



THE Renewable Energy Issue

As Clean Energy Tax Incentives Expand, Transaction Structure Decisions are More Crucial

Clean energy sponsors and developers must have a thorough understanding of common transaction structures and areas open for negotiation.

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What You Need to Know About HUD's Green and Resilient Retrofit Program

The Inflation Reduction Act of 2022 provides \$837.5 million in funding and up to \$4 billion in loan authority to HUD for affordable housing properties. Learn about funding options and upcoming deadlines.

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10 Things to Remember About the IRA and Renewable Energy Tax Credits

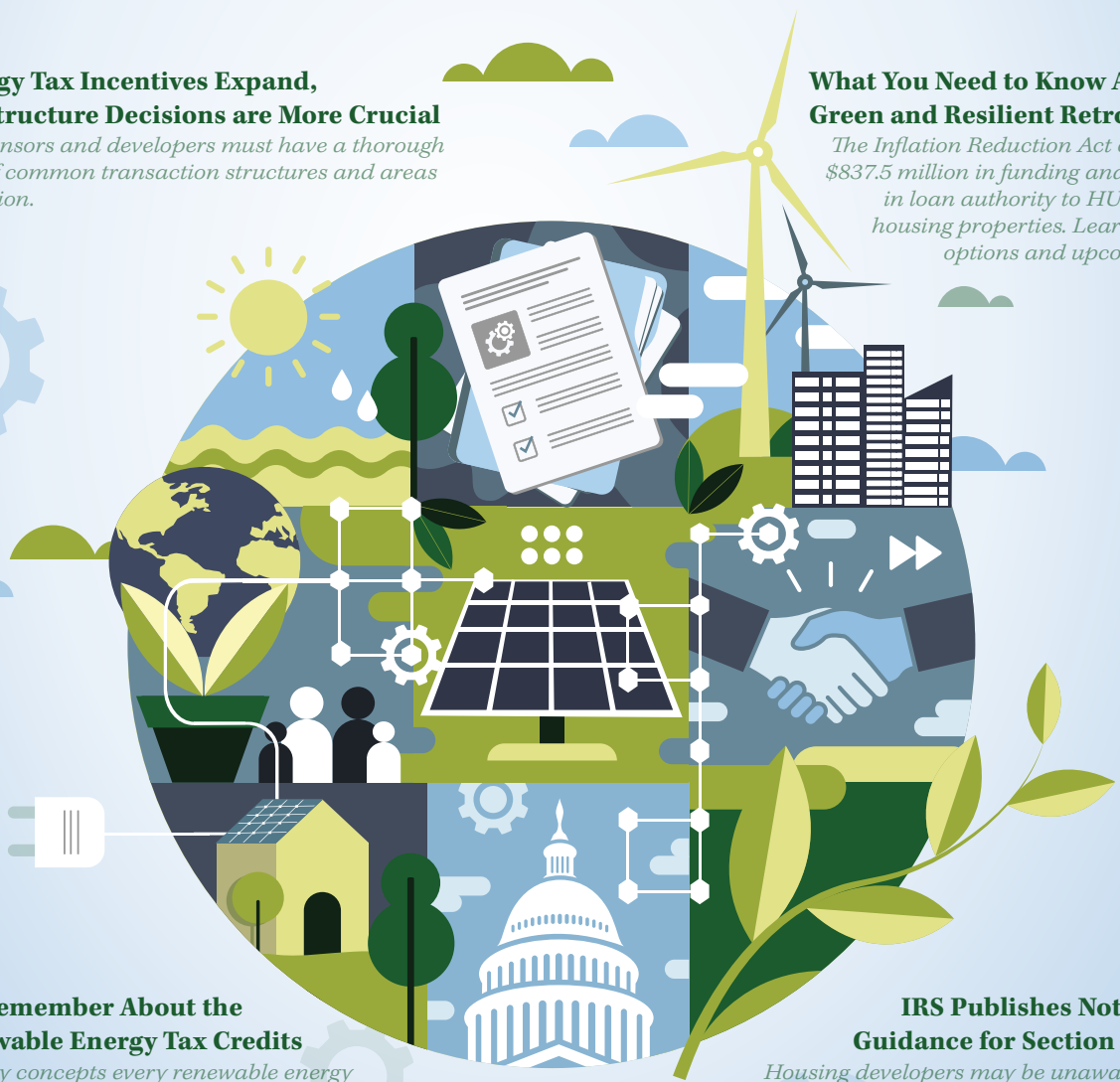
Read about 10 key concepts every renewable energy project sponsor and investor should know, including adders and begin construction guidance.

