

Preserving an Economic Driver

Industry Hopes for Renewal of New Markets Tax Credit Program While Revitalizing Distressed Neighborhoods

Participants in the federal new markets tax credit (NMTC) program say their No. 1 issue and concern is to see Congress pass legislation to reauthorize the program soon. In the meantime, they continue to close the last batch of NMTC transactions to fund real estate projects and businesses in low-income neighborhoods across the U.S.

A two-year extension of the NMTC program lapsed at year-end 2011. And while the Community Development Financial Institutions (CDFI) Fund has already solicited applications for a new funding round, further allocation awards can't occur unless the program is reauthorized.

"In the short term we want to make sure it gets extended through 2013," says Matt Josephs, Senior Vice President, Policy, at the Local Initiatives Support Corporation (LISC). "But in the long term we want this to be a permanent program. With temporary extensions you never get the certainty for investors and applicants that the program will be around awhile and that it's worth putting their resources and investments into."



Matt Josephs

One is the inability of CDEs and others to plan future NMTC business and to keep staff busy.

A second is the dearth of available uncommitted NMTC allocation authority for new projects. The CDFI Fund announced the last allocation awards in February 2012. CDEs have generally exhausted all or nearly all of this, for projects that have already closed or that have been committed authority. "There's very little allocation out there available," says Baltimore CPA Gary Perlow of Cohn Reznick, LLP. "Looking back I think the available credit on the street is as slim as it's ever been."

For example, the National Trust Community Investment Corporation (NTCIC), which received a \$40 allocation in April, has closed or committed all of this, says NTCIC President John Leith-Tetrault. He noted that NTCIC, like most CDEs, has a backup pipeline of proposed projects to turn to if one project approved for an allocation falls out. NTCIC, which applied for a \$90 million allocation in the current funding round, has closed five NMTC transactions in 2012 so far.



John Leith-Tetrault

The recovering economy, better condition of banks, and the greater availability of conventional bank debt for real estate projects have increased demand for NMTC allocations and investments. The CDFI Fund received 282 applications in the current funding round requesting \$21.9 billion in NMTC allocation authority. In the last round the CDFI Fund awarded \$3.6 billion.

Industry participants said some of the trends today in the NMTC program include:

- Most projects receiving NMTC allocations from multiple CDEs, rather than just a single allocation from one CDE.
- Greater availability of conventional debt from banks to help fund leverage loans.
- Steadily increasing numbers of "unwinds" of early NMTC transactions that have reached the end of their seven-year compliance period.



Leigh Ann Smith

Leigh Ann Smith, Lynch, which operates a community development entity (CDE) and provides equity and debt for NMTC projects, "We are hopeful that a decision will be made in the lame duck session." As of mid-November, the full U.S. Senate hadn't yet acted on an "extenders" bill passed by the Senate Finance Committee on August 2 that would reauthorize the NMTC program for two years retroactive to January 1, 2012 and provide \$3.5 billion in annual allocation authority for 2012 and 2013. House tax writers hadn't yet approved any bill.

In the lame duck session, which began November 13, Congress will be preoccupied by decision making relating to the so-called fiscal cliff.

According to NMTC program participants – CDEs, practitioners, and others – the lack of an authorization is producing several negative impacts.



(1) Agro-Pharma dairy product production plant,
New Berlin, N.Y. Photo by Chobani, Inc.

(2) Kent State University Hotel & Conference Center,
Kent, Ohio Rendering by Glavan Feher Architects

(3) Mt. Vernon Mill mixed-use development,
Baltimore, Md. Rendering by Jennifer Nolley

(4) Zencha Tea Salon, Columbus, Ohio
Photo by Rob Turner

(5) McCarthy Residence YWCA, Salt Lake City, Utah
Photo by Mike Varanakis

(6) Cooper Cancer Institute, Camden, N.J.
Rendering by Francis Cauffman

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- Greater emphasis than before by many CDEs on funding operating businesses.
- Some new sources of capital for leverage loans. For instance, more community development financial institutions (CDFIs) are helping to fund leverage loans for NMTC projects, says Elaine DiPietro of Enterprise Community Investment, Inc. Enterprise, which has a CDE, also has a certified CDFI, Enterprise Community Loan Fund, which takes participation in leverage loans and provides bridge loans for NMTC projects.

The new markets tax credit has been used to finance a diverse range of projects, as examples of current and recent projects illustrate (see p. 15).

