

Novogradac

# Journal of Tax Credit Housing

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## Historic Property Renovated, Affordable Housing Preserved in Washington, D.C.

By Alex Ruiz, Managing Editor, Novogradac & Company LLP

The National Housing Trust-Enterprise Preservation Corporation (NHT-Enterprise), a joint effort of the National Housing Trust and Enterprise Community Partners Inc. and Hampstead Development Group earlier this year began renovating R Street Apartments. R Street Apartments, an essential source of affordable housing in Washington, D.C.'s Logan Circle neighborhood, consists of 124 affordable apartments in five historic buildings located in the 1400 Block of R Street, NW.

The buildings were constructed in 1912 by real estate developer Harry Wardman and are listed in the National Register of Historic Places. The R Street Apartments last received renovations in the mid-1980s. NHT-Enterprise and Hampstead developed plans to preserve the property's affordability for 40 years while making nearly \$8 million in improvements to the property. The units will receive significant improvements to remain decent and safe affordable housing for current and future residents.

### Meeting Residents' Needs

Washington, D.C.'s Tenant Opportunity Act (TOPA) gives renters the right of first refusal when an owner wants to sell or convert rental property to new uses, so NHT-Enterprise took special steps to gain residents' approval for the redevelopment plan. The R Street Tenants Association retained Eric Rome, an attorney with Eisen & Rome PC, to help them navigate the process and understand all their options. After working with NHT-Enterprise and Hampstead Development Group, the R Street Tenants Association endorsed the redevelopment plans and will be increasing resident programs and services.

Rome said he typically tries to 'shop the deal around' to



Photo: Courtesy of Marvin T. Jones & Associates

**The R Street Apartments consists of 124 affordable apartments in five buildings located at 1416-1440 R Street, N.W.**

find the best possible developer for his clients. His experience with the R Street Apartments was not typical, however. "In this case, the National Housing Trust had already made such a complete offer and put together such a complete package that I was able to advise the tenants, 'You're not going to do better than this!'" Rome said.

Rob Richardson, senior project manager NHT-Enterprise, was part of the team that worked with the tenants' association. "Everything that we planned — to keep the property affordable, do great renovation, and provide bigger

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and better community services — were the same, if not more, than the residents would have wanted to do,” he said.

Richardson even took two of the officers from the tenants association to the grand opening of another property that NHT-Enterprise had just completed. “A lot of this was unknown to them,” he said. “It put their minds at ease to see a physical end-project and hear from members of that community.”

Rome described the process as positive from day one and said the tenants were pleased with the final agreement. “There was unanimity,” he said. “Everybody came around to the point of view that it was just a great deal.”

Jeff Jallo, a principal with Hampstead Development Group, said the residents’ primary concerns were that the plans would allow for increased tenant programs and services as well as space that would provide opportunities for residents to gather.

As part of the redevelopment plan, the tenants association receives a specified amount of funding from the property’s cash flow that it is allowed to use for community services of its choice, as long as the services benefit the residents of the property in general. Richardson says the tenants association expressed interest in providing services such as aerobics classes, cooking classes and daycare. The tenants have discretion over the types of services, as well as the service providers.

## Making Physical Improvements to the Property

Jallo said another priority for the residents, as well as NHT and Hampstead, was the need for significant physical improvements to the property. The redevelopment plans include adding handicap accessibility, replacing the roof, and updating the efficiency of the heating and air conditioning systems.

The renovations will incorporate “green” features that will make the apartments more energy efficient and

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Photo: Courtesy of Marvin T. Jones & Associates

The R Street Apartments buildings were built in 1912 by Harry Wardman and are listed in the National Register of Historic Places.

healthier for residents. Financing for these improvements is provided in part from a grant from Enterprise's Green Communities Initiative, a program that encourages affordable housing providers to build efficient, sustainable and healthy homes for low-income families. Environmentally friendly improvements include water conserving appliances, water barrels to collect and reuse rain water for landscaping, Energy Star appliances, energy efficient lighting, solar reflective roofing material and green certified carpeting.

