



NOVOGRADAC

Journal of Tax Credits™

Insights On Affordable Housing, Community Development, Historic Preservation, Renewable Energy and Opportunity Zones

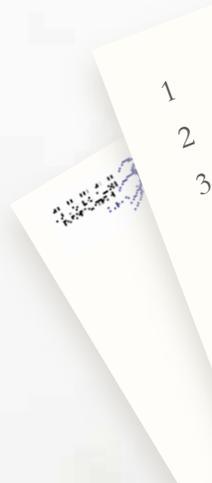
December 2021 ♦ Volume XII ♦ Issue XII

Published by Novogradac

THE WASHINGTON LEGISLATIVE AND REGULATORY UPDATE ISSUE

STORIES INSIDE

- OZ Working Group Broadens Its Priorities
- LIHTC Working Group Continues Efforts to Capitalize on Renewed Interest in Housing
- Legislative Activity in the Closing Days of 2021 Will Direct NMTC Working Group Priorities in 2022
- Is 100% Carbon Free Power by 2035 Achievable?



Senior Housing Development Shifts from PRAC to PBRA Using RAD in San Diego

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

What started in the basement of a San Diego pizza parlor nearly 60 years ago has grown to become a thriving Pentecostal church community with approximately 40 congregations across Southern California.

One component of the vision of the late Bishop George D. McKinney, founder of St. Stephen's Cathedral Church of God in Christ, was affordable housing for seniors. In 1993, the church added the 60-home Lazzell Residence in San Diego to its flock.

Now named St. Stephen's Retirement Center and approaching 30 years in service, the property, which uses U.S. Department of Housing and Urban Development (HUD) subsidies through Section 202 Project Rental Assistance Contracts (PRAC), is getting an upgrade thanks to the Rental Assistance Demonstration (RAD) program.

RAD, a program the federal government introduced in 2012, seeks to deliver a capital infusion through financial means including low-income housing tax credits (LIHTCs) to affordable housing properties to maintain their viability and affordability. The RAD for PRAC program converts properties that use federal assistance into project-based rental assistance (PBRA) developments.

CRP Affordable Housing and Community Development builds affordable housing primarily in California. It is working with the church and its property managers to provide renovations to the site using the RAD for PRAC process. Seth Sterneck, CRP Affordable's managing director, expressed optimism about the possibilities of the RAD for PRAC program.

"It improves the quality of life for tenants—both through physical property improvements and on-site social services," Sterneck said.

Faith in the Process

According to a press release from Hunt Capital Partners, a California-based financier that invested in LIHTC equity to help facilitate the conversion, St. Stephen's was the first development in California and the fifth in the United States to convert from PRAC to PBRA under RAD.

The program allows properties built with HUD Section 202 PRAC subsidies to convert to PBRA developments. This not only allows for the renovation



Image: Courtesy of CRP Affordable Housing and Community Development Construction workers begin to apply new stucco siding at St. Stephen's Retirement Center, an affordable housing development in San Diego. The property, which went into service in 1993, is seeing a fresh round of renovation.

and improvement of existing properties that are overdue for upgrades, but widens the scope and scale of remedies due to greater access to capital. Sterneck said the conversions are advantageous for developers and property owners.



Image: Courtesy of CRP Affordable Housing and Community Development
One of the studio apartments at St. Stephen's Retirement Center, an affordable housing development in San Diego, is stripped during renovations. The upgrades to the property are due for completion in summer 2022.

“The long-term nature of the rental assistance enables developers to private capital and tax credits while protecting residents and being able to address the potential backlog of repairs or capital needs that have been deferred for quite some time,” Sterneck said. “I think it’s a great program for that reason.”

Sterneck said it was his first RAD for PRAC conversion and that navigating that process was the biggest challenge. “The devil’s always in the details,” Sterneck said. “With this, there’s not much of a precedent to follow. ... I don’t think there’s anything I would have done differently, but of course, any time you use a new source of funding, you learn.”

James Crowder, senior director of project management for Hunt Capital, said the conversion allows developers and owners to get more resources to complete a rehabilitation, such as was done to St. Stephen’s.

Divine Intervention

Crowder toured the building before the financial closing in May. “It’s right off Imperial Avenue, which is a long corridor of good activity,” Crowder said. “It’s a historically Black neighborhood and there’s been a lot of growth and redevelopment.”

