



NOVOGRADAC

Journal of Tax Credits™

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

October 2021 • Volume XII • Issue X

Published by Novogradac

EXCERPT FROM THE 4 % LIHTC/BOND ISSUE



TAX-EXEMPT
BONDS

STORIES INSIDE

7 Steps to Improve Odds of Accessing Tax-Exempt Bonds for Affordable Rental Housing

4% LIHTC Equity Market in Flux Due to COVID Complications

Competitive Bond Landscape Leads to New Challenges with 50% Test for Private Activity Bond and 4% LIHTC Transactions

Allocating Agencies are Feeling the Pressure of Increasing Competition for PABs

Sendero Verde Uses ITCs, LIHTCs to Go Green in the Big Apple

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

Ambitions of green, sustainable affordable housing construction are on the rise. As one of the largest cities in the world, New York City is a constant place to look for such developments.

If the ideas can make it there, they can make it anywhere.

One new development being constructed, in part, using a bevy of tax credits including solar investment tax credits (ITCs), low-income housing tax credits (LIHTCs) and New York state brownfield tax credits (BTCs) is Sendero Verde, a 709-home development nearly the size of a single city block in East Harlem. Jonathan Rose Companies, L+M Development Partners and Acacia Network are developing the site, which is a short distance from the northeast corner of Central Park.

In addition to solar panels on the roofs of the development's three structures, Sendero Verde—Spanish for “green path”—is slated to be one of the largest Passive House structures in the world. Passive House is a structural design concept seeking to maximize energy efficiency and reduce greenhouse gases by combining a tight building envelope with a heat recovery ventilation system to capture and retain warmth.

“One big goal was to demonstrate Passive House as a model for affordable housing,” said Jessica Yoon, director at L+M, which primarily develops and builds affordable housing in New York City. “It’s becoming more and more common, but at the time the project was conceived, it was pushing innovation forward a bit in terms of doing high-rise affordable housing.”

The Passive House piece is just one part of a massive, nearly \$550 million complex with a 34-story tower along with 15- and 10-story buildings, a senior and youth community center operated by Union Settlement Association, a charter school for Harlem Children’s Zone, a Community Art center, 4,700 square feet of retail space and more.

Forging a Green Path

Sabrina Barker, director of development for Jonathan Rose Companies, said a Passive House component has been part of the design from the outset. Passive House buildings combine low-tech forms of energy efficiency—such as increased insulation and window orientation—with mechanical ventilation and heat recovery to regulate the building’s temperature. The structure achieves a smaller energy footprint by tightly insulating the building envelope and trapping heat inside the building during the winter months, while similarly ensuring that mechanically cooled and dehumidified air remains inside the building during the summer.

“We’re basically creating a thermos and punching a hole at the top of the building for mechanical ventilation,” said Barker. “There’s always fresh air coming into the building that’s always filtered. There’s MERV 13 filters on the energy recovery units, so there’s better air quality inside the building.” MERV stands for minimum efficiency reporting values, a measurement of a filter’s ability to trap particles and contaminants. The American Society of Heating

and Air-Conditioning Engineers epidemic task force recommends that filters and air cleaners achieve MERV 13 or better levels of performance to reduce airborne infectious aerosol exposure.

In order to retain heat, Sendero Verde was built with triple-glazed windows, making the property environmentally conscious as well as limiting the many sounds of New York City.

“On Park Avenue, you’re near trains that pass every day and you don’t hear them,” said Barker. “It’s very quiet inside.”

The developers anticipate significant savings on heating and cooling as a result of the Passive House plan, Yoon said. The design of Sendero Verde positioned the buildings to allow sunlight from the south and east to illuminate the 18,000-square-foot courtyard between the buildings.

Yoon said developers will certify Sendero Verde through Passive House International in Darmstadt, Germany.

Additionally, atop each of the three structures is a solar array. This will feed into the common energy meters in both buildings. Barker said developers will pair the Passive House technology with Enterprise Green Communities Criteria, which focuses on other elements such as water usage and bicycle storage.

“Pair those certifications together and you end up with a very efficient and sustainable building,” said Barker.

There’s a Rose in Spanish Harlem

The site, which previously hosted community gardens and a baseball field, was once owned by the city. After a 2015 request for proposals by the city to create more affordable housing in the Big Apple, L+M and Jonathan Rose Companies submitted a request for proposal in 2016 and were awarded the development in February 2017.

Acacia Network, a Hispanic-led nonprofit developer and service provider with more than six decades of experience in East Harlem—also known as “El Barrio” and “Spanish Harlem”—was committed to partnering with for-profit developers to address the great need for affordable housing in this historically undeserved community, while preserving its rich history, vibrant culture and the contributions of local pioneers, said Raul Russi, founder, president and chief executive officer of Acacia Network.

“We have been ready to develop this site and be part of the future of East Harlem,” said Russi.

Russi said that the courtyard and the area allocated to the local gardens are his favorite aspects of the design. To him, what matters most though is Acacia’s 15% stake in Sendero Verde, as it is a stepping stone toward Acacia becoming a Puerto Rican-led affordable housing developer comparable in size to L+M and Rose.

