

JULY 7, 2008

## Affordable Housing Portfolio Acquired

Avanath Capital Partners and MacFarlane Costa Housing Partners gain 26,000 units in Simpson Housing Solutions purchase

By JULIE NAKASHIMA

CREJ Staff Writer

In a deal that calls for splitting up one of the country's largest affordable-housing developers, **Avanath Capital Partners** of Irvine and **MacFarlane Costa Housing Partners** acquired Long Beach-based **Simpson Housing Solutions**, along with its portfolio of 273 properties totaling 26,000 units.

A wholly owned subsidiary of Denver-based multifamily developer **Simpson Housing LLP**, Simpson Housing Solutions specialized in the development, rehabilitation and management of apartment properties that qualify for federal low-income housing tax credits. More than half of the SHS portfolio is located in California, including 81 properties in Southern California, 26 in Central California and 30 in Northern California.

The price paid for the company and its portfolio was not disclosed.

The transaction is being accomplished in two phases. In the first phase, Avanath, through a subsidiary called **Avanath Affordable Capital**, and MacFarlane Costa Housing Partners will jointly own the portfolio. MCHP is a newly created joint venture between an affiliate of **MacFarlane Partners**, the San Francisco-based real estate investment management firm, and SHS founder Michael Costa.

In the second phase, expected to close later this year, Avanath will acquire sole ownership of SHS' general partnership interests in the investment funds or partnerships that own the 273 properties, as well as the asset management division and partnership accounting group. Meanwhile, MCHP, led by Costa, will continue as an affordable-housing developer, retaining the development, finance and corporate accounting functions.

This is the first transaction for Avanath, which was formed last November by former **Capri Capital** co-founder and **CharterMac Mortgage Capital** chief executive Daryl Carter. The new company lists its specialties as affordable housing, urban real estate investment, mortgage services and specialty finance.

According to Carter, the transaction went into escrow in October and took seven months to close.

"There was a considerable level of complexity in this portfolio that we had to work through," Carter said.

Most transactions in the affordable-housing area are complicated, he said. But this deal was especially so because it involves not only the transfer of an entity but also the various general partnerships associated with the portfolio.

"There were existing tax credit funds that had a number of limited investors," Carter said. "Each of the limited partners had to consent to the transfer. We had to demonstrate that we had a good business plan, to both manage the assets and maximize the value of the assets. We also had a number of loan consents that we had to get from lenders, including approximately 12 different **Fannie Mae** DUS lenders and five or six **Freddie Mac** Program Plus lenders."

The current credit environment made things even more challenging. To finance the first part of the transaction, Avanath used its own capital and a bridge loan. For the second part, the company has started a fund offering for which the placement agent is **Presidio Partners**, a real estate investment banking firm with offices in San Francisco and Chicago. The SHS properties will be rolled into that fund, Carter said.

He declined to say how much the fund is supposed to raise, but said Avanath's acquisition needs over the next year for both affordable and urban apartments are likely to be \$200 million to \$400 million.

The deal is a two-parter for reasons that are "somewhat technical" in nature, having to do with tax



InSites™: Receive daily e-mail newsletter

[Subscribe to CREJ](#)

[Order Reprints](#)

### Advertise

[Media Kit](#)

[Roundtables](#)

[Service Directory](#)

[Classified Marketplace](#)

[Contact Us](#)

### Corporate Profiles



REAL ESTATE JOURNAL  
**Digital edition**

Now you have a choice.  
[Click here to switch.](#)

structuring, he said. In addition, Carter said, it was simply easier to structure the deal in two parts because the first phase involved acquiring an entity jointly with MCHP, and the second phase involved splitting the existing inventory and asset management.

According to Costa, MCHP now owns 80 percent of the former SHS and Avanath the remaining 20 percent. The latter has an option to acquire full ownership of the SHS portfolio, he said, pegging the value of the real estate at \$3 billion.

Costa said SHS was one of the few affordable-housing developers to be able to sell its own tax credits directly but also syndicate tax credits for nonprofit and for-profit third-party developers, raising equity for their developments as well. About three and a half years ago, the company stopped syndication for third-party developers to focus exclusively on its own development activities.

### **New Product Pipeline**

Today, the portfolio is 50 percent development in California, and about 40 percent overall is its own development product.

"As we go forward, what we're going to do is continue our business plan in exactly the same manner as when we were Simpson Housing Solutions," Costa said. "Our practice on the development front shouldn't change at all. What we hope to do is begin to look at developing some 80/20 product."

Built with tax-exempt bond financing, these are communities in which 80 percent of the units are market-rate and 20 percent are affordable. He said the creation of MCHP provides a great opportunity to get back into the product, given McFarlane Partners' expertise in this type of financing.

Splitting the existing inventory off from the development function helps capitalize the new entity, Costa explained.

"We also want to be able to focus all of our energy on new development," he said. "We won't have to spend any time on asset management and partnership accounting. Avanath will take over all those activities for us."

MCHP expects to develop 1,000 to 1,500 units annually of tax-exempt, 100 percent affordable housing, and upwards of 1,000 units annually of the 80/20 product. The company currently has eight projects in the pipeline, including a senior affordable-housing community that started construction at the end of June, an affordable senior apartment project in San Juan Capistrano that begins construction this month, and a multifamily project in Hesperia that also is slated to start this month.

For Costa, the transaction represented an opportunity to buy the company that he founded 14 years ago as a unit of **Kaufman & Broad** and built from the ground up. He is a 50 percent owner in MCHP, whereas previously he owned 10 percent of Simpson Housing Solutions.

"I've always wanted to own this company," Costa said. "There was one employee from day one, and that was me. I ran it as if I were the owner of it, so it made sense for me to someday buy it."

A trade magazine recently ranked SHS as the fifth-largest owner of affordable housing in the United States.

Avanath may be a new company, but Carter has been in the business for 27 years and had a track record with a number of the SHS investors and lenders.

"They represented the interests of their institutions," he said, "but it helped having a relationship and understanding what their requirements would be in a transaction of this magnitude."

The relationships extend beyond the limited investors and lenders. Carter has been friends with MacFarlane Partners founder Victor MacFarlane for some 20 years.

Both he and MacFarlane built companies at the same time in the pension fund investment area, and through their respective efforts became aligned in encouraging large pension funds to invest in urban markets.

"Victor and I worked closely in convincing investors like Calpers and others that they could find great opportunities in underserved urban markets, primarily in communities that were ethnically diverse," Carter said.

In addition, he has had a longstanding friendship with Greg Vilkin, the president of MacFarlane Partners, and one of Carter's previous companies had been a lender to Simpson Housing Solutions.

"In this environment, transactions are very difficult," Carter said, "but ultimately, I think that relationships and knowledge of the particular space carried the day for even a new company like ours."



- *E-mail Julie\_Nakashima@DailyJournal.com*

\*\*\*\*\*

© 2008 Daily Journal Corporation. All rights reserved.

Copyright © 2008 Daily Journal Corporation. All rights reserved.  
915 E. First St. Los Angeles, CA 90012