



Pairing Historic Tax Credits with Low-Income Housing Tax Credits in the District of Columbia

August 2015

LETTER FROM THE DIRECTOR

Dear Residents and Developers,

I am delighted to present to you *Pairing Historic Tax Credits with Low-Income Housing Tax Credits in DC*, a report that will assist housing developers to better understand the supply of historic apartments in the District of Columbia, help navigate the historic tax credit program, and highlight the challenges and benefits gained from pairing Historic Rehabilitation Tax Credits (HTC) with Low-Income Housing Tax Credits (LIHTC).

The Office of Planning (OP) undertook this effort due to the recognition that past projects represented tremendous assets to the provision of affordable housing, the preservation of DC's cultural assets required by HTC, and revitalization of the city's neighborhoods. However, the District has just begun to uncover the potential given the historic nature of our apartment buildings and the value of historic credits to affordable housing.

The two federal tax resources have helped spur the renovation of nearly 1,900 affordable units in DC over the last two decades, including the creation of over 800 new affordable units that were either market rate housing or another use prior to the renovation. While impressive, this is only a fraction of the potential. Our office estimates that 220 buildings may fit the tax credit business model, most of which are likely candidates for historic designation if they are not already on the National Register for Historic Places or in a historic district. These buildings are also clustered in high cost or changing neighborhoods and present an opportunity to further invest in areas that need more affordable housing.

Our city is fortunate to have a large number of modest but usable older apartment buildings. Neighborhoods thrive when the buildings are intact and in use, but many need significant investment. This building stock is critical for our growing city. The Historic Tax Credit program can help meet the District's affordable housing goals of the Comprehensive Housing Strategy report *Bridges to Opportunity: a New Housing Strategy for DC* by leveraging additional federal resources to renew deteriorated, environmentally hazardous buildings, catalyze neighborhood revitalization, and preserve our historic fabric.

Eric Shaw,
Director



Project Focus: Mayfair Mansions Apartments

Mayfair Mansions Apartments, located east of the Anacostia River in Ward 7, is a 410 unit multi-family garden apartment complex. Built in 1946, it was one of the city's earliest garden apartment complexes and one of the first conceived and designed for working-and middle-class African-American residents. In 2005, residents initiated the redevelopment of the property through the Tenant Opportunity to Purchase Act (TOPA) process and assigned their rights to the Community Preservation and Development Corporation and the Marshall Heights Community Development Corporation. Mayfair Mansions underwent substantial rehabilitation in 2009 to modernize the buildings, beautify the grounds, and construct a new play area and community center. The \$91 million project received \$12.4 million in historic tax credits in addition to 4-percent low-income housing tax credits.



Hubbard Place
Somerset Development Corporation

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EXECUTIVE SUMMARY

Pairing the Historic Rehabilitation Tax Credit and the Low-Income Housing Tax Credit programs has helped reinvigorate 20 residential apartment developments in the District of Columbia, providing nearly 1,900 affordable housing units. The infusion of capital was critical to bring new life to vacant and underutilized buildings and revitalize buildings in need of environmental remediation, upgrades to meet building code and structural repair. While pairing the tax credits has provided needed equity to help close a financial gap, the 20 projects reflect a tiny portion of projects that could qualify for this type of financing. The Office of Planning (OP) estimates that there are approximately 220 residential apartment buildings of 50 units or more, totaling over 26,000 units, that might qualify for the Historic Tax Credit. The goal of this report is to encourage more Historic Tax Credit and Low-Income Housing Tax Credit projects in D.C. by helping affordable housing developers better understand the supply of historic stock, the historic tax credit program itself, and the benefits and challenges of the program.

Based on a series of informational interviews with developers, architects, historic consultants, contractors, and government representatives, *Pairing Historic Tax Credits with Low-Income Housing Tax Credits in DC* presents tips for business development considerations, building a solid team experienced in working on historic buildings, key rehabilitation elements that are particularly challenging, procedural issues and financing. The report illustrates how the use of Historic Tax Credits can help reduce the gap in affordable housing rehab projects by an upwards of \$15,000 per unit.

The report also recommends targeted policy strategies. The District government could foster more of these projects through increased education and outreach among District agencies and the community, additional financial incentives, and better evaluation during the underwriting process. As an educational tool for developers and a policy guide for the treatment of historic preservation projects within the affordable housing sphere, *Pairing Historic Tax Credits with Low-Income Housing Tax Credits in DC* helps achieve a two-fold goal: promote affordable housing and preserve the unique fabric of the District of Columbia.

1 INTRODUCTION

The intent of this report is to promote the joint use of Low-Income Tax Credits (LIHTCs) and Historic Tax Credits (HTCs) and to help affordable housing developers better understand the supply of historic apartments in the District. The report provides information on the Historic Tax Credit program itself, business development considerations with historic renovations, and the financial benefit of the low-cost equity gained from pairing low-income housing and historic rehabilitation tax credits.

At nearly 225 years old, Washington, D.C. is fortunate to have a wealth of historic buildings and neighborhoods matched by few other cities in the United States. Beyond the marble monuments, tree-lined boulevards, and rows of museums lies a mosaic of neighborhoods rich in historic architecture. Iconic landmarks such as Howard Theatre, Eastern Market, and the Basilica of the National Shrine are intermingled with single-family homes featuring turreted Victorian bays, or large, turn-of-the-century front porches, as well as garden style, low-rise, and mid-rise multi-family apartments constructed in the Colonial Revival, Mission, and Art Deco styles.