These examples are just a few of the many NMTC deals that these CDEs have closed. For example, James Klein reported that the Finance Fund provided NMTC allocation to help fund construction of a new home for the Museum of Contemporary Art in Cleveland. LISC, which operates a CDE, has provided a \$9 million alloca-

tion for an 84,000-square foot community benefit campus in Cincinnati, called CityLink. The campus will offer a variety of services for low-income individuals and families, including job training/assistance, financial counseling, child care, education, health and wellness, and legal assistance. In Cleveland, an NMTC allocation was used for the Terminal Tower, the city's signature building, to rehab the façade, office space and elevators and replace 2,200 windows. And in downtown Detroit, an area experiencing a redevelopment renaissance, Bank of America Merrill Lynch provided a \$20 million NMTC for the renovation of Broderick Tower, a vacant historic office building, into 127 market-rate apartments, ground floor restaurant space, and a business incubator. Leigh Ann Smith said the bank is to close a loan for another NMTC project across the street, the renovation of the David Whitney building, an historic skyscraper, into apartments and a Starwood brand hotel.

Industry participants say the new markets tax credit has proven to be an effective tool for funding projects that have had a transformative effect on low-income

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A Sampler of New Markets Tax Credit Projects

- **New Orleans Maritime and Military Academy, New Orleans, La.** A CDE of Phoenix-based Dudley Ventures LLC has provided a \$10 million NMTC allocation and SECDE Ventures LLC a \$7.9 million allocation to help finance a permanent home for this nonprofit college preparatory charter school (with Marine ROTC program) serving primarily at-risk youths. The new facility, with classrooms, a gymnasium, auditorium, and other features, will be created from the renovation and adaptive re-use of two historic buildings on a shuttered former military base.
- **Carlos Rosario International Public Charter School, Washington, D.C.** Bank of America Merrill Lynch has provided a \$17 million NMTC allocation, \$5 million in NMTC equity, and \$12.3 million of leverage debt to help finance a new \$24.2 million annex campus for this organization that established the first adult charter school in the nation. The school offers, in two shifts, numerous "workforce" job training programs for adults: in culinary arts, information technology, nursing, and other areas. "They'll be able to enroll 536 additional adults," says BAML executive Leigh Ann Smith.
- **Emmi Roth cheese factory, Platteville, Wisc.** The Local Initiatives Support Corporation (LISC) has provided a \$9 million NMTC allocation to help finance a new plant in this small town by Emmi Roth USA, Inc., a Monroe, Wisc.-based cheese manufacturer.
- **Small Business Loans.** This year LISC has closed the first three NMTC-financed small business loans made from a new \$10 million pilot investment fund, according to LISC executive Kevin Boes. Morgan Stanley is the equity investor and leverage lender to the fund, which makes U.S. Small Business Administration Section 504 program first mortgages guaranteed by SBA. The first mortgage is supplemented by a second mortgage funded by SBA debentures. According to Boes, the NMTC subsidy has enabled LISC to provide SBA 504 loans with a 30-year term and interest rate of 3.5% (interest-only first three years), compared to a 20-year amortization schedule and market interest rate in the 5.5% to 6% range for standard 504 loans. One loan closed this year, for \$1 million, was to a dental clinic near downtown Milwaukee that primarily serves low-income Medicaid patients. It enabled the dental clinic to buy its space and stay in the neighborhood, retain 74 jobs, add 10 new jobs, and make improvements, Boes noted.
- **Kent State University Hotel & Conference Center, Kent, Ohio.** The Columbus, Ohio-based Finance Fund, a statewide nonprofit financial intermediary, has provided a \$9 million NMTC allocation to help finance a new 95-room hotel and conference center that will generate 430 construction and 42 permanent jobs. The \$15.6 million project has multiple partners (including Kent State University Foundation) and is part of a \$100 million downtown redevelopment project to provide new retail, office, and residential space. Finance Fund CEO James Klein noted, "We had a couple businesses approach us, national and international, which said, 'We want to move our offices to downtown Kent but we are not going to do it if this hotel and conference center doesn't happen.'"
- **Oxford Mills, Philadelphia, Pa.** Enterprise, the National Trust Community Investment Corporation, and the Philadelphia Industrial Development Corporation have provided \$34 million in NMTC allocations for this \$37.8 million mixed-use project to be created from the renovation and adaptive re-use of two former dye factory buildings. Oxford Mills will contain 114 apartments, 38,000 square feet of office space for education and social service nonprofits, and a 1,300 square foot café. Sixty-eight apartments will be designated as affordable for new teachers who will receive discounts on the rent.
- **Solar Power Facilities, Oahu, Hawaii.** Forest City Enterprises, the major Cleveland-based developer, has utilized a NMTC allocation for a transaction aggregating three power generating facilities. One will involve the purchase and installation of solar panels and related equipment on U.S. Navy surplus land. This facility will provide power to nearby Navy housing – including housing units that Forest City has developed and operates. Any surplus electricity will be sold to the local electric utility. Funding sources include NMTCs, a federal Section 1603 grant, bank loan, state dollars, and other subsidies, says John Brocklehurst of Forest City Enterprises.
- **Supportive Housing Projects.** The Corporation for Supportive Housing (CSH) has provided NMTC allocations for three, pioneering mixed-use projects that will all contain some supportive housing units. The latest, the NBO Building in Detroit, will contain supportive housing, a satellite branch of an existing federally qualified health center, and program space for the owner. The second, Paseo Verde in Philadelphia, will include supportive, affordable, and market-rate housing units; a federally qualified health center; a dental clinic; and program space. The third, Sugar Hill in Harlem, N.Y., will contain supportive and affordable housing units; a children's museum; an early childhood learning center; office space for the owner; and a parking garage, says CSH Chief Lending Officer Brigitte Jandreau-Smith.
- **Habitat for Humanity Homes.** In a recent transaction, eleven Habitat for Humanity (HfH) affiliates in Arizona, California, Florida, North Carolina, Ohio, Oregon, Tennessee, Texas, Virginia, West Virginia, and Wisconsin will share \$22 million in NMTC funding to help finance construction of 239 homes that will be sold to low-income households. The transaction structure is a model designed by Smith NMTC Associates, LLC to facilitate cost-effective small NMTC transactions and has been used for multiple NMTC transactions for numerous HfH affiliates nationwide.
- **Hippodrome Theatre, Baltimore, Md.** The National Trust Community Investment Corporation provided a NMTC allocation a few years ago to help fund an \$80 million rehabilitation of this vacant 1928 theater building into a modern new 2,000-seat venue for Broadway shows. It has thrived since its completion and has been the driver for the emerging Westside theater district and other development. **TCA**

