



The Low-Income Housing Tax Credits Issue



Celebrating the LIHTC on Native Nation Lands in California

Nine years into the California LIHTC set-aside for affordable housing on Native lands, more than \$130 million in tax credits have been awarded to build or rehabilitate nearly 350 homes, but demand still far outpaces the limited set-aside.

Page 16

Partnering with a Nonprofit for a LIHTC Development

What are the benefits and challenges of private for-profit affordable housing developers partnering with a nonprofit?

Page 18



Temporary Regulations Provide Details to Assist in Complying with Final AIT Guidance

Temporary regulations provide context for the practical application of final average income test regulations.

Page 47

45L Credit Extension Expands Clean Energy Possibilities for LIHTC Developers

The Inflation Reduction Act includes a 10-year extension of the Section 45L Energy Efficiency Home Credit, providing a long runway for an incentive that previously was renewed on short-term bases.

Page 74



Krisana Apartments Brings 151 Affordable Homes to 13 Acres of City-Owned Land in Southeast Denver

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

In Denver, developers Lexton McDermott and Kentro Group are teaming for Krisana Apartments, a \$44 million affordable housing development in southeast Denver to be built in part with low-income housing tax credit (LIHTC) equity.

Once completed in 2024, the four-story Krisana Apartments will provide 151 affordable apartments to Denver residents earning up to 60% of the area median income (AMI) in 21 studio, 71 one-bedroom and 59 two-bedroom apartments. Eight of the residences will be fully accessible, with 12 for those living with audio/visual impairments.

“This area of Denver is significantly underserved when it comes to affordable housing, largely due to the

lack of land available for development,” said Michael Lengen, managing member for Lexton McDermott.

Site History and Future

The future Krisana Apartments will be located at the northwest corner of Arkansas Avenue and Birch Street, one block east of Colorado Boulevard, a vital north-south artery for Denver vehicle traffic. That’s appropriate given the 13-acre site in Denver’s Virginia Village neighborhood previously hosted the Colorado Department of Transportation (CDOT) headquarters. In 2018, CDOT relocated across the street from Empower Field at Mile High in west Denver.

Image: Courtesy of Lexton McDermott

An artist’s rendering depicts the exterior of Krisana Apartments in Denver. The property, co-developed by Lexton McDermott and the Kentro Group, is scheduled to open in April 2024.

CDOT sold the land to the city of Denver, which sought a buyer to construct 150 affordable apartments at 60% of the AMI. That buyer was Kentro Group, which reached out to Lexton McDermott. Lengen and fellow Lexton McDermott managing member Arthur McDermott have developed properties in Colorado and Texas for more than three decades.

McDermott said building in Denver’s District 6, one of the city’s least-served districts when it comes to affordable housing, made the development a priority for the city of Denver. Lengen agreed.

“The redevelopment of the former CDOT campus presented a unique opportunity to help close the affordable housing gap in Virginia Village,” Lengen said.

That was a key factor as well for UMB Bank, which invested in the LIHTCs, said Matt Zarlengo, senior vice president of LIHTC for UMB Bank.



Image: Courtesy of Lexton McDermott
Arthur McDermott, managing member of developer Lexton McDermott, speaks March 8 at the groundbreaking for Krisana Apartments in Denver. The site will host 151 all-electric homes and will be built using low-income housing tax credits.

“Denver is like the rest of the country—short on or unable to produce enough affordable housing,” Zarlengo said. “We like the area. We like the developer.”

Krisana is just one component of a wider mixed-use development being led by Kentro Group. Plans also

include several amenities for the broader community, including the relocation of a nearby King Soopers, the Rocky Mountain region brand of The Kroger Company supermarkets, and replacing it with a new superstore. The site will also include a 1.6-acre park and specialty retail space.

Rezoning to Allow for Increased Density

Initial plans for Krisana called for a pair of buildings across Birch Street from one another, with the current building slated as a three-story, 114-apartment complex and a neighboring 36-home structure.

In May 2022, in an effort to incentivize affordable housing, the Denver City Council permitted affordable housing developers to increase the density of any building under development. This allowed the developer to add a fourth floor to their plans for Krisana Apartments and drop the second site entirely. The revised plan also added one additional apartment above the city’s requested 150.

