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Tax, Audit & Consulting Services *for* Tax Incentive Transactions

Community Development Tax Incentive Extensions, Enhancements in 2023

The final months of 2023 are crucial for community development tax incentive legislation. Learn about key provisions, likely vehicles.

Compliance Requirements for HUD-Assisted Properties: What Owners and Management Agents Need to Know

Determine compliance requirements and learn how to avoid common compliance pitfalls.

LIHTC Financial Forecast Basics: Understanding a Fundamental Tool

Consider four key assumptions to set a foundation for financial forecast schedules.

Historic Tax Credit Deal Structure: Direct Investment versus Lease Pass-Through

Compare and contrast project economics, tax capital accounts, tax loss benefits and structural complexity

Ridge at Sun Valley Breaks Ground in Reno with Home Means Nevada Subsidy

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

Among the first properties to use funds from the Home Means Nevada initiative is Ridge at Sun Valley in Reno, a \$110 million, 10-acre, 195-apartment undertaking that also uses low-income housing tax credits (LIHTCs) in its capital stack.

Home Means Nevada is a \$500 million slice of the State and Local Fiscal Recovery Funds passed in the American Rescue Plan Act of 2021. The Silver State announced \$155.7 million in awards for the program's first round in October 2022, including \$28.5 million for Ridge at Sun Valley.

Colorado-based Ulysses Development Group (UDG), the mission-driven owner and investor in workforce housing that launched in 2021 by developing Ridge at Sun Valley, was ready to move at the drop of the announcement. The developer closed in January 2023 on the site, which will host those earning up to 50% and 60% of the area median income.

The Home Means Nevada funds were crucial to making Ridge at Sun Valley pencil out, especially during a 2022 that saw seismic shifts in the development's capital stack due to the national spike in interest rates, among other factors.

"Every low-income housing tax credit project is a challenge in its own way," said Yoni Gruskin, managing partner with UDG. "This one was all of the typical challenges on steroids."

The Biggest Little City in the World

Connor Larr, a partner of UDG, said his organization identified Reno early in the company's existence

as a locale with a significant need for new affordable housing.

"There's a large influx of residents and investments from California," Larr said. "Construction of housing could not keep up with demand."

Gruskin said demand is high.

"There is a full-blown affordable housing crisis in the Reno/Sparks region," Gruskin said.

The development will offer larger bedrooms and three-bedroom floor plans to accommodate working families. Catering to families extends to the neighborhood as well with nearby Lois Allen Elementary School.

"UDG spent a lot of time focusing on specifically designing Ridge at Sun Valley to fill a specific gap for low- and moderate-income households in Nevada," said Jodi Enos, affordable housing relationship manager with U.S. Bancorp Impact Finance, which invested in the 4% federal LIHTCs. "They wanted to make it feel like a family-focused development."

Identifying the site was less complex than getting it under contract, Larr said. Ridge at Sun Valley sits on a hillside north of downtown Reno. The process took

more than a year of working with an out-of-state landowner.

After securing the site, the next challenge was getting to closing. Many of the challenges developers faced in 2022—such as rising interest rates, spiking construction costs and more—added complexity.

“We thought we knew what the capital stack looked like,” Larr said. “As those dynamics played out, every 4% and many 9% [transactions] in the state of Nevada were entirely turned upside down.”

U.S. Bancorp Impact Finance invested \$50.5 million in federal 4% LIHTCs. UDG signed a term sheet in February 2022.

“I think they were probably targeting closing six months later,” Larr said. “We closed a year later.”

Ann Melone, senior vice president and business development officer for U.S. Bancorp Impact Finance, confirmed his suspicions.

“We thought it would be a pretty quick and easy close,” Melone said. “The project grew tremendously. It was a huge challenge for everyone involved in the project.”

Larr and Gruskin said their partners such as U.S. Bank, state tax credit investor Stonehenge Capital and lender Citi remaining committed to the development was essential.

All the Way to Reno

The Home Means Nevada initiative funding was vital to make Ridge at Sun Valley a reality. Gruskin said UDG and the development were one of the closest to being ready when the subsidy was announced.

“We went through it in real time,” Gruskin said. “Others were further behind us. We were a shovel-ready project and needed funds to be approved and deployed. Once the funds were allocated to us, we had to work quickly alongside the Nevada Housing division. It required partnership and shared vision.”

That navigation included moving faster than guidance came from Treasury.

“When the program was released, Treasury had not yet provided any guidance on how to pair it with the LIHTC,” Larr said. “There were a lot of questions around procurement, would it reduce basis, the number of structures, etc.”

Despite the complications and uncertainties, UDG kept moving forward with its plans.

“While the world was changing, we didn’t take our foot off gas,” Larr said. “We got capital partners and permits. We figured out how to do it.”

That included looking at various options to pull the development across the finish line, including a model without LIHTC funding.

Home Means Nevada was announced in April 2022 and awarded \$28.5 million to Ridge at Sun Valley in October 2022. UDG closed in January 2023, one of the first developments to go through the process.

Larr said there are complexities regarding how the funds flow, where they sit in the capital stack in terms of priority and more. Mike Hemmens, western regional director at Citi Community Capital, which provided a construction loan and a tax-exempt permanent loan, added to that sentiment.

“There’s always challenges with utilizing a new source of money, working through the various nuances of that particular program,” Hemmens said.

Financing

The total cost of Ridge at Sun Valley is just under \$110 million. The development received a \$28.5 million soft loan from HOME Nevada. It was allocated \$50.4 million in 4% LIHTCs for which U.S. Bank provided \$45.5 million in LIHTC equity. Citi was the construction lender and tax-exempt permanent loan lender.

“It lines up with exactly what we’re doing in the marketplace,” Hemmens said.

The property received \$3 million in state LIHTCs, for which Stonehenge Capital provided \$2.6 million in tax credit equity.

“With this being the first project to utilize the new state LIHTC program in Nevada, this project was a unique and great experience for everyone involved,” said Patrick West, associate with Stonehenge Capital. “Stonehenge is proud to be a small part of this transformative project and we can’t wait to see the impact it has on the Sun Valley community once it’s finished. We applaud Connor, Ryan, and the entire UDG team for their tireless efforts in getting the project to a financial closing.”

Lake Oswego, Oregon-based Pavilion Construction is the general contractor. Frame Architecture, CFA Engineering and Praxis Consulting Group also are part of the development team.

Gruskin said bringing the various parties together was part of the challenge and joy of Ridge at Sun Valley.

“One of things I like about the affordable housing space is the collaborative nature to make these

projects happen,” Gruskin said. “That was on display here 360 degrees with Nevada Housing, with the tax equity partners, with debt partners, general contractor, so many layers of complexity. It required everybody to work closely together to be creative and earnest in desire to get the project off the ground.”

Construction started in January with a groundbreaking in May. Some apartments are slated to come online in late 2024 with the whole of the development in service by summer 2025. ♦

THE RIDGE AT SUN VALLEY

FINANCING

- ♦ \$55 million bridge construction loan from Citi Community Capital (Citi)
- ♦ \$54.2 million in construction financing from U.S. Bancorp Impact Finance
- ♦ \$45.5 million in 4% federal low-income housing tax credit (LIHTC) equity from U.S. Bancorp Impact Finance
- ♦ \$28.5 million in Home Means Nevada subsidy
- ♦ \$24.1 million in permanent financing from Citi
- ♦ \$5 million taxable construction loan from Citi
- ♦ \$2.6 million in state LIHTC equity from Stonehenge Capital
- ♦ \$50,000 loan from Washoe County Consortium

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