Because they were financed in part by the Green Communities funding, many of the improvements made to the property were held to higher standards than they might have been otherwise. Jallo said that the result was a win for all sides. "We believe it was worth the additional cost because the residents benefit from a much more efficient HVAC system, and it is also much more beneficial to us as owners," he said.

Other primary sources of funding for the acquisition and renovation of the buildings include a \$6.5 million loan

provided by D.C. Department of Housing and Community Development, \$12.3 million in tax-exempt bonds provided by the D.C. Housing Finance Agency, and \$7.4 million in historic and low-income housing tax credit (LIHTC) equity. Nixon Peabody served as deal attorney for the borrower. MMA Financial purchased the bonds and the LIHTCs, as well as the historic tax credits.

"It's a very strong market and an excellent part of town, so the location made it attractive to us," said Catherine Talbot, managing director in the San Francisco office of MMA Financial.

"Combining historic credits with Section 8 and HUD debt made it very challenging and time consuming to close, but in the end it was worth it," she said.

## Finding Creative Solutions

Structuring the transaction was complicated in part because the R Street Apartments had an existing Section 8 Moderate Rehabilitation contract in place and the In-

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ternal Revenue Code (IRC) prohibits the use of LIHTCs with Section 8 mod rehab properties. Jallo said that to overcome this obstacle, Hampstead and NHT-Enterprise devised a plan so that the mod-rehab contract will be kept in place temporarily. During the construction phase, the opt-out process would be initiated so that the mod-rehab contract will be terminated before the rehabilitated project is placed in service. Meanwhile, the redevelopment team will work with tenants to replace the mod-rehab subsidy with tenant vouchers.

"Usually NHT tries to keep the Section 8 contract in place but this case was an exception where terminating the contract was actually the best way to preserve the affordability," Richardson said. He added that because of the location of the property and the scarcity of other affordable housing nearby, NHT-Enterprise doesn't expect the change to result in very much tenant turnover.

"We don't expect many people to leave when they get their vouchers," Richardson said.

## Above All, Preserving Affordability

Richardson said the ability to preserve affordable housing was particularly significant in this neighborhood. "This is a tremendous neighborhood," Richardson said. "This neighborhood is probably the best neighborhood where we've been able to preserve housing, or at least one of the best."

R Street Apartments is located in a rapidly changing D.C. neighborhood where condominium conversions have become commonplace.

"Saving housing like R Street Apartments is the essential first step in solving Washington, D.C.'s housing dilemma and is important for maintaining a mixed-income neighborhood," Michael Bodaken, president of the National Housing Trust, said in April in a statement about the transaction. "These apartments are located close to public transportation, restaurants and shopping, and there's a lot of demand to live in the neighborhood. They could easily have been converted to condominiums or higher priced rentals. By safeguarding R Street Apartments, we

are improving the well-being of the families and seniors who call it home and are reinvesting in and strengthening the neighborhood."

Hampstead is scheduled to complete construction on the property at the end of this year. The rehabilitated properties will provide six affordable apartments targeted to residents at 30 percent of area median income (AMI) or less; 24 units will be targeted to residents at 50 percent of AMI; and 94 units will be targeted to residents at 60 percent of AMI. Six new market rate units will be added for a total of 130 apartments. ❖

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### R Street Apartments

#### In Summary

#### Financing

- \$7.4 million in historic tax credit and LIHTC equity
- \$12.3 million in tax-exempt bonds provided by the D.C. Housing Finance Agency
- \$6.5 million loan from the D.C. Department of Housing and Community Development
- \$50,000 grant from Enterprise's Green Communities Initiative

#### About the Property

- The R Street Apartments will consist of a total of 130 apartments: 6 units targeted to residents at 30 percent of area median income (AMI) or less; 24 units targeted to residents at 50 percent of AMI; and 94 units targeted to residents at 60 percent of AMI. Six new market rate units will be added.
- The buildings were constructed in 1912 and are listed on the National Register of Historic Places.
- Average median sales price for a home in the neighborhood in 2006 exceeded \$570,000

#### Improvements

- The apartments will be made energy efficient, sustainable and healthier for residents.
- Renovation will include an expanded and renovated community center, computer lab and free high-speed wireless internet service.

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