National CORE Uses Hybrid LIHTC Structure to Build another Rancho Cucamonga Development

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National Community Renaissance (National CORE) used an unfamiliar structure to finance an affordable housing property in a very familiar California city.

National CORE and the city of Rancho Cucamonga broke ground and began construction in May for Day Creek Villas, a $47.2 million, 140-apartment affordable housing property for people 62 and older. The property is financed through a hybrid 4 percent/9 percent low-income housing tax credit (LIHTC) structure.

It’s the ninth National CORE affordable housing property in Rancho Cucamonga and the first hybrid transaction in the nonprofit’s history.

“We like the property because of the sponsor, it’s in a market we know well, with a huge need for affordable housing,” said Blake Davis, lead for syndicator Hudson Housing Capital. “Our long and successful history with National CORE made it easy to figure out this complicated financing. The hybrid structure ultimately helped create a larger and more viable project.”

The result is a large community for seniors earning between 30 percent and 60 percent of the area median income.

Familiar Location
Rancho Cucamonga has been National CORE’s headquarters for two decades.

“I would say it absolutely [makes a difference to work in Rancho Cucamonga],” said Ashley Wright, senior vice president at National CORE. “We’ve been managing properties in Rancho Cucamonga since 1993 and we have a great track record for property management and services. We’ve been able to stay close to the staff and elected representatives.”

The familiarity goes beyond connections between National CORE and city leaders.

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“I get phone calls and emails every day from people who want to move into it,” Wright said. “Rancho Cucamonga is a higher-income community and the housing market is tight, especially for seniors. We hear from people and from the children of people who could move in. There was zero opposition and zero NIMBYism to this.”

The city was a crucial part of the collaboration.

“We had a great partner in the city of Rancho Cucamonga,” Wright said. “Without them, this would be impossible. They’re very supportive at the city level.”

The hybrid structure was key to making the deal happen, but it wasn’t easy.

Hybrid Structure
Lesley Edwards, vice president of project development at National CORE, said the developer chose to go with a hybrid structure because it improved the chances to land an allocation of very competitive 9 percent LIHTCs from the California Tax Credit Allocation Committee in 2018.

“We had previously submitted the project as a 9 percent and hadn’t received an allocation,” Edwards said. “We determined that, as a hybrid, we could increase our tiebreaker score, so we structured it that way.”

The result is a three-story building, with the first two floors financed by 9 percent LIHTC equity and the third floor financed with 4 percent LIHTC equity.

National CORE operates as the general contractor, thus providing the accounting and ensuring the two contracts stay separate.

“‘We have to make sure we don’t comingle the bond proceeds,’” Wright said. “‘We did ownership by floor: each floor is a condominium unit. There are two limited partners, one owns two floors, the other owns one and they share the common areas.’”

Davis said the hybrid structure didn’t seriously complicate the transaction for Hudson.

“There is incrementally more work, but in terms of underwriting the property, it’s the same as one deal,” Davis said.
While the structure made the development more complicated, participants consider it a success.

“Using both 9 percent and 4 percent LIHTCs on the same property is complicated, but the Day Creek Villas shows that it’s worth it,” said Renee Beaver, a partner in Novogradac’s Cleveland office, who performed the initial 50 percent test for the property. “It’s great to see how the entire team worked together and that the real beneficiaries will be residents in Rancho Cucamonga.”

National CORE’s Wright agreed.

“We would do another hybrid,” Wright said. “It’s not fun, but if it makes you more competitive, we would.”

According to Davis, the complexity of the structure makes the team crucial.

“It was important to put together the right team,” Davis said. “There are tax issues, condominium issues, engineer/surveyor issues. That was what made the whole deal different, but the partnership with a good team made it manageable.”

James Vossoughi, a banker within community development banking at Chase, agreed.

“Day Creek Villas is being developed under a complicated, hybrid financing structure that could only work with a team that could cohesively come together to offer the right solutions,” he said. “We’re proud to work with key industry players on supporting a project that will have such an impact on the local community.”

‘Nice Site,’ Plenty of Amenities

The 140 apartments include 131 one-bedroom homes, eight two-bedroom homes and a manager’s unit. The community is within walking distance of the Day Creek Marketplace and the Estate Winery Marketplace, which means seniors have access to ample amenities.

“It’s a very nice site in a higher-income part of the community,” Wright said. “It’s one where seniors can walk to the pharmacy, restaurants, shopping center even an outdoor regional mall.”

The development includes a swimming pool, outdoor lounges and fireplaces, and a community center.

National CORE’s resident services provider, the Hope through Housing Foundation, will support senior residents with a variety of program and services.

“The location is ideal for seniors,” Edwards said. “In addition to providing services on-site, there’s a nearby senior community center. For activities, there’s an indoor and outdoor exercise area and the property connects directly the Pacific Electric Trail, where residents can walk, jog or ride bikes.”

Construction began in March and the property will wrap up in October 2020.

“These seniors will be able to not just live, but thrive in the community with amenities such as a swimming pool, outdoor lounges and a community center that will serve as a hub for resident activities,” said Vossoughi. “They’ll be walking distance from anything they might need, including restaurants, grocery stores, pharmacies, coffee shops and parks. Their next-door neighbor will be the local Rancho Cucamonga fire department.”

Financing

Chase was the sole LIHTC equity investor for Hudson, with more than $25 million in tax credit equity invested. Chase also provided almost $28 million in construction financing on both projects.
Both Hudson Housing Capital and Chase were familiar partners for National CORE.

“We’ve done 20 successful tax credit partnerships with [Hudson] over the years,” Wright said. “As well as a lot of business with Chase as an investor and lender. That’s a big part of getting the transaction closed. Anybody who is trying to make a hybrid work should work with groups they know and trust.”

Davis agreed that the partnership was crucial.

“We know them as a strong and sophisticated nonprofit developer and manager,” Davis said. “It makes underwriting a complicated project so much easier.”

“National CORE is a sophisticated and leading nonprofit developer with a stellar reputation for quality affordable housing that transforms communities,” said Cecile Chalifour, west division manager for community development banking at Chase. “They have a proven track record on complex financial structures.”

Day Creek Villas
FINANCING
- $25 million in low-income housing tax credit (LIHTC) equity from Chase, syndicated by Hudson Housing Capital
- $24.9 million in construction financing from Chase
- $7.7 million city land loan from the city of Rancho Cucamonga
- $5.7 million loan from the city of Rancho Cucamonga
- $3.8 million permanent loan from Chase
- $2.2 million in developer equity
- $1.8 million Affordable Housing Program loan from Federal Home Loan Bank of San Francisco
- $452,000 deferred developer fee

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