



# The Opportunity Zones Issue



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# Atlanta Transaction Shows Value of Using NMTCs to Increase Homeownership

BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC

Donna Smith still hears it.

“All too often, we run across people who say the new markets tax credit [NMTC] can’t be used for for-sale housing or that it’s very difficult or too risky to use,” said Donna Smith, the executive vice president of Smith NMTC Associates LLC (Smith NMTC), considered the leading national consultant on such transactions. “It’s gotten better, but it’s still not great. You run across literature or statements people make ... they say you can’t use any tax credits for for-sale housing.”

They’re wrong. You can.

As an example, a partnership between the Atlanta Neighborhood Development Partnership (ANDP) and

Westside Future Fund (WFF) will build or rehabilitate 45 affordable homes for sale to low- to moderate-income families in Atlanta, due in part to a \$10.5 million NMTC allocation from Enterprise Community Partners. This follows ANDP’s 43-home development funded with a \$10 million NMTC allocation from Reinvestment Fund Inc.

The use of NMTCs for single-family, for-sale housing is an important niche.

“We like it and think it’s important and beneficial,” said Bill Carson, vice president at U.S. Bancorp Community Development Corporation (USBCDC), the NMTC investor in both Atlanta transactions. “I can’t think of many other NMTC uses that can impact families so quickly and directly. ... Homeownership is a direct way of creating generational wealth for families.”

*Image: Courtesy of Atlanta Neighborhood Development Partnership Inc. Atlanta Neighborhood Development Partnership and the Westside Future Fund are combining to build 45 single-family homes in Atlanta, using a \$10.5 million allocation of new markets tax credits from Enterprise Community Partners.*

Using the NMTC to build single-family, for-sale housing fills an important gap.

“Creating housing that is affordable in the United States in almost all markets requires some sort of subsidy,” said John O’Callaghan, president and CEO of ANDP. “Currently, the subsidy for homeownership is overwhelmingly targeted through tax write-offs for people who itemize, which is largely upper-middle-income and above.”

The NMTC is one option to address that disparity, albeit fairly rare.

### Unusual Use of NMTCs

According to the CDFI Fund, there had been \$502 million in NMTC financing for construction of single-family housing and \$82 million for rehabilitation of single-family homes through fiscal year 2019. The combined total of \$590 million was less than 1% of the \$66 billion in allocation made over the first 17 rounds of the NMTC, for practical reasons.

Robert Cox, loan officer at Reinvestment Fund, said one of the biggest hurdles is the NMTC structure separates the debt from the real estate collateral.

“You’re making a business loan, the purpose of which is to deploy into real estate. It’s not a real estate loan,” Cox said. “Because of that, there needs to be a high level of trust in the competency and integrity of the ultimate developer of real estate, that they’re going to make payments from cash proceeds from the sale of real estate that was not collateral for the loan.”

Among other issues is that qualified equity investments (QEIs) of NMTC subsidies must be made in qualified active low-income community businesses (QALICBs).

“One of biggest challenges is the active portion of the QALICB status,” said Chimeka Gladney, managing director of structured finance at Enterprise Community Partners. “That translates easily with commercial property and the need to be operating for seven years. But for homeownership, if you’re

financing a QALICB that’s in the business of building homes, that QALICB needs to build at least one home each year.”

It requires upfront work.

“One thing that is really important is you have to be able to acquire lots or of projects in the time frame,” said Christina Szczepanski, managing director, Southeast, for Reinvestment Fund. “Is there land available in target areas? Would the developer be able in that 12-month to 18-month period to spend the full [qualified low-income community investment] QLICI proceeds on the project to build and/or acquire and rehabilitation those homes?”

### Mix of Partners

ANDP starting started building single-family homes for sale in the wake of the Great Recession, gradually ramping up production with different tools, including Capital Magnet Fund (CMF) resources. ANDP raised \$17 million from donors and impact investors to build relationships with small, private-sector builders, mostly Black-owned businesses that had difficulty with access to capital.

“There was a perception—and I thought it was reality—that the [NMTC] statute and the CDFI Fund were really focused on job creation, so homeownership wasn’t possible,” said O’Callaghan. “The truth is this is eligible and equally as important to be a funding source as other main uses of new markets tax credits.”