Lymaris Albors, executive vice president and chief operating officer of Acacia Network, said Sendero Verde is an example of what can be accomplished when for-profit developers embrace and acknowledge the expertise and historical knowledge that a nonprofit developer brings to the table.

“We didn’t just bring the nonprofit status,” Albors said. “Acacia really has a seat at the table. We made decisions a lot with the other two developers, from design to who is able to live there.”

Let’s Hear it for New York

In addition to housing, Sendero Verde will provide a bevy of resources for the East Harlem community. Along with the charter school and community center, the East Harlem Council for Community Improvement will operate an art space on the site as part of the 85,000 square feet of community space.

Sendero Verde will provide housing for those who have experienced homelessness up to those earning

90% of the area median income. The development also received a grant as part of New York City's 15/15 Supportive Housing Initiative program, which provides rent vouchers to tenants who have experienced homelessness. All of the formerly homeless units in the building will receive rental assistance through the 15/15 program.

Homelessness prevention is one of our biggest services. We're there as their safety net to make sure they get what they need.

-Lorraine Coleman, senior vice president of real estate management and tenant services for Acacia

The development features 2,700 square feet for PROMESA Inc., an Acacia Network affiliate, to provide social services to those who have been homeless. Lorraine Coleman, senior vice president of real estate management and tenant services for Acacia, said the development will have 89 homes to support those who have been homeless.

Coleman said the program allows for a staff program director, case manager and family specialist. The site will also have an occupational therapists, art and dance classes, housing specialists and 24-hour security. She said the goal of the 15/15 services is to meet individuals and households where they are and get them what they need to stay stable.

"Homelessness prevention is one of our biggest services," she said. "We're there as their safety net to make sure they get what they need."

Financing

The property is being built with a combination of equity from ITCs, 4% federal LIHTCs and BTCs via Goldman Sachs and Bank of America.

Financing for Phase 1, which included 361 apartments as well as the Union Settlement community center and the first part of the Harlem Children Zone school and courtyard, was \$223.5 million. Bank of America

invested more than \$85 million, including \$71 million in LIHTC equity, \$14.2 million in BTCs and \$270,000 in ITCs.

That transaction closed in 2019. Kim McLaughlin, the senior vice president of commercial real estate banking for Bank of America, described the development as typical in terms of structure, but atypical in terms of its scale in a single transaction.

"There's a growing sense that what makes neighborhoods work is more than just housing," she said. "I'm hopeful that it's somewhat forward-looking, if future developments use projects like Sendero Verde as a model to marry housing, school, community space and bringing people together to accomplish several needs in a single space"

The financing for Phase 2 was \$222.5 million. Goldman Sachs invested \$73 million in equity across all three credits, with \$67 million in LIHTCs, \$6 million in BTC equity and nearly \$100,000 in ITC equity. The second phase includes 348 homes and the school space, expansion for Harlem Children Zone, the community art space and ground-floor retail along Madison Avenue.

Matt Meeker, a partner in Novogradac's Dover, Ohio, office, provided tax structuring consulting and financial modeling services related to the financing of Phase 2.

"This project is another great example of the results of financial creativity and the efficient use of the various tax credit programs providing for the much needed subsidy to make this project a reality," said Meeker.

Yarojin Robinson, vice president within the Urban Investment Group at Goldman Sachs-Asset Management, said that handling the three types of credits was "certainly a challenge," but as a Harlem resident for more than 15 years, he and the firm were excited about what Sendero Verde brings to the community.

“[Harlem] is near and dear to us as a business,” said Robinson. “It’s, dollar for dollar, probably the neighborhood in New York where we’ve done the most investing.”

Jonathan Rose Companies will manage the property. The first phase—the two mid-rise buildings—is scheduled for completion in 2022, with the second expected in 2024.

Financing also included construction and permanent loans from New York City Housing Development Corporation and New York City Housing Department of Housing Preservation and Development, as well as Resolution A funding from the New York City Council, Multifamily Program and Building of Excellence Program awards from New York State Energy Research and Development Authority, and developer

equity. Bank of America and Citibank provided letters of credit. ♦

Novogradac Services Contact

Matt Meeker, CPA

Matt.Meeker@novoco.com

330.365.5366

SENDERO VERDE

FINANCING

- ♦ \$71 million in low-income housing tax credit (LIHTC) equity from Bank of America
- ♦ \$67 million in LIHTC equity from Goldman Sachs
- ♦ \$14.2 million in New York State brownfield tax credits (BTCs) from Bank of America
- ♦ \$6 million in BTC equity from Goldman Sachs
- ♦ \$270,000 in solar investment tax credits (ITCs) from Bank of America
- ♦ Less than \$100,000 in ITC equity from Goldman Sachs

© Novogradac 2021 - All Rights Reserved.

This article first appeared in the October 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

Jim Campbell
Melissa Chung
Cindy Hamilton
Jim Kroger

Rich Larsen
Stephanie Naquin
Michael K. Wong

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	APPGATE & 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
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.
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.