“Frankly, we saved \$2 million when we did that,” McDermott said.

Lengen echoed those thoughts.

“It’s significantly less expensive to operate one building versus two separate sites,” Lengen said. “The 36 units on the second site were included in the original design to ensure we met the 150 units of affordable housing required by the city of Denver. By adding another floor to the main building, we no longer needed to build and maintain an additional building.”

McDermott further added that the cost of construction for two buildings made the development infeasible.

“When the project went out to bid with the two-building site plan, the costs were untenable. Luckily, due to the zoning ordinance, we were able to change the site,” McDermott said. “It was a big effort by the architect to do a significant redesign right after it went out to bid.”

Supporting Denver's Electrification Efforts

In 2021, Denver laid out a 168-page strategy to achieve net-zero energy for new buildings and homes in the city and county by 2030. One component of the plan was to award grants to developers to encourage building new properties with energy from electrical sources in mind. Krisana Apartments was among the initial batch of recipients of a \$100,000 grant.

“Denver is ahead of the game in terms of sustainability as a city and making it a priority,” said Juan Galvan, assistant vice president, project management for Hunt Capital Partners (HCP), which syndicated the LIHTCs for Krisana.

McDermott said electrification became the preferred option for Krisana between the city's incentives as well as shaky guarantees from a local energy provider.

The property will conform with the 2018 International Energy Conservation Code, the 2020 National Electrical Code, 2019 Denver Building Code Amendments and Accessibility State Laws. Site plans also call for LED lamps for interior, exterior, exit and emergency light fixtures.

Of the site's 120 parking spaces, six are set aside for electric vehicle charging with the capacity to increase to 18 total spaces. The parking garage also includes a storage room for 26 bicycles.

Financing

UMB Bank provided \$15.8 million in federal LIHTC equity needed for the property with HCP syndicating the necessary tax credits. UMB also provided a \$22.7 million tax-exempt construction loan and a \$7.9 million taxable construction loan. The Colorado Housing and Finance Authority provided bond capacity for the permanent debt on the development, which was issued by Citibank, NA as a \$21.1 million tax exempt bond.

“This one took a lot of work by a lot of people doing their thing,” Zarlengo said.

McDermott said rising construction costs as well as rising interest rates “threw a curveball into the financing.” Galvan agreed, saying closing transactions in 2022 due to the market conditions was complicated.

“2022 deals were all held up at some point when the interest rate shot up,” Galvan said. “The developers had to go back to the drawing board and redesign to make the deal pencil. It was quite the challenging year in that sense.”

Emily Martin, director of investors relations with HCP, said continuing the relationship between HCP and UMB made the complexity of the transaction easier to overcome.

“Our cultures are very much aligned,” Martin said. “Neither one of us is a volume shop. We're focused on relationships and on doing the right deals with the right people. We always want to be part of the solution.”

Ultimately, the development overcame numerous challenges to deliver affordable housing to a portion of the Denver market that has long had an affordable housing gap.

“Krisana Apartments will provide residents quality, affordable apartments with walkable access to life's essentials like grocery, retail, green space and public transportation,” Lengen said. “We anticipate a quick lease up of the property at its completion in the fall of 2024.” ❖

KRISANA APARTMENTS

FINANCING

- ◆ \$22.7 million tax-exempt construction loan from UMB Bank
- ◆ Colorado Housing Finance Authority provided \$21.1 million in private-activity bonds, which were issued by Citibank, NA
- ◆ \$15.8 million in federal 4% low-income housing tax credit equity from UMB Bank
- ◆ \$7.9 million taxable construction loan from UMB Bank
- ◆ \$100,000 city of Denver New Buildings and Homes Electrification Pilot Program grant

© Novogradac 2023 - All Rights Reserved.

This article first appeared in the May 2023 issue of the Novogradac Journal of Tax Credits. Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.

