



Through an innovative financing structure, Fair Oaks Court became the first for-sale housing development to tap New Markets Tax Credits for project funding.

Low-Cost Homes in Pricy Pasadena

BY LIZ ENOCHS

WHEN Heritage Housing Partners (HHP) identified a two-acre site near downtown, its aim was to preserve many of the historic homes on the property as well as to build new affordable housing that echoed the classic Craftsman style of the older houses.

But the local nonprofit ran into a snag: It just couldn't make the numbers work. Even with the city, county, and state throwing funding resources behind the proposed project, it didn't pencil out. So the developers did something that sponsors considering affordable for-sale projects elsewhere can now replicate: It devised an innovative financial structure that allowed it to tap New Markets Tax Credits (NMTCs) to fund for-sale housing.

"It's a great funding source," said Charles Loveman, HHP's executive director. However, NMTCs hadn't previously

been used to create for-sale housing, largely because the federal government requires the credits, once allocated, to remain invested in qualified uses over a seven-year period. "This presents a challenge," said HHP, "considering most for-sale housing development projects typically would only take 12 to 18 months before the homes would be sold and the money would be repaid."

How did HHP clear the hurdle? It added a second phase to the project in nearby Glendale, with a plan to reinvest the repaid equity from homes sold in Pasadena in the next round of homes in Glendale.

On top of that, the group worked with its partner, Lake Forest, Calif.-based Clearinghouse CDFI, to maximize NMTC funding by having the cities pool their funds and invest them directly into the community development entity created for the project, rather than into the project itself. That allowed those funds to be counted as equity, creating more NMTCs

Fair Oaks Court

Developer: Heritage Housing Partners
 Architect: GDB Architects
 Number of units: 44 (35 are income targeted)
 Income targeting: 39 units at 80% and 5 units of the AMI at 60% and 120 units at 80%
 Total development cost: \$17 million
 Total development cost per unit: \$389

and boosting the equity investor's return on investment while allowing HHP to keep more funds in the project and deepen its subsidies.

In all, NMTCs brought \$10.4 million into the \$17 million project. Commercial Capital Bank, later purchased by Washington Mutual, was the equity investor. Pasadena and Glendale contributed \$4.2 million and \$3.3 million, respectively, funds which are repayable through low-interest second mortgages provided to homebuyers. Once all the Pasadena units are sold, \$3.35 million in NMTC equity will roll over into a 35-unit condo project in Glendale.

Sale prices for the Pasadena units, which range from about \$140,000 to \$250,000, are as much as \$300,000 below market rates, according to HHP. "The affordability achieved through the use of NMTCs for this project is unprecedented," the organization said. ■