Sterneck said there was “significant” need for substantial rehabilitation work, with changes driven by residents’ requests. Sterneck and Crowder said the upgrades to the four-story complex include improving

common areas, incorporating mobility features to make it Americans With Disabilities Act-accessible along with new cabinets, refrigerators, lighting, low-flow water features and improved laundry and picnic areas. Crowder said the installation of a new, second elevator was sorely needed.

The development also will provide supportive services to meet the health, social and nutrition needs for its residents. A full-time social services coordinator, an on-site service coordinator, nurse, exercise classes, lunches, traveling market and groceries also will help the seniors at St. Stephen’s.

The 60 homes—a mix of 15 studios, 44 one-bedroom apartments and one apartment for a property manager—will host those earning up to 50% of the area median income. The rehabilitation is scheduled for completion in summer 2022.



Image: Courtesy of CRP Affordable Housing and Community Development
New windows were recently installed at St. Stephen's Retirement Center, an affordable housing development in San Diego.

“Our primary goal was to help deliver a product that St. Stephen’s Retirement Center was proud of—one which centered around enhancing the quality of lives of the current residents,” Sterneck said. “In order to do so, we had to put together a capital stack that enabled us to undertake both the necessary and desired rehabilitation work, and the RAD program was instrumental in doing so.”

Ironcore Construction is the general contractor, Hedenkamp Architecture and Planning is the architect and Hallmark Asset Management will continue to be the management agent.

Sterneck praised the work of two of McKinney’s children, George and Glenn. All of McKinney’s five

sons have worked in churches. He said George and Glenn McKinney formed a special bond with the tenants as the long-term owner of the property.

Crowder said the managers and owners also used the rehabilitation as an opportunity upgrade is energy efficiency, installing a large solar array on top of the four-story complex that will generate 75 kilowatts of power.

Crowder praised the management team. “[St. Stephen’s] has a long, continuous history of operators and owners and we get to come in and be participants in this part of its life,” Crowder said. “It’s a super strong team all-around and a great asset.”

Financing

Financial closing took place in May. Hunt Capital invested \$5.7 million in 4% federal and state LIHTC equity financing for St. Stephen’s Retirement Center through a multi-investor fund.

Crowder said it felt good to rejuvenate the center and extend its life span. “You never want to see your seniors in a product that needs a good lift, not that

this project was detrimental in that, but you want to take care of elders,” Crowder said. “It’s nice to see us give back.”

The cost of the development is \$18.4 million. Additional financing came from tax-exempt volume-cap bonds issued by the California Municipal Finance Authority and funded by Citi Community Capital; and a seller loan.

Sterneck said the LIHTCs were a valuable asset in making the rehabilitation happen.

“Low-income housing tax credits play a vital role in financing the development and preservation of affordable housing,” Sterneck said. ❖

ST. STEPHEN’S COMMUNITY CENTER

FINANCING

- ◆ \$8.6 million tax-exempt volume-cap bonds from the California Municipal Finance Authority, funded by Citi Community Capital
- ◆ \$5.7 million in 4% federal low-income housing tax credit equity financing from Hunt Capital Partners
- ◆ \$5.2 million seller loan from St. Stephen’s Retirement Center Inc.

© Novogradac 2021 - All Rights Reserved.

This article first appeared in the December 2021 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
James R. Kroger, CPA
Diana Letsinger, CPA

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

COPY

SENIOR EDITOR

Brad Stanhope

SENIOR MARKETING MANAGER

Teresa Garcia

COPY EDITOR

Mark O'Meara

SENIOR WRITER

Nick DeCicco

CONTRIBUTING WRITERS

John DeJovine
Karen Destorel
Chad Durden
Brad Elphick
Cindy Hamilton

Joyce Hsia
Thomas Stagg
Nicola Viana
Sun-Ae Woo

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
christianna.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
Shay Hawkins	OPPORTUNITY FUNDS ASSOCIATION
Martin Muoto	SOLA IMPACT

LOW-INCOME HOUSING TAX CREDITS

Jim Campbell	SOMERSET DEVELOPMENT COMPANY LLC
Tom Dixon	BOSTON CAPITAL
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.
Thomas Morton	PILLSBURY WINTHROP SHAW PITTMAN LLP
Rob Wasserman	U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Jen Brewerton	DOMINIUM
Kristin 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.
Merrill Hoopengardner	NATIONAL TRUST COMMUNITY INVESTMENT CORP.
Scott Lindquist	DENTONS
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
Bill MacRostie	MACROSTIE HISTORIC ADVISORS LLC
Claudia Robinson	BANK OF AMERICA
Donna Rodney	MILES & STOCKBRIDGE
John Tess	HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

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

© Novogradac
 2021 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.