Novogradac
Journal of Tax Credits
News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

July 2019 • Volume X • Issue VII

Published by Novogradac & Company LLP

Nonprofit Developer Finds BRIDGE to Match OZs, LIHTCs

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To skeptics who say the federal opportunity zones (OZ) incentive doesn't pair well with affordable housing, Cynthia Parker has a counterpoint.

"We probably have 20 opportunity zone projects with more than $1 billion in development costs," said Parker, the president and CEO of BRIDGE Housing, a West Coast-focused nonprofit developer, owner and manager of affordable housing. "[The OZ-financed developments are all] in some stages of development. We're also looking at projects that are eligible for resyndication."

Parker sees the federal incentive, which became part of the Internal Revenue Code with the passage of tax reform legislation at the end of 2017, as a potential game-changer for affordable housing.

"I think it can be quite significant," Parker said. "Based on our analysis, we've looked at hundreds of millions of dollars [in possible investment]."

How BRIDGE Does It

BRIDGE is an early adopter in pairing the OZ incentive with affordable housing. While many others have looked into using funding from qualified opportunity funds (QOFs) to fill gaps for properties largely financed by low-income housing tax credits (LIHTCs), most such developments have used the developer's capital gains, invested in a QOF, to help finance properties that were already started in an OZ.

Jeff Nishita, CPA, a partner in Novogradac's San Francisco office, said what BRIDGE is doing isn't simple.

"It's complicated, because LIHTC investors usually don't have capital gains to invest and the typical OZ investor is limited in their use of the tax credit due to passive activity rules," Nishita said. "In order to pair LIHTC with the OZ incentive, you need an investor or group of investors who can create capital gains when needed, due to the long pay-in schedule of LIHTC equity. To the extent you are going to try to find a nontraditional investor, you will have to provide extensive education about LIHTC properties."

continued on page 2

continued from page 1

BRIDGE is using its own QOF, but financing comes from outside the organization. Parker said the investment comes largely from people who have an existing relationship with BRIDGE, which has built more than 17,000 homes since 1983.

"I think people have found us and some already knew about it," Parker said. "We had people we'd worked within the past who saw that we had a project in an opportunity zone and they wanted to help."

First Site: Jordan Downs

The first property that will use significant OZ investment is Jordan Downs, a 1950s-era public housing development in the Watts neighborhood of Los Angeles.

The renovation of Jordan Downs will include a long-term effort to rebuild 700 apartments and create another 650 apartments, along with community facilities, retail, parks, open space and neighborhood programs and services. The development is being done over multiple phases, with nearly all including both LIHTCs and OZ financing.

Image: Courtesy of BRIDGE Housing
Jordan Downs in Los Angeles will involve the rebuilding of 700 apartments and the creation of another 650. The funding will come from low-income housing tax credit equity and opportunity zones investments.

"We have one phase with no LIHTCs in it, but all the current phases have LIHTCs," Parker said.

Jordan Downs is being renovated in partnership with The Michaels Organization. Phase 1, expected to be completed this year, is called Cedar Grove at Jordan Downs. It will consist of 115 affordable apartments in 12 buildings, with amenities that include a community room, in-unit laundry, a community park with barbecues and on-site management.

The second phase will consist of 80 affordable apartments.

Parker said the reason for using OZ funding in affordable housing is simple: It provides needed financing.
"What we are doing is looking at ways to speed up the process and reduce costs," Parker said. "When opportunity zones came along, we were immediately interested. We wanted to see how the program works

continued on page 3

continued from page 2

and what the regulations were. We continued to persevere since then."

Finding the Right Partners

Parker said it was crucial to identify potential investors, while acknowledging that it took some work and that BRIDGE's long-term relationships helped.

"We stumbled around, trying to find the right scenarios and given the nature of the different taxpayers, we looked at institutional investors and then we looked at high-net-worth, mission-driven individuals," Parker said. "That's our sweet spot. We found mission-driven investors who wanted something meaningful with their opportunity zones investments."

Parker said that a key to combining LIHTCs and OZ funding is to acknowledge that the incentives are dramatically different and have different benefits for the investors.

"I think you have to understand that [the OZ incentive] is nothing like the LIHTC," Parker said. "You have to make the opportunity zones investor a special limited partner, to have some modest operating partner participation. With an opportunity zones investment, for the most part, the investment has to have some value at the end. You have to be looking at refinancing as a capital event to get the investor out. The LIHTC developer has to understand that."

Parker said that BRIDGE has received cooperation from LIHTC investors.

"Having like-minded investors is important," Parker said. "Everybody in the LIHTC space is used to [Community Reinvestment Act]-motivated financial institutions investing. That is important, but not to the opportunity zones investor. [The OZ investor has] to have some mission."

That means that not everyone is a good candidate.

"It narrows the field of LIHTC investors, but the large ones have been looking at it already," Parker said. "There's a good general level of knowledge."

Nishita acknowledged that finding the right blend of investors is crucial.

"We've heard there are some LIHTC syndicators who are trying to put together funds that include both LIHTC and OZ funds, but the new regulations have caused issues with some of the perceived benefits to LIHTC investors," Nishita said. "It seems likely that it will have to be a combination of traditional investors and new investors."

The benefit is apparent, which is why BRIDGE is already looking ahead.

"Development will happen faster, but it will also allow us to combine phases that would have been separate," Parker said. "It helps us reduce costs and bring a subsidy to reduce the basis."

Ultimately, the final beneficiaries of the OZ investment being partnered with LIHTCs are residents.

"I think the benefit is going to be some significant capability to help an underserved community [at Jordan Downs] that's been left behind for 70 or 80 years," Parker said. "It's fortunate that the government is happy with opportunity zones." ❖

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continued on page 4

continued from page 3

This article first appeared in the July 2019 issue of the Novogradac Journal of Tax Credits.

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ISSN 2152-646X