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neighborhoods, spurring new jobs and other development. They say the catalytic impact is particularly visible from many of the earlier NMTC projects.

Baltimore, a site of numerous NMTC projects, is a prime example. The Hippodrome Theatre has sparked the development in the Westside neighborhood of a theater district and new retail shops, restaurants, and housing. Currently, a new NMTC allocation is being used to renovate the Everyman Theater, a vacant former movie house, into a community theater.

Leigh Ann Smith indicated that Bank of America Merrill Lynch has provided NMTC allocations and/or funding for a number of projects that have upgraded Baltimore's Westside neighborhood. These include the Hippodrome Theatre and Everyman Theater projects, the completed \$80 million Centerpoint project (390 apartments, 35,000 square feet of retail, parking), and the Abell Building, an historic building being renovated into 30 apartments and 3,000 square feet of retail space.

Smith said the bank recently did an impact study of the changes that have occurred in the Westside area that

shows how the Hippodrome and Centerpoint projects have "provided a catalyst for all of this other activity." She notes, "We were able to document more than a billion dollars of private investment in the West Side, with 400 apartments, 140,000 square feet of office, 40,000 square feet of retail, and 800 new hotel rooms since 2008." Smith added that between 2000 and 2010 the residential population in the census tract grew by 122% while the poverty rate fell from 42% to 26%.

As participants cross their fingers for an extension of the NMTC program by Congress, they point proudly to the program's stellar performance to date.

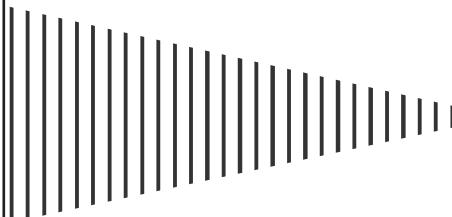
"I think the industry is in a good place," says Dudley Ventures' James Howard, Jr. "The pricing [for new markets tax credits] is at record levels. Investor demand is quite strong. With our ten-year anniversary of the program, the program has more visibility...With more liquidity in the debt market, we're seeing very strong, high-impact projects with strong investor demand. We're beginning to see tougher deals get done again, which is very beneficial." **TCA**



James Howard, Jr.

Photo by Christine Johnson

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Since the inception of the New Markets Tax Credit (NMTC) program, Ernst & Young LLP has helped community development entities (CDEs) successfully apply for allocations, helped qualified active low-income community businesses identify CDEs with allocations for their projects, and helped tax credit investors execute transactions. From start to closing, Ernst & Young LLP can help interested parties benefit from the NMTC program.

