPF retained \$1.3 million of the loan and took a first-loss position, while Woodforest National Bank, a partner in FlexCap, took on nearly \$15.5 million.

FlexCap is specifically designed to offer a high-leverage bridge/acquisition product for affordable housing that would not otherwise be available—with below-market interest rates and flexible underwriting criteria. The program is unique for the range of strategies it can support, from a buy-and-hold approach to a large-scale acquisition and redevelopment effort. It provides project

sponsors time to reposition a property for long-term affordability and financial sustainability.

In the case of Towne Gardens, HPF was able to support the project because of its approach to underwriting and its understanding of affordable housing development and operations. “The sponsors don’t have their takeout in place, but we were able to verify that they had a reasonable plan for take out and a reasonable alternative plan in place if that didn’t work out,” explained Ben Greenberg, HPF Vice President of Lending. “We dug into the mark-to-market numbers of the HAP contract, visited the site, and looked at the experience of the developers to see if this was reasonable. And despite the challenges, we were able to get it approved.

“We don’t see this as a high-risk project,” he said. “We see it as a chance for experienced developers to make it into quality place to live versus housing of last resort.”

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