Notice pursuant to IRS regulations: Any discussion of U.S. federal or state tax issues contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any discussion on tax issues reflected in the article are not intended to be construed as tax advice or to create an accountant-client relationship between the reader and Novogradac & Company LLP and/or the author(s) of the article, and should not be relied upon by readers since tax results depend on the particular circumstances of each taxpayer. Readers should consult a competent tax advisor before pursuing any tax savings strategies. Any opinions or conclusions expressed by the author(s) should not be construed as opinions or conclusions of Novogradac & Company LLP.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.

EDITORIAL BOARD

PUBLISHER

Michael J. Novogradac, CPA

EDITORIAL DIRECTOR

Alex Ruiz

TECHNICAL EDITORS

Thomas Boccia, CPA
Chris Key, CPA
Diana Letsinger, CPA

Matt Meeker, CPA
John Sciarretti, CPA
Stacey Stewart, CPA

COPY

SENIOR EDITOR

Brad Stanhope

SENIOR MARKETING MANAGER

Teresa Garcia

SENIOR COPY EDITOR

Mark O'Meara

SENIOR WRITER

Nick DeCicco

CONTRIBUTING WRITERS

George Barlow
Jim Campbell
Elizabeth Glynn
Cindy Hamilton
Rich Larsen

Josh Mason
Stephanie Naquin
Brent Parker
Charles A. Rhuda, III

ART

CREATIVE DIRECTOR

Alexandra Louie

GRAPHIC DESIGNER

Brandon Yoder

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

Teresa Garcia
teresa.garcia@novoco.com
925.949.4232

ADVERTISING INQUIRIES

Christianna Cohen
christiana.cohen@novoco.com
925.949.4216

ALL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS PROFESSIONAL ADVICE OFFERED BY NOVOGRADAC OR BY ANY CONTRIBUTORS TO THIS PUBLICATION.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX AND/OR LEGAL ADVISOR.

ADVISORY BOARD

OPPORTUNITY ZONES

Dan Altman	SIDLEY AUSTIN LLP
Glenn A. Graff	APPLGATE & THORNE-THOMSEN
Jill Homan	JAVELIN 19 INVESTMENTS
Shay Hawkins	OPPORTUNITY FUNDS ASSOCIATION

LOW-INCOME HOUSING TAX CREDITS

Jim Campbell	SOMERSET DEVELOPMENT COMPANY LLC
Tom Dixon	LUMENT
Richard Gerwitz	CITI COMMUNITY CAPITAL
Elizabeth Bland Glynn	TRAVOIS INC.
Rochelle Lento	DYKEMA GOSSETT PLLC
John Lisella III	U.S. BANCORP COMMUNITY DEV. CORP.
Derrick Lovett	MBD COMMUNITY HOUSING CORP.
Rob Wasserman	HUNTINGTON NATIONAL BANK.

PROPERTY COMPLIANCE

Jen Brewerton	DOMINIUM
Kristen Han	WNC
Michael Kotin	KAY KAY REALTY CORP.

HOUSING AND URBAN DEVELOPMENT

Victor Cirilo	NEWARK HOUSING AUTHORITY
Flynann Janisse	RAINBOW HOUSING
Ray Landry	DAVIS-PENN MORTGAGE CO.
Denise Muha	NATIONAL LEASED HOUSING ASSOCIATION
Monica Sussman	NIXON PEABODY LLP

NEW MARKETS TAX CREDITS

Frank Altman	COMMUNITY REINVESTMENT FUND
Maria Bustria-Glickman	US BANK
Elaine DiPietro	BLOOMING VENTURES LLC
Chimeka Gladney	ENTERPRISE COMMUNITY INVESTMENT INC.
Tracey Gunn Lowell	U.S. BANCORP COMMUNITY DEV. CORP.
Ruth Sparrow	FUTURES UNLIMITED LAW PC
William Turner	WELLS FARGO

HISTORIC TAX CREDITS

Irvin Henderson	HENDERSON & COMPANY
Heather Buthe	NATIONAL TRUST COMMUNITY INVESTMENT CORP.
Donna Rodney	ENTERPRISE COMMUNITY INVESTMENTS
Cindy Hamilton	HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Jim Howard	DUDLEY VENTURES
Elizabeth Kaiga	DNV GL
Forrest Milder	NIXON PEABODY LLP

© Novogradac 2023 All rights reserved.

ISSN 2152-646X

Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.