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HTCs, LIHTCs Create Affordable Housing in Washington, D.C.

MARK O'MEARA, STAFF WRITER

NOVOGRADAC & COMPANY LLP

To create 140 units of affordable housing while preserving three historic structures, The Hampstead Companies and NixDevCo LLC took a unique approach. The co-developers worked with the three tenant associations to convert market-rate housing into affordable housing in Washington, D.C.'s Brightwood neighborhood.

The three developments—the Concord, Valencia and Vizcaya apartments—went up for sale at similar times, and the three tenant associations came together to purchase the buildings and convert them into one entity. “In D.C., if apartments go up for sale, tenants have the right to match the purchase price,” said Ramon Jacobson, senior program officer at Local Initiatives Support Corporation (LISC), which provided acquisition financing to this investment. The three developments are now known collectively as the Brightwood portfolio.

Jacobson said keeping long-term residents in place was a rewarding experience. “We are losing so many units of affordable housing due to gentrification, especially in the Brightwood neighborhood,” he said.

The redevelopment of the Brightwood portfolio not only created affordable housing using low-income housing tax credits (LIHTCs), but it preserved historic structures using federal historic tax credits (HTCs). Greg Gossard, principal at The Hampstead Companies, said that while there were originally no rent restrictions on the three developments, nearly all of the tenants living there qualified for the

current LIHTC units. The Hampstead Companies, a national affordable housing development company based in San Diego, Calif., is the owner of 4,000 housing units and specializes in the acquisition and rehabilitation of existing affordable housing assets. NixDevCo is a boutique development company in Washington, D.C., with seven affordable housing developments in the D.C. metropolitan area.

The Brightwood portfolio consists of four garden-style apartment buildings. “In D.C., unlike San Francisco, New York or Chicago, we have a lot of smaller garden-style apartment buildings,” said Jacobson. “It is hard to do a tax credit deal on one [property] alone. [Therefore, Hampstead and NixDevCo] organized three tenant groups together into one deal with enough units to use tax credits.” Of the 140 units, 90 percent are affordable to tenants earning no more than 60 percent of the area median income (AMI) while 10 percent of the units are market-rate units. Gossard said that this was done so no tenants had to be permanently displaced. In addition, Gossard said that 10 units were added in the basements of several of the buildings because there was “a lot of underutilized space.” He said this was done to “increase density.”

The developers said that they had a focus on energy-efficiency while updating these units. With that in mind, the developers installed a solar array that produces 96,000 kilowatt hours of electricity annually on the roofs of the buildings and incorporated Energy Star-rated appliances in each unit. In addition, water-efficient toilets, faucets,

continued on page 2

continued from page 1

sinks and showers were installed in each unit. Raymond Nix, president of NixDevCo, said that this was a full remodel with new bathrooms, cabinetry, countertops and flooring in each unit. In addition, the roof was replaced and new mechanical systems were installed, said Nix.

In addition to the apartment upgrades, renovations will include a new community room, computer room and exercise room. Tenant services will be provided by the Latin American Youth Center and the Latino Economic Development Center. Services will include after-school tutoring, financial literacy courses and health and wellness training. Gossard is anticipating a 14-month construction schedule, which would have the Brightwood portfolio completed by early 2016.

Preserving the Historic Structures

The first step in preserving the 1930s-era buildings was to get them on the National Register of Historic Places. From there, the developers were able to apply for the HTCs. Nix said that there was no major work done to the façade other than cleaning up some of the masonry and stone work. Nix said that 30 of the original cabinets in the kitchens were preserved as well. And the glass slots that let light into the stairwells were preserved.

Gossard said that one of the challenges with receiving HTCs was balancing 21st century energy efficiency standards with HTC requirements. That came in to play when installing the solar array on the roof. Gossard said that he and Nix had to be really careful where the solar array was placed and at what angle the panels sat. Gossard said that this was done to ensure that the panels were not visible from the exterior of the building.

Tax Credit Trifecta

In order to preserve these buildings and create affordable housing, a number of tax credits were used. R4 Capital was the syndicator, providing \$4.12 million in 4 percent LIHTC equity, \$2.6 million in HTC equity and \$88,875 in renewable energy investment tax credit (ITC) equity.

The credits were put into a multi-investor fund. Ronne Thielen, executive vice president of R4 Capital, said that this investment was attractive for a number of reasons. First, R4 has had a 15-year relationship with Hampstead. Second, being able to invest in all three tax credits was attractive. And third, converting market-rate housing into affordable housing aligned with R4's mission. "Eighty percent of our projects are done with repeat clients," said Thielen, who added that R4 is seeing more and more affordable housing developments using energy and historic tax credits.

Citi Community Capital initially got involved in the acquisition financing of the Concord apartments, the largest of the three properties within the Brightwood portfolio. It then acted as the construction and permanent lender on the tax-exempt bond execution. Citi provided a \$14.3 million construction loan as part of the firm's back-to-back tax exempt loan program. The construction loan will be paid down to \$10.9 million upon permanent loan conversion, said Jay Abeywardena, director at Citi Community Capital. "We're happy to know that our loan dollars will be used effectively to fully rehabilitate all three properties and to preserve the historic nature of these buildings," said Abeywardena. He said that this was also an attractive investment because Hampstead is a longstanding client with a great track record in the affordable housing industry and because this investment meets Citi's mission to help facilitate the preservation of affordable housing developments throughout the country.

LISC provided \$3.5 million in acquisition financing as well as a \$311,000 predevelopment deposit. In addition, \$14.3 million in tax-exempt bonds were issued by the D.C. Housing Finance Agency and an acquisition loan of \$10.8 million was issued by the D.C. Department of Housing and Community Development. Development finances also included a \$1 million deferred developer fee and a net operating income of \$700,000. ❖

continued on page 3

continued from page 2

BRIGHTWOOD PORTFOLIO FINANCING

- \$14.3 million construction loan that was paid down to \$10.9 million during permanent loan conversion from Citi Community Capital
- \$14.3 million in tax-exempt bonds were issued by the D.C. Housing Finance Agency
- \$10.8 million acquisition loan from the D.C. Department of Housing and Community Development
- \$4.12 million in 4 percent low-income housing tax credit (LIHTC) equity was put into a multi-investor fund by R4 Capital
- \$3.5 million in acquisition financing from Local Initiatives Support Corporation (LISC)
- \$2.6 million in historic tax credit (HTC) equity was put into a multi-investor fund by R4 Capital
- \$1 million deferred developer fee
- \$700,000 in net operating income
- \$311,000 predevelopment deposit from Local Initiatives Support Corporation (LISC)
- \$88,875 in investment tax credit (ITC) equity was put into a multi-investor fund by R4 Capital

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alex.ruiz@novoco.com

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carol.hough@novoco.com

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