



THE HISTORIC TAX CREDIT ISSUE

The Importance of State Historic Tax Credits

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Strong Partnership Helps Deliver LIHTC Development in Massachusetts' 'Gateway to Cape Cod'

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

Whale watchers, beachgoers, artists, golfers and more flock annually to southeastern Massachusetts' Cape Cod, the flexed-arm-shaped peninsula that curls around the bay. The area is renowned as a tourist destination, including its proximity to the islands of Nantucket and Martha's Vineyard.

Sustaining the area's vibrant tourist economy also means housing a workforce to sustain that economy. In the case of Wareham, Massachusetts, the self-ascribed "Gateway to Cape Cod," a city situated minutes from bridges connecting to the cape, new affordable housing is coming. It's the Woodland Cove Apartments, an in-progress, three-phase, 150-apartment development financed with federal and state low-income housing tax credits (LIHTCs) by developer and general contractor Dakota Partners.

In June, Dakota financially closed on the second, 63-apartment phase with Hunt Capital Partners (HCP), marking the eighth collaboration between the two. Muammar Hermanstynne, development director with Dakota Partners, said partnering in Wareham is an opportunity to bolster the region's economy.

"You think about a neighborhood that needs affordable housing," Hermanstynne said. "It needs a person working at bar, working at a restaurant. Making a vacation spot as great as it is, it needs affordable housing. ... Anyone on the cape as far as Martha's Vineyard should benefit from this development."

Richard Coomber, director with HCP and originator on the transaction, had similar thoughts.

"The need for affordable housing in this part of Massachusetts is extraordinary," Coomber said. "Dakota's track record for delivering units on time, on budget or close to it, is remarkable. I think that's what it's all about."

Looking Backward

Hermanstynne said knowing the market helped Dakota understand the challenge it faced with Woodland Cove. Before the new development, the site hosted the former Starlight Motel that served as home for years on end for some members of the Wareham community.

"One of the reasons why we chose this site is, at the time we took it over, it was being used as a motel for families that were very much either working class or below working class," Hermanstynne said.

Hermanstynne said due to the tourist industry, a good portion of Wareham's population is seasonal, arriving in the summertime to enjoy the warm months and departing as fall arrives. Another byproduct of the seasonal crowd is it skews affordability and lowers the area's inventory for affordable housing. Due to Wareham's location approximately 50 miles south of Boston, some property managers charge rents more comparable to the wider metropolitan statistical

area. The combination of factors “kills affordability completely,” Hermanstyne said.

“Because of that, I think you have these landlords who tend to only rent to the rental crowd. That’s the vacation crowd,” Hermanstyne said. “It’s very important to note that affordable housing development, especially in neighborhoods like Wareham, is not an easy thing to do. It’s very challenging. We try to meet these challenges head on as best we can.”

Looking Forward

Phase two includes a four-story building with 36 homes and a three-story structure with 27 more. All phases will share a 3,600-square-foot community building. Woodland Cove will host those earning up to 30%, 60% and 80% of the area median income. The development will feature one, two- and three-bedroom apartments. Eight of the apartments will be covered as part of a Housing Assistance Payments contract and one more will receive a Massachusetts Rental Voucher Program voucher. Amenities include balconies, patios, kitchen appliances, a central laundry facility and 97 parking spaces.

Hermanstyne said Dakota prizes personality in its properties, trying to give them the feel of market-rate housing’s amenities.

“I call it almost the irony of what we do,” Hermanstyne said “We treat our affordable products almost like market-rate product and develop them like market-rate product.”

The property will use the Passive House structural design concept to maximize energy efficiency and reduce greenhouse gas emissions by combining a tight building envelope with a heat recovery ventilation system to capture and retain warmth. The design will trap heat inside the building during cold New England winters while similarly keeping it cool during the summer. Dakota Partners anticipates the choice will lead to lower utility costs for its residents.

In addition to Dakota Partners and HCP, Ed Wojcik Architect Ltd. is the architect and Maloney Properties will manage the site. The final stage is expected to be 24 market-rate apartments, Coomber said. Hermanstyne said completion of all three phases, which includes six buildings on 7.9 acres, is expected by the end of 2023.

Financing

The total cost for the Woodland Cove Apartments is \$53 million; the second phase is \$23.3 million.

HCP closed in July on \$8.9 million in federal LIHTC equity as well as \$2.1 million in state LIHTC equity for the second phase of Woodland Cove. HCP syndicated the federal LIHTCs through its proprietary fund, Hunt Capital Partners Tax Credit Fund 45, with a proprietary investor.

Coomber said an investor in their fund had a Community Reinvestment Act need in the region, which helped spark the transaction. A fresh slate of Massachusetts 9% LIHTCs was awarded for the second phase before the first was completed. “That will tell you how much confidence the state agency has in the team,” Coomber said.

Coomber said the relationship between Dakota Partners and HCP, which began in 2015, also helped finalize the transaction, including anticipating a spike in costs due to issues related to the COVID-19 pandemic.

“I’ve got to give Dakota praise,” Coomber said. “They were starting construction on phase two before we had our closing. That shows commitment on their part, confidence in us that they would do that risk taking. To hold their pricing on some of their subcontracts, they had to take that calculated risk.”

The capital stack also includes a \$17.3 million construction loan from EastWest Bank, a \$7.8 million permanent loan from the Massachusetts Housing Finance Agency (MassHousing), a \$1 million Affordable Housing Trust Fund loan, \$999,000

HOME loan, \$1 million HSF soft loan and \$700,000 Workforce Housing soft loan. Additionally, there was a state tax credit loan for \$2.1 million in exchange for \$2.6 million in Massachusetts State Tax Credits. William Teschke, managing director of project management for HCP, praised MassHousing for delivering four soft loans in addition to federal and state LIHTCs. “Getting to the finish line and financial closing is rewarding on a project like that,” Teschke said.

Spreading Affordability Out

Hermanstyne expressed hope that Woodland Cove will help live up to one of the U.S. Department of Housing and Urban Development’s goals, which is to decentralize poverty. One way to do that, he said, is to develop affordable housing in a more dispersed fashion geographically.

“You get better schools, you get better outcomes, you get a better environment away from collocating poverty on top of poverty in locations, which cities tend to do, unfortunately,” Hermanstyne said.

“Spreading it out is key and one thing I see, across the board, a lot of developers paying more attention to is we have a large amount of poverty that is not located in cities, but in more affluent neighborhoods and suburbs and rural areas. There are needs there to create true affordability, to create clean, safe affordable housing.” ❖

WOODLAND COVE II

FINANCING

- ◆ \$17.3 million construction loan from EastWest Bank
- ◆ \$8.9 million in federal low-income housing tax credit (LIHTC) equity from Hunt Capital Partners (HCP)
- ◆ \$7.8 million permanent loan from the Massachusetts Housing Finance Agency
- ◆ \$2.1 million in state LIHTC loan from HCP
- ◆ \$1 million Affordable Housing Trust Fund loan
- ◆ \$1 million HSF soft loan
- ◆ \$999,000 HOME loan
- ◆ \$700,000 Workforce Housing soft loan

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