This is ANDP’s fourth transaction investment using NMTCs to build for-sale housing, after partnering with the Housing Partnership Network (HPN) and the Reinvestment Fund. All told, ANDP has built more than 750 homes since 2008, along with creating nearly 12,000 homes through development and financing.

WFF’s mission is to advance the holistic revitalization of Historic Westside neighborhoods in Atlanta through self-development and working with partners. Rachel Carey, WFF’s chief real estate officer, said having stable homes and families is a vital element of that mission, so in 2021, the nonprofit launched a

single-family homeownership program through its Homes on the Westside initiative. The goal is to deliver 225 single-family homes by the end of 2025—a goal aided by the NMTC partnership with ANDP.

“We were really eager to do it,” Carey said. “We’d been anticipating doing some sort of new markets tax credit transaction for several years. We knew we had to have an experienced partner like ANDP and we were thrilled when they approached us about joining in the use of an NMTC award.”

When ANDP approached Enterprise for an allocation, Gladney said her organization decided to jump in, despite a lack of history.

“ANDP has done at least two prior homeownership deals, so that was one of the things that got us very comfortable with their understanding of how to make the single-family product,” said Gladney. “It was very comforting to us to have an experienced sponsor as we figure out how to do the first deal, then take the idea and finance similar projects in other parts of the country.”

### The Atlanta Transaction

ANDP will create the 45 homes in Atlanta—25 in southwest Atlanta and 20 homes in the west side—in a partnership with WFF. Prices are expected to be \$185,000 to \$245,000 and homes are for families earning up to 120% of the AMI, with 20% of the homes set aside for families earning at or below 80% of the AMI. Construction has been going for about a year and is set to be completed in 2023.

WFF works with a separate nonprofit entity that provides free financial coaching and credit counseling to potential homebuyers.

“We only sell to people who live, work or learn in the community,” Carey said. “We’re providing homes to people who were historically locked out of the opportunity to build household wealth.”

The benefits of homeownership are substantial. A 2019 study of ANDP homebuyers showed that

families gained an average of \$89,000 in home equity during the first five years of homeownership through a payment of principal, down payment assistance awards, sweat equity and market appreciation. A 2021 update of the study raised that figure to \$135,401.

### Financing

Enterprise Community Partners allocated \$10.5 million in NMTCs to the development, which resulted in \$2.9 million in equity from USBCDC, the primary institutional investor in this type of NMTC transaction.

“Because this isn’t often done in the industry, we had to find an investor that’s interested,” said Gladney. “We talked to a number of investors, some of whom really tried to get comfortable. ... It’s still a learning process for folks active in the industry. It will be great when more of these deals are done and more folks on the lending and equity side get comfortable.”

The project will create about 130 predevelopment and construction jobs that will pay above the living wage for the area and provide benefits. At least 30% of construction contracts will go to construction firms led by people of color.

### Goal: Increasing NMTCs for Housing

Carson said the use of NMTCs for for-sale housing is increasing.

“You start to get CDEs like Enterprise and Reinvestment Fund that are so respected and have a great track record in communities and that will give other CDEs a view that this is a benefit to their clients,” Carson said.

Smith NMTC is a key player in using NMTCs to increase homeownership, having done nearly \$500 million in homeownership transactions. Those deals created more than 4,200 for-sale homes and Smith NMTC has worked with 20 CDEs on such transactions.

Donna Smith said part of the battle is convincing participants of the viability of using NMTCs in this way.

“Yes, this model is a little different than the typical deals they’re used to doing,” Smith said. “But it’s not that different. You still have a leverage lender and an investor. There are some little nuances to it, but really, once you delve into it, it’s just a slightly different model.”

She’s not alone in thinking this can expand.

“As more CDEs become comfortable with this model, more opportunities become available for our nonprofit single-family developers,” said Katie Rodriguez, president of Housing Partnership Fund, the CDFI

affiliated with HPN. “I believe this momentum can continue to build and be a more widely used strategy for CDEs interested in supporting affordable homeownership.” ❖

## ANDP-HFF HOMEOWNERSHIP

### FINANCING

- ◆ \$3.8 million loan from Westside Future Fund (WFF) Impact Fund
- ◆ \$3.8 million Atlanta Neighborhood Development Partnership ANDP equity
- ◆ \$2.9 million NMTC equity from U.S. Bank Community Development Corporation

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