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1770 Tchoupitoulas
New Orleans, Louisiana
Rendering by MSH Architects

New Markets Tax Credit in Action

Funding Workforce Apartments and a Healthy Foods Kitchen in New Orleans

With the help of the federal new markets tax credit, the Renaissance Neighborhood Development Corporation (RNDC) is creating additional new housing, jobs, and career training opportunities in a rebounding corner of New Orleans, La. overlooking the Mississippi River.

The source is a \$19.5 million project called 1770 Tchoupitoulas (pronounced chop-a-too-las), comprised of two historic buildings being renovated into 52 apartments, a commercial kitchen producing fresh and healthy meals, and a job skills training facility, along with a third warehouse building.

Construction began July 1st. The kitchen facility will open next spring and the residential building by next July, says RNDC Executive Director Victor Smeltz. The warehouse already has a revenue-paying tenant.

RNDC, a nonprofit based in New Orleans, was co-founded in 2006 by the National Office of Volunteers of America and the local VOA affiliate, Volunteers of America Greater New Orleans. Its aim has been to devel-

op and renovate workhouse housing to replace more than 1,000 units owned by the two Volunteers of America partners that were taken out of service by Hurricane Katrina in 2005.

"Our initial goal," says Smeltz, "was to develop new properties and substantially rehab existing properties to replace those 1,000 units. So far we've completed about 800 units and will continue to build our portfolio to exceed that goal."

According to Smeltz, RNDC initially focused on emerging neighborhoods where there were larger redevelopment initiatives taking place. "We've attempted to support the investment of other public and private resources in existing neighborhoods that were being rebuilt," he says. "All of our sites are urban neighborhood sites, where you have access to basic commercial services and transportation. We wanted to be near the jobs, and most of the jobs in New Orleans are in the



Victor Smeltz

Photo by Nicholas Smetz

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central core. So we chose sites that are a 5- to 15-minute bus ride for someone with a job in one of New Orleans' basic service industries."

Says Smeltz, "We acquired four properties early on in our development efforts after Katrina." RNDC has developed three of these so far; 1770 Tchoupitoulas is the fourth.

Located in a former industrial neighborhood adjacent to the Mississippi River that is being redeveloped for commercial and residential uses, the site is five minutes from downtown and could support the development of more than 200 housing units. The National Park Service approved RNDC's application to designate the site as an historic district due to the historic use of the property in connection with the shipping industry. Two of the structures are former Lykes Steamship building and former Centennial Cotton Press building.

Once renovated, the former Lykes Steamship building will contain 52 "workforce" units – one- and two-bed-

room apartments – with monthly rents roughly \$200 to \$300 below local market rents. "About half of them will have river views," Smeltz says. "In addition, there will be a rooftop terrace where all residents will be able to enjoy sweeping views of the Mississippi River and downtown New Orleans."

Of the 52 apartments, 27 will be reserved for households making no more than 80% of the area median

income, a condition imposed by the project's receipt of federal Community Development Block Grant funds. The remaining 25 apartments will be market-rate.

The former Centennial Cotton Press building will contain a 6,200-square-foot commercial kitchen operated by Volunteers of America Greater New Orleans that will prepare healthy and nutritional lunches sold

to local public and charter schools. "Within five years the kitchen will serve healthy meals to 2,110 students at eight area schools," said James LeBlanc, President and CEO of Volunteers of America Greater New Orleans.

The kitchen and a classroom facility will provide culinary training to low-income persons and veterans – eventually up to 125 per year – to prepare them for jobs in the local food service, restaurant, and hospitality industries.

The food production and training facility is modeled after a successful "Catering for a Cause" program started and operated by VOA's Oregon affiliate.

VOA's National Office, based in Alexandria, Va., provided an \$8.5 million new markets tax credit allocation for the project while Columbia, Md.-based Enterprise furnished a \$10 million allocation. U.S. Bancorp Community Development Corporation provided \$7.9 million in equity as the investor receiving federal new markets and historic tax credits. RNDC provided the leverage loan for the NMTC transaction, capitalizing it with \$10.9 million in equity and bridge loans received from local Iberia Bank, various grants and donations, and other monies. The transaction also utilized state historic tax credits and other loans.

Smeltz says that the new markets tax credit was essential for the project, which is expected to receive LEED certification plus Enterprise Green Communities certification for the housing units. "We couldn't have closed the financing without the new markets tax credit," he notes. **TCA**



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