

(Re)Building Joplin

*How one developer
recovered from
natural disaster.*

BY ROSS STITELEY



An example of widespread damage in Joplin, Mo.
Photo courtesy of Gary Wilson, A.R. Wilson Realtors®

At 5:21 on Sunday, May 22, 2011,

the wails of 25 warning sirens cut through the dinnertime air in the southeastern corner of Missouri. Twenty minutes later, a multiple-vortex EF5 tornado touched down in the city of Joplin, reaching nearly a mile wide as it twisted along a six-mile path, leaving in its wake 161 dead and a third of the city destroyed. It was one of the deadliest tornadoes—and single-most costly—in U.S. history, with thousands of structures

damaged or destroyed.

Several such buildings were located at 1502 Michigan Place, a community in the process of being sold and undergoing rehabilitation.

It's now a little more than a year later, and looking back on the experience of 1502 Michigan Place, there are several lessons to take away, not the least of which is the importance of finishing what you started.





Before the Storm

1502 Michigan Place came on the market in August 2010 and appeared an excellent opportunity for an affordable housing developer. The community comprises 14 residential buildings and one stand-alone clubhouse with a total of 138 units, all of which are designated as affordable housing. Having undergone a minor rehabilitation by a previous owner, its 15-year Low-Income Housing Tax Credit (LIHTC) compliance period had just expired.

Having been taken back by its financier, the Missouri Housing Development Commission (MHDC), the project was up for sale with a requirement that the buyer apply for a 9 percent LIHTC award to keep the property designated as affordable housing.

The project seemed perfect for Dominion, a Minneapolis-based owner, developer and manager of apartment communities nationwide. By February 2011, the state and federal tax credit awards for the project were announced and Dominion set about completing due diligence, drawing up plans and working with MHDC on submission packages.

The project was moving along well, and Dominion negotiated with lenders to arrange debt and equity financing. The projected closing was scheduled for early August.

Then disaster.

The Joplin tornado flattened 8,400 homes, 18,000 cars and 450 businesses. All told, cost estimates of repairing the destruction range from \$2.2 billion to \$3 billion.

During the scramble to assess the damage at 1502 Michigan Place, the insurance company mobilized a crew to address water infiltration issues at the property. They boarded up visible holes and began running fans to help dry it out and to prevent further deterioration.

“Upon my initial inspection of the property after the tornado, the interior of the buildings had been gutted entirely but the exteriors looked as if they had been literally through a war,” said Colby McGehee, Community Manager of 1502 Michigan Place.

Just one of thousands of structures damaged by the storm, cost estimates for recovery near \$3 billion. All told, 8,400 homes, 18,000 cars and 450 businesses were destroyed. Gary Wilson—A.R. Wilson Realtors®

The majority of damage to the building was water-related. Nearly all the windows were blown out and three of the buildings had their roofs peeled completely off. The air conditioning condensers had also been ripped off of the remaining roofs by the storm’s strong winds, some of which were measured at 198 mph.

Unfamiliar Turf

After the storm, Dominion found itself in uncharted territory—a few months shy of closing on a property that was now significantly damaged. Dominion talked extensively with MHDC about the added costs of the project. The original proposed budget was around \$57,000 per unit in rehabilitation costs; these now were sure to rise sharply.

When disasters strike, even bits of good news are thankfully received. For Dominion, these included learning that the storm damage was mostly cosmetic; the structural damage was relatively minimal. In a stroke of good fortune, the original scope of work Dominion proposed included replacement of all of the windows and the air conditioning units.

What wasn’t anticipated, however, was the removal of all interior drywall because of water damage. The insurance company’s response team had removed 75 percent of the drywall in the project because of moisture-related issues. Dominion decided that the best course of action was to remove all of the drywall to fully assess the situation and ensure that there were no hidden problems that would plague the property down the road.

Because it still owned the building, MHDC held the insurance coverage on the project and it fell to them to work to determine what type of settlement they would be able to reach to offset the added costs of the additional scope of rehabilitation.

MHDC had the challenge of trying to balance state agency



objectives and a buyer inheriting a much larger project than the previous financing arrangement was meant to handle.

“Housing agencies don’t want to be in a position of owning real estate, much less real estate that has undergone significant storm damage,” said Mark Moorhouse, Senior Vice President and

1502 Michigan Place (above) post-storm, pre-rehabilitation. The newly-renovated community (above right) features several attractive upgrades to its buildings, including roofing, HVAC and windows.

Project Partner for Dominion. “This was uncharted territory for all involved, but open communication and a spirit of cooperation helped us stay focused on what really mattered—getting 1502 Michigan Place back open for the residents of Joplin.”

Once the assessments were complete, the new calculated rehabilitation costs rose to \$74,000 per unit—an increase of almost 30 percent. Taken across the project as a whole, that left a nearly \$2 million financing gap caused by the additional unforeseen renovation costs resulting from the May tornado.

Fortunately for Dominion, most of the damage to the building overlapped with improvements already considered in the original scope of work. If the damage had been more significant or the scope of work had been less extensive, the project may not have been financially feasible after the storm.

