



The Low-Income Housing Tax Credit and Tax-Exempt Bonds Issue

Developers, States Finding Creative Ways to Stretch Private Activity Bond Use for Housing

American Rescue Plan Act funds and more are helping close gaps in 4% LIHTC developments. Page 11

New Possibilities for LIHTC 4% Tax-Exempt Bond Transactions

Various tools and structures can help make multifamily housing development more feasible. Page 13



Mitigating Rising Insurance Costs for LIHTC Developments

Supplementary revenue streams, reducing operating expenses and other strategies can help relieve burden of rising insurance costs. Page 17

As More than 90,000 LIHTC Apartments Hit Year 15 in 2024, Time to Consider Options

Early preparation and understanding one's options are key to successfully handling the end of the initial tax credit compliance period. Page 20

Revitalizing Affordable Housing in Chicago Made Possible by Twinning 9% and 4% LIHTCs

MARK O'MEARA, SENIOR COPY EDITOR, NOVOGRADAC

Island Terrace, a 22-story affordable housing development in Chicago's Woodlawn neighborhood, was built in 1969 and has continuously operated as affordable housing.

But the property is long overdue for renovations and upgrades.

Preservation of Affordable Housing Inc. (POAH) acquired the property in 2021 and teamed up with tax credit investor and lender Merchants Capital to not only purchase the property through an acquisition loan, but to recapitalize it two years later. Merchants Capital helped finance a twinned 9% and 4% low-income housing tax credit (LIHTC) investment to rehabilitate Island Terrace.

"Twinning helped us maximize the LIHTCs, and therefore equity, to help ensure the much-needed renovations were completed," said Josh Reed, executive vice president, LIHTC acquisitions at Merchants Capital, syndicator for the LIHTCs. "A standalone 4% or 9% deal wouldn't have produced enough credits needed for the rehabilitation. Although there are challenges with the legal and accounting aspects, utilizing the twinning structure was the right approach by POAH and [the Illinois Housing Development Authority] IHDA to ensure Island Terrace will continue to provide quality affordable housing for the community."

"The challenge is it's a 50-year-old building, and it's occupied and expensive to rehabilitate. We have had to justify that cost. But preservation is always a good investment," said Molly Ekerdt, vice president of development at POAH, a national nonprofit housing



Image: Courtesy of Preservation of Affordable Housing Inc.
Island Terrace, a 22-story affordable housing development located in Chicago's Woodlawn neighborhood that was built in 1969, is undergoing renovations thanks to 9% and 4% low-income housing tax credits.

owner, developer and property manager based in Boston with more than 13,000 affordable housing apartments across 100-plus developments. "But we want to help keep longtime residents in place. It's an honor to keep this property affordable."

POAH has operated in this Chicago neighborhood for 15 years.

It wasn't just Merchants Capital's tax credit equity that was vital to the capital stack. Its U.S. Department of Housing and Urban Development (HUD) 221(d)(4) loans and Merchants Capital's bridge loans also helped.

"In an environment where interest rates increased by 250 basis points, you need more soft money now, more seats at the table," said Emmett Donovan, senior vice president, loan originations at Merchants Capital.

To fit within the twinned LIHTC structure, all 240 apartments were divided into two condominiums. The rehabilitation of Island Terrace is one building with two capital stacks. To achieve this, residential floors are split (75% and 25%): floors three through 17 make up the 4% LIHTC transaction and floors 18 through 22 make up the 9% LIHTC transactions.

Renovations at Island Terrace will include replacing the roof, windows, plumbing, cooling and electrical systems; upgrading the elevator; renovating the façade; redesigning the first floor with a community room, management offices and laundry facilities; and updating kitchens and bathrooms in all 240 apartments.

"The building has its original plumbing from 50 years ago," said Ekerdt. "We will renovate two floors at a time. We will move people out and replace the plumbing unit-by-unit and floor-by-floor."

Island Terrace had a groundbreaking ceremony in June and rehabilitation will be completed by the end of 2025.

One Redevelopment, Two Capital Stacks

Merchants Capital has been involved in the redevelopment of Island Terrace from the beginning. It provided a \$26.5 million acquisition loan to help POAH acquire the property in 2021.

4% LIHTCs

On the 4% LIHTC side of the twinned transaction, Merchants Capital was the syndicator for the \$31.8 million in 4% LIHTC equity, obtained a securitized \$17.2 million HUD 221(d)(4) loan and a \$19 million bridge loan.

"While working with HUD and multiple other bureaucracies, it was encouraging to see those entities work together to get this impactful project done," said Donovan.

IHDA provided a \$35 million 4% LIHTC allocation.

The AFL-CIO Housing Investment Trust purchased the securitized HUD 221(d)(4) loan. Terrance Pearson, director of FHA finance at the AFL-CIO Housing Investment Trust, liked this investment for four reasons: "The affordability of the project, the story, the fact that POAH used 100% union labor for construction and the project's location in Chicago. ... We won't fund a project without 100% union labor during construction."

9% LIHTCs

On the 9% LIHTC side of the twinned transaction, Merchants Capital was the syndicator for the \$17.3 million in 9% LIHTC equity, obtained a securitized \$5.3 million HUD 221(d)(4) loan and a \$13 million bridge loan.

The development received two allocations of 9% LIHTCs, one from the city of Chicago (\$6 million) and one from IHDA (\$12 million). "We had created the 9% and 4% structures already, but costs had gone up such that we had extra basis on the 9% LIHTC side," said Ekerdt. "The city of Chicago was willing to dedicate extra resources to getting the deal done, and while they did not have additional soft sources, they were willing to allocate additional 9% credits."

"Island Terrace is in the South Side of Chicago, an area that needs investment," said Reed. "It's near the future

Obama Presidential Center and as a result will have great amenities.”

The Obama Presidential Center, a 19-acre campus, will feature a fruit and vegetable garden; an athletic, programs and events facility; a world-class museum; an auditorium; a branch of the Chicago Public Library; and more.

“The Obama Presidential Center is two blocks north [of Island Terrace],” said Ekerdt. “It will be a positive addition to the neighborhood for many reasons, including because of the jobs and opportunities that will be created there. It is being designed to be an amenity to this neighborhood. It will have a branch of the Chicago Public Library and a lot of youth programming. It will be an

amenity for this neighborhood as much as it will be a tourist attraction.”

With all this growth comes the possibility of gentrification.

“As a result, there have been housing cost increases in the surrounding neighborhoods,” said Ekerdt. “Keeping Island Terrace affordable alleviates those effects and that anxiety a little.”

The AFL-CIO Housing Investment Trust also purchased the securitized HUD 221(d)(4) loan on the 4% LIHTC side. “I am proud of our involvement in this project,” said Pearson. “It’s close to the [Obama Presidential Center] library, which enhances the project’s stature.” ❖

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