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Workforce & Mixed Income Housing

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The "Everything" Building

Seattle Hospital Provides Workforce Equity

COVID Response: Resident Involvement

425 Grand Concourse, The Bronx, New York

Rendering courtesy of Dattner Architects

The "Everything" Building

It Took Eight Separate Condos to Finance Bronx Mixed-income Project

By Mark Olshaker

Rendering courtesy of Dattner Architects

425 Grand Concourse boosts an underserved Bronx community.

"One thing about our company is that we don't shy away from difficult projects," says Thomas Brown, vice president of Trinity Financial, Inc. of New York. The proof of that assertion is 425 Grand Concourse, going up on the corner of East 144th Street in the Mott Haven neighborhood of the South Bronx. The 26-story high-rise, slated for mid-2022 occupancy, will comprise 277 units of permanently affordable housing for several distinct income tiers, on-site education and medical facilities, retail and cultural space and an adjacent public park with a new comfort station. So complex was the deal structure that it incorporates eight separate condominium structures within the 310,500-square foot building. It will also be one of the tallest passive houses ever constructed, projected to consume 30 percent of the energy of a typical building of similar size.

Thomas Brown

"After 32 years in this business, I thought I had seen everything, but there are still things you can learn," says James Keefe, Trinity founder and principal.

More than 50 percent of the apartments will be two- and three-bedroom units, and the income levels of residents will range from 30 to 130 percent of area median income (AMI), with a special emphasis on housing the previously homeless.

And from the top floors, Brown promises, residents and guests "absolutely" will be able to see Yankee Stadium.

"A True Collaboration"

The project's origin story goes back five years, but not nearly as long as the history of the 29,000-square foot site itself. "Back in 2015, the city of New York issued a Request for Proposal to redevelop the site for affordable housing," Brown relates.

"It had been PS 31, a very, very well-known school that some famous Bronxites had attended. It was a landmark site [built in 1899 in the 'Collegiate Gothic' style and long referred to as 'The Castle on the Concourse'] but it had fallen into extreme disrepair over the years and

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the city decided to demolish it. We put together a plan, picked a very local partner, and as a company we make sure to bring in a team of partners to develop the best product possible."

The local nonprofit development partner was MBD Community Housing Corp., originally formed in 1974 ("the 'Bronx is Burning!' days," says Brown) from nine local organizations dedicated literally to saving their community and calling the new coalition Mid Bronx Desperadoes. Dattner Architects designed the new building; TD Bank is both the Low Income Housing Tax Credit and conventional non-LIHTC equity investor; Redstone Equity Partners syndicated the tax credits, which were allocated by the New York City Department of Housing Preservation (HPD); and the New York City Housing Development Corporation (HDC) issued the tax-exempt bonds, as well as capital funding for the $178 million project.

"We could not have done this without the participation of all of these folks," Keefe declares.

"This is a true collaboration," Brown adds. "We sought out a coalition of the best and the brightest in the city and spoke to local stakeholders. We cobbled together concepts to see what worked. And I think we dealt with almost every agency in the city. We put our heads together for a plan for the best use for the site. We always like to get the maximum out of every public development; we try to get every inch of public good out of the space."

For Trinity, the project was predicated on two principles. "Our company stresses total inclusion, as does the city now," Brown says. "We also believe in deep affordability. This zip code is one of the lowest per capita in the nation." But it is also, he notes, "In an emerging borough, with proximity to Manhattan, just across the Harlem River. But here, the upper tier rents won't yet support truly market rates." So, one of the aims is "to keep Bronxites who grew up here, based on educational opportunities and other services, so they aren't forced to relocate. That's one of the things we wanted to address."

The vision for 425 is no distinction in the quality or finishing of the apartments, from the homeless set-asides, up through the affordable, mixed- and mid-income tiers, nor are there separate entrances or any attempt to concentrate residents within any given income tier together. All Brown will say is, "We wanted a fair amount of workforce level." In New York City, it is a constant challenge for that demographic to find adequate housing. For a family of four, an $86,000 annual income places it in the 80th percentile of AMI.

Public School 31, once the "Castle of the Concourse," now site of 425.

Education and Health

The educational component, a branch of Hostos Community College of the City University of New York, is, according to Brown, "a huge economic driver of the project." It qualifies as a Community Service Facility, which means it is located in a Qualified Census Tract, is designed to serve primarily individuals whose income is 60 percent or less of AMI, will improve the quality of residents' lives and must be affordable to them. "What this enabled us to do was it allowed us to take about $17 million in project costs and move it into the LIHTC side and include it all in basis," Keefe explains. "That brought about $7 or $8 million in tax credit equity into the project. And the rent deal with CUNY helped the overall economics."