The process of working with the insurance company to determine a final claim took four months. Once MHDC settled the claim with their insurance carrier, they reached an agreement with Dominion in which each party bore a portion of the increased costs. MHDC’s primary mission is to ensure the continued availability of affordable housing options for Missouri residents and they were instrumental in working with Dominion to move the project forward.

“MHDC did an excellent job of keeping the process moving, communicating with the insurance company and with Dominion as the buyer to ensure that we were all on the same page,” said Moorhouse. “They were a great partner, and that really helped us feel confident that this deal would get done.”

Moving Forward

Once Dominion had an agreement with MHDC, new construction pricing based on the adjusted scope of work was obtained. There was deep concern that it would be a significant challenge to

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rebuild in a timely manner because of the number of simultaneously proposed construction projects across the city. Specifically, the company was concerned about the availability of materials and labor and the associated cost spikes that a scarcity might bring given the need in the area.

Once the tornado hit, it was clear that the biggest roadblock would be working through the seller's insurance carrier. Dominion hadn't yet closed on the property and it was the seller's insurance carrier, so Dominion didn't have as much

leverage as it would have had working through its own insurance company.

It was important that Dominion maintain its positive relationship with MHDC, so it was crucial to push this project along while keeping the relationship upbeat and cordial. Like Dominion, MHDC was also put in a very tough position. It's rare that they would come into possession of a building like this, and unfortunately for them, the situation was made even more difficult by the tornado.

Another challenge was working with

the city. After the storm, the city was inundated with building and permitting requests. The city of Joplin did its best to expedite projects, but they still needed to follow procedures and get all of the right documentation. This was compounded somewhat by the additional scrutiny they were under because of the state and federal disaster relief processes that were taking place at the time.

Fortunately, because Dominion was far enough along in the process, it avoided many of the hurdles other area owners and developers faced, including interfacing with insurance companies, defining new project parameters, seeking permits, contracting with buildings and drafting plans, among a countless list of other tasks.

Another factor that really helped was the ability to split the extra cost of work with MHDC to help keep the project financially feasible and on track. In a matter of six weeks, Dominion moved through the insurance bottleneck and defined the new scope of work. On Sept. 21, 2011, the project's financing closed, only six weeks later than originally anticipated and just four months after the tornado.

Taking Care of the Residents

1502 Michigan Place was 90 percent occupied when the storm hit. The damage to the building and the resulting water infiltration meant the property no longer met the city's occupancy requirements and all of the residents had to vacate.

As the closing drew closer, Dominion's property management team stayed closely involved with tracking former residents and ensuring contact information was up to date so that they could be invited back once residences were ready for occupancy.

Dominium received its first temporary certificate of occupancy Feb. 7, 2012, for three of the buildings totaling 34 units. Within one week of getting that certification those units were 100 percent occupied. In all, approximately 30 of the original 138 residents returned to the community.

"It was a very rewarding feeling to once again open the doors of 1502 Michigan Place to the residents of Joplin," said McGehee. "At the time of the grand opening, there were still a significant number of people living in FEMA trailers in the city and almost half of the residents that



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moved into the property came from those trailers. To provide them with a stable, new place to live was the capstone on the project."

Lessons Learned

It's hard to know the "next steps" when faced with an unforeseen disaster. Rarely is there a guidebook.

Dominium is a 40-year-old company and often turns to its senior partners for guidance in unfamiliar situations, but there was no precedent with the Joplin tornado. This was something completely new, and it provided some interesting "on-the-job" learning opportunities. Following are lessons learned.

1. Connect with the insurance companies early and often. Until they get their people on the ground to assess the damage, it is impossible to determine the extent of work needed and to calculate costs. Getting the insurance claim going as early as possible is key, as that is the biggest bottleneck in the process. For projects that are already underway, negotiate with insurance carriers, sellers and other interested parties to clearly delineate the changing scope of work, quantifying the difference and determining which party has to bear that cost. It's also important to establish good relationships and be courteous, patient and respectful of the seller's relationships if you are not the insured party.

2. Be organized and complete in your paperwork. This is especially important when negotiating with local government. Following a significant natural disaster, the state and local officials scramble to put the city back together. Where it concerns pulling permits, finishing up with architectural drawings and getting final approvals and inspections, it is imperative that paperwork is filled out fully and accurately to avoid unnecessary delays.

3. Be a good partner and remain flexible. When the storm hit, Dominion didn't wait to contact the seller and there was a lot of give and take between the two organizations from the beginning. Dominion approached the situation like a partnership and worked cooperatively to get it all figured out. Dominion tried to be a good partner to them, and in return they were great to work with.

4. Keep your eye on the end goal. It was a learning process. There was no precedent for what happened in Joplin, so Dominion had to learn on the job and not lose sight of the fact that the residents, now more than ever, needed access to affordable housing. That helped both the seller and Dominion move the project along.

5. Finish what you start. When asked, "Why did you finish this project?" it really boils down to the fact that Dominion prides itself in being a good financial partner and delivering on committed intents. While Dominion was taken aback for a little bit while figuring out what to do, it was never really an option to not move forward. **NAA**

Ross Stiteley is a development associate for Dominion and oversaw the 1502 Michigan Place project.



Disasters can happen without warning, which is why it's so important to be prepared. Refer to the Disaster and Emergencies Library on NAA Community at <http://bit.ly/L0jVa3>