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IRS Publishes Notice Providing Guidance for Section 45L Incentive

Housing developers may be unaware of credits and equity that could be available through the Section 45L Energy Efficient Home Credit.

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Developer, Service Provider, Church Combine to Create Affordable Housing in Riverside, California

BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC

A multi-layer partnership involving developer Community Development Partners (CDP), co-developer and service provider Mercy House and landowner St. Michael's Episcopal Church resulted in a 50-home affordable apartment community in Riverside, California.

St. Michael's Apartments, divided between residents who experienced chronic homelessness and lower-income families, opened this spring and was fully leased by May 1.

“This is a tri-party partnership with the church that provided land as a long-term ground lease, Mercy House and ourselves,” said Eric Paine, CEO of CDP. “The three of us are deeply committed to the success of each of our contributions and the overall master plan. Anytime you introduce a partner into a complex development, it inevitably adds an extra layer of intricacy, with more people at the table and

Image: Courtesy of Steve Cowell

St. Michael's Apartments opened this spring in Riverside, California. The 50-home low-income housing tax credit-financed property is built on land owned by a church, with a blend of families and people who formerly experienced chronic homelessness.

additional opinions. I'm really proud of how well that was navigated and how that initial investment in the relationship during the pre-development and development phases set a solid foundation for long-term success.”

Included was overcoming neighborhood opposition. But the presence of the church was a difference maker during the development phase and is now a key to resident success at the property financed with low-income housing tax credit (LIHTC) equity raised by tax credit syndicator Hunt Capital Partners.

“I equate sharing a campus on church land to having a great neighbor who will always be there and is genuinely altruistic,” said Paine. “It’s a fascinating concept that helps ensure stability over the long life cycle of the community. The church presence is very calming. It provides another neighbor with a door to knock on and ask for help. They have eyes on the whole property and are part of the feedback loop.”



Image: Courtesy of Escher GuneWardena Architecture
St. Michael's Apartments in Riverside, California, is a 50-home property that is a blend of permanent supportive housing and family homes. It was financed by low-income housing tax credit equity.

An Unusual Mixture of Homes

The two-story, 50-apartment garden-style complex has 29 one-bedroom apartments and 21 two-bedroom apartments, split among those for chronically homeless individuals and for families.

Larry Haynes, CEO of Mercy House, said both parts of the development are important and that both need to be understood. “Individuals on the street with various disabilities, if they’re not connected to some sort of housing, they will die on the streets,” Haynes said. “We either provide housing or they will die.”

Haynes admitted that combining permanent supportive housing and family housing is a newer concept, but he’s optimistic while acknowledging that it can make property management more complex. He said the formerly unhoused benefit from seeing others whose behavior they can emulate, while the families in residence will benefit from the demystification of those who are unhoused.

Mercy House will provide such services as financial literacy, computer training, homebuyer education, resume building, nutrition classes, health information and awareness. Riverside University’s Health System will provide tenants in the state’s No Place Like Home (NPLH) program with service and activities to promote tenant self-sufficiency, independence and community integration, which includes assistance with move-in, goal planning, links to medical care and educational services, eviction prevention and more.

Long, Winding Road to Development

The seeds of St. Michael’s Apartments came when the Rev. Dr. Mary Crist, an Episcopal Diocese priest, was assigned to St. Michael’s in 2012 to serve people living on the streets. Crist was new to working with unhoused people and was open about her inexperience as she got to know them better.

“I assumed they would identify housing as their No. 1 need, but I was wrong,” Crist said. “I invited everyone to a sit-down dinner in the church to talk about the possibilities. Thirty-five people showed up from the

park and the street. When I asked them what we might do, given that we had no money but property and energy, one man said, ‘Sister, if you can just give us a place to drink coffee and talk together without being run off, you will change our lives more than you can imagine.’ I replied, ‘We can do that.’”

As the church empowered a food and clothing ministry run by the people from the street for the people of the street, Crist experimented with housing options, including letting people reside in a variety of places in and around the church building. That prompted neighbors to call for code enforcement, which led to discussions about how to best house people who made up Crist’s “congregation.”

A new bishop arrived in 2018 and was supportive of the use of the empty parking lot at St. Michael’s as the site for an affordable housing apartment complex. Soon Mercy House and CDP were engaged—starting with Mercy House.

