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Freddie Mac, CharterMac, Historic Restoration Incorporated, City of St. Louis Preserve Historic Property

By Alex Ruiz, Managing Editor, Novogradac & Company LLP

Freddie Mac announced that it recently financed through its delegated underwriting initiative agreement with CharterMac Mortgage Capital, a landmark property, Merchandise Mart, in downtown St. Louis. The seven-story property, which includes 213-units of affordable housing, was constructed in 1889 and was central to the city's dry goods and clothing industry for more than 100 years.

Historic Restoration Inc., based in New Orleans, La., completed a complex adaptive reuse of the property and initial lease-up. Freddie Mac provided permanent credit enhancement of refunded bonds in the amount of \$20 million. The borrower entered into a swap with a 12-year term, which will provide fixed rate interest protection thru the end of the low-income housing tax credit (LIHTC) compliance period. The property benefited from 4 percent LIHTCs provided by the Missouri Housing Development Commission and a tax abatement benefit provided by the City of St. Louis that supported a portion of the bond proceeds. The property also benefited from federal and state historic tax credits. CharterMac Capital syndicated the tax credits and provided equity to the property in the amount of \$12.5 million.

The property's financing also required subordinate debt in the form of subordinate B bonds issued by the St. Louis Industrial Authority, and the borrower had to renegotiate outstanding subordinate debt with the Danforth Foundation, a local foundation devoted in part to the redevelopment of downtown St. Louis.

"During this transaction, we faced the unusual challenge of working with a lender — CharterMac — whose vice president and point person on the financing was based in hurricane-devastated New Orleans. Additionally, the sponsor was also based in New Orleans and had significant portfolio damage in New Orleans," said Paul McDermott, Freddie Mac vice president of multifamily structured and affordable sourcing. "Despite all these challenges, this complex transaction successfully closed, thanks to everyone's efforts, especially those of the lender and sponsor who found a way to focus on the transaction at hand despite the amazing distractions created by Katrina. We appreciated the opportunity to assist in preserving affordable units in this underserved, revitalizing downtown area."

The Merchandise Mart Project is located in the center of the Washington Avenue Loft district, which is one of the primary focus areas for revitalization in the City of St. Louis, said Timothy Leonhard, vice president in CharterMac's New Orleans office. "Many of the properties located on the old garment district of Washington Avenue are well occupied, but many new developments, both rental and condominium projects, are projected to come online in the near future, creating some short-term occupancy operational income concerns in underwriting," said Leonhard. By teaming with Freddie Mac and using the shared-risk program, we were able to move forward with this transaction to provide the project with a very efficient loan term bond and interest rate swap credit enhancement, assuring that the project and the area will maintain much needed quality affordable and mixed-income housing well into the future." ❖

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