"The area had a lack of affordable healthcare," Brown says, "so we looked at bringing in a healthcare partner." This is also where the energy efficiency and environmental control factors in. "The city of New York has undertaken initiatives to reduce greenhouse gasses 80 percent by 2050. A benefit of being the first high-rise passive house is there is no passive loss of heat, and air is filtered within the building. This is important to us because the South Bronx has a high level of asthma. We hope other developers behind us can learn from our experience." There will also be a vegetated roof deck, solar panels and cogenerated heat and power.

"Another need was an affordable grocery store. The Bronx is a food desert. We saw a number of residents unable to get fresh produce, so we incorporated a relatively small space into the building that will focus on affordable grocery operators."

Recreation and Transportation

A 1,200-square foot space has been set aside, which Brown says, "We will open up to a local nonprofit for cultural programming. And next to the building site, between the Grand Concourse and Walton Avenue, lies Garrison Playground, which has been closed and in disrepair. As part of the 425 development, Trinity will rehab the park and build a comfort station. "The park needed to have a restroom, if just for sanitary and health purposes," Brown says. "This will enable the Parks Department to fully staff the park, which means it will be well-maintained. And we agreed to fund part of the salaries for maintenance of the park."

Given the area demographics, one of the most attractive aspects of the location was the access to public transportation. "Four New York City subway lines are nearby," Keefe says. "Two on the East Side and two on the West Side."

"Our office is on 34th Street, across from Macy's," says Brown. "I can take the 2 Train and be up at the site in 15 or 20 minutes."

It's Complicated

"This really is a 'Tale of Two Projects.' The key was incorporating the non-LIHTC and non-residential components. Part of the complexity of the deal is we were building two separate projects in one building – on top of community space." Trinity divided the residential portion of the deal into two silos, generating LIHTC on the 167 apartments at or below 60 percent of AMI. Brown details, "Each use we split out into its own condominium. We have eight separate condos within this project." Though they will work together, each one will operate as an independent condominium association. Technically, for the associations to be legally established, they each have to have a defined space, so Trinity had all of the parties, including the residential portions and each of the community components, agree to the setup. Once the construction is completed in 2022 and the spaces physically defined and separated, the condos will be formed and registered.

There are separate issues affecting the LIHTC and non-LIHTC equity sides of the deal. "One thing that doesn't get enough attention," Keefe comments, "is that in private [investment] transactions, you've got to have an exit strategy. You have to be able to have, at some point, a way to cash in on the investment in order to get the return you were hoping for. So, how do you exit these transactions when there is so much subordinate debt? How do you incorporate this in your agreements with your subordinate lenders to facilitate that?"

"Coming in was not the problem," Brown agrees. "The exit was. We had to calibrate the non-LIHTC investment so TD Bank could secure a market rate of return. It also helped that they were an investor on the LIHTC side [and would receive CRA credit]. We worked with HPD's Mix & Match program, which is designed to bring private equity into projects on pubic sites." The program funds new construction of mixed-income multifamily rental projects in which 40 to 60 percent of the units are at rents affordable to households earning up to 80 percent of AMI and the other 40 to 60 percent have rents affordable to moderate- and middle-income households earning up to 120 percent of AMI, so 425 fit in perfectly.

"We were able to modify city documents to allow exit in Year 10 for the non-LIHTC. I think we had about five separate legal firms working with us and we had to make sure none of the loan terms conflicted with each other. The closing call [in late December 2019] had more than 40 people on the line, and these were not passive parties." Keefe shows a chart that compares the non-LIHTC investment cash-on-cash returns, with and without a built-in ten-year refinancing. The refinancing proceeds, together with cash flow, amount to a 19.56 percent internal rate of return, versus a negative 0.68 percent with no refinancing proceeds.

The project is in an Opportunity Zone, but as Brown says, "It is not underwritten with OZone equity. With everything that was going on, tying into an OZone timeline with five or six other timelines would have been difficult. But we structured things so we can revisit that at some point.

In the current COVID-19 environment, he points out, "The combination of services is very timely in terms of housing, sheltering-in-place, food, education and healthcare. I think the takeaway is that nowadays, all affordable housing developers have to wear many hats and be responsive to the changing environment on funding and community needs. Collaboration is the key. And I think we came up with a pretty good idea." TCA

STORY CONTACTS:

Thomas Brown, *tbrown@trinityfinancial.com*

James Keefe, *jkeefe@trinityfinancial.com*