“We had such a productive relationship with CDP that it made sense to bring them on board, let the city know this is who we want to work with,” Haynes said.

Then began the long journey of lining up financing, meeting with neighbors and beginning construction, a journey with hurdles.

“The neighbors did not support the St. Michael’s Apartments project,” said Crist. “They characterized it as a shelter, ignoring the fact that from the beginning it was publicized as permanent supportive housing with case management.”

Since the property opened, things changed.

Crist said one neighbor who opposed the property has begun attending church on Thursday mornings before the weekly food give-away. “He has also offered to help coordinate an effort to build a victory garden as a community effort and is willing to recruit neighbors to help us,” Crist said. “His change of heart has been a real gift to our efforts.”

A Deep Partnership

Mercy House has partnered with CDP multiple times in Southern California.

“Mercy House’s expertise is boots on the ground, directly serving residents and creating a deep impact that improves the quality of life,” said Paine. “Having them as a long-term partner for CDP has been a great fit. This is a more profound relationship than us hiring them to be a third-party resident services provider. We’ve embedded them as a partner—they’re the co-developer and co-owner with us, much like many other projects that we’ve collaborated on together. This has been a fruitful and enduring relationship, thriving off our shared alignment.”

For Mercy House’s Haynes, this is a special project.

“Riverside is my hometown, it’s where I grew up and went to school,” Haynes said. He said having a faith organization as the third partner isn’t unique to Mercy House, which has roots in the faith world.

“We’ve partnered with churches throughout Mercy House’s history,” Haynes said. “When you have a worldview that comes out of a sense of universal grace and radical inclusion and acceptance, that’s a different point of view.”

William Teschke, managing director of project management at Hunt Capital Partners, said the church’s involvement makes it a story that isn’t theirs alone, but a narrative that churches nationwide can embrace and enact.

“The involvement of St. Michael’s Episcopal Church in this project is a great example of how churches can step up as stewards for their community, understanding the local needs and delivering tangible solutions through affordable housing,” Teschke said. “We all share a mutual commitment to helping people thrive, which is what led to clear synergy between everyone. It’s not just about buildings, it’s about providing a foundation to nurture the spirit of the community.”

Paine said the combination of Mercy House and the church is valuable.

“We have a service provider in Mercy House who will get to know the residents and keep people stable,” Paine said. “But [Mercy House personnel] have to come and go, whereas the church has a more permanent presence, which is such a special element. While the church isn’t a formal partner in the affordable housing endeavor, they are a partner in terms of their physical presence. Over time, we’ll be able to see the church’s ability to engage with the residents.”

Financing and Future

Financing for St. Michael’s Apartments included tax-exempt bonds and approximately \$9.7 million in equity for federal 4% LIHTCs syndicated through multi-investor fund Hunt Capital Partners Tax Credit Fund 41. PNC Bank provided \$13.9 million in construction financing and Citi Community Capital provided roughly \$5 million in permanent financing. The city of Riverside provided a \$2 million soft loan and the California Department of Housing and Community Development provided another \$4.3 million soft loan through the NPHL program.

“This is a complicated capital stack,” Paine said. “On top of that, bringing the project to fruition was a genuine collaborative effort among stakeholders that required a sincere focus engaging with the community of neighbors, the city of Riverside staff and City Council to better understand their needs.”

There were challenges, particularly as costs increased.

“I think financing is always challenging for affordable housing, which is inherent in a highly regulated industry,” Paine said. “Our construction costs were already trending up as we pulled together the final elements of the project financing. We had a gap and were able to take advantage of the average-income set-aside, which was still fairly new at the time. This allowed our partnership to designate some units up to 80% AMI to drive additional net operating income and help fill the last gap we had.”

Teschke said Hunt’s fund has a lot of participants who receive Community Reinvestment Act (CRA) benefit from investing in Riverside County, but the investors look far beyond that.

“A lot of investors are not just looking at the CRA need and economics of the investment, but also the social benefit,” Teschke said. “Many investors that have a pick, all other things being equal, will choose to invest in the developments that have a social component.”

With St. Michael’s Apartments up and running, the next step is ongoing.

“We want to build community,” Haynes said. “Probably the biggest thing when someone who is unhoused comes in is to confront their loneliness. That spirit of despair can lead someone to revert to self-destructive behaviors and having another human being to help them process their thoughts and emotions matters.” ❖

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