While much of this cultural legacy has been preserved, Washington, D.C. is currently experiencing significant pressure to accommodate an unprecedented increase in population growth over the last few years. This growth has brought revitalized neighborhoods, safer streets, and more retail options, but also a surge in housing costs and tensions between historic preservation and new development driven by the increased demand. Lower income household budgets

are becoming increasingly stressed, because much of the District's more affordable housing stock is vulnerable to market rate cost increases. As a result, the District Government approved in November 2014 a recurring annual appropriation of \$100 million for the preservation and production of subsidized affordable housing.

High land and construction costs have squeezed development budgets, resulting in compressed schedules and construction techniques that can lower the architectural quality of new buildings. With new construction so expensive, it is often more cost effective and sustainable to retain existing affordable housing than to construct new units. Many of D.C.'s older apartment buildings may qualify for assistance through the HTC program, which helps raise equity equal to 20 percent of most of the rehabilitation costs. These buildings either contribute to a designated historic district, are individual landmarks, or have been determined eligible for individual historic designation.

In the District of Columbia, recent historic rehabilitation projects have generated substantial historic tax credits for the benefit of project developers. Over \$94 million in historic tax credits leveraged more than \$569 million in total development costs between 2001 and 2013. These expenditures reflect only 43 projects during this 12-year timeframe (National Trust for Historic Preservation Brief, 2014). Nearly half of these projects were affordable housing developments, in which developers paired LIHTC with the HTC. While significant, the 20 buildings that paired these two programs

represent only a fraction of the District’s robust supply of historic buildings. The Office of Planning estimates there are approximately 220 residential apartment buildings with over 26,000 units that are older than 1950 that could qualify for the Historic Tax Credit.

The fact that the credits have not reached their potential relative to the opportunity can be attributed in part to the perceived risks of increased costs brought by the designation process. But perhaps the biggest factor is underestimating the value of the 20 percent credit to the bottom line of the project. Other factors play a role as well, including the absence of a state historic rehabilitation tax credit program, which provide an additional financial incentive, as well as a general lack of familiarity with the process and the many intricacies of the program.

The Office of Planning developed this report through an analysis of the 20 projects in D.C. that paired historic tax credits with low-income housing tax-exempt bonds and credits. OP also conducted informational interviews with stakeholders across the development community, historic consultants and government agencies, which are summarized in the report. Information gathered will help developers navigate the common challenges of the program and guide the treatment of historic tax credit projects within affordable housing policy. The goal of this resource guide is to help demystify the historic tax credit program and achieve a two-fold goal: promote additional affordable housing and preserve the unique historic fabric of Washington, D.C. This report assumes a basic understanding about the LIHTC program. An overview of the program can be found in *Appendix B*.



**The Euclid
Jubilee Housing**



Project Focus: Hubbard Place

Hubbard Place was constructed in 1926 and originally named “Hilltop Manor,” an appropriate name given its topographic position and general prominence in the city at the time; two years later, it was renamed “The Cavalier.” The building is one of the earliest cooperative apartments in the District of Columbia, following a real estate phenomenon that developed here in the 1920s. Cooperatives promised more control to resident owners and permitted a high number of services by spreading costs among them. In 2009, Somerset Development Company in collaboration with the 3500 14th Street, N.W. Tenant Association, completed substantial renovations on the nine-story building to meet fire and safety codes, install energy-efficient systems, add new community amenities, upgrade finishes, and outfit three retail and office spaces for local businesses on the ground floor. The building is located blocks away from the D.C. USA retail complex, Tivoli Theater, and the Columbia Heights Metro station in Ward 1. At \$52.5 million in total development costs, the renovation and deep affordability in a high-cost market was made possible with \$4.5 million in historic tax credits, as well as tax exempt bond financing and 4 percent low-income housing tax credit equity, subordinated debt provided by the DC Department of Housing and Community Development and DC Housing Authority, and a project-based Section 8 contract for the entire 230-unit building.

2 WHAT ARE THE OPPORTUNITIES IN DC?

In the District of Columbia there are more than 650 historic landmarks and more than 50 historic districts, half of which are in residential neighborhoods outside of downtown. In sum, nearly 27,000 properties are protected by historic designation in the District of Columbia. Historic landmarks and districts include the iconic monuments and the symbolic commemorative places that define Washington, D.C. as the Nation's Capital, but they also include retail and commercial centers such as Georgetown's commercial buildings, places of worship and leisure like St. John's Church and the Kenilworth Aquatic Gardens and apartment buildings such as Trinity Towers, Wardman Tower, and the Kennedy-Warren (*2016 District of Columbia Historic Preservation Plan: Enriching Our Heritage*).

To be considered for HTCs, buildings must meet one of the following designations:

- Individually listed in the National Register of Historic Places.
- "Contributing" building within a D.C. or National Register historic district.
- "Eligible" for listing either individually or as a contributing building in a historic district.

While buildings that have already been designated as landmarks or contributing to a historic district are known to present opportunities to pair LIHTCs and HTCs, this report investigates the supply of older multi-family apartment buildings that have not yet been designated but may meet criteria for historic designation. The Office of Planning (OP) estimates there are over 26,000 units in roughly 220 apartment buildings that could

potentially qualify for historic tax credits and low-income housing tax credits (See Figure 1). These buildings have the following criteria: built prior to 1950 and multi-family residential buildings with more than 50 units in the building or dispersed among multiple smaller buildings on one lot (i.e. garden apartment buildings). OP determined these criteria through informational interviews about typical projects. Of these buildings, the D.C. Historic Preservation Office (HPO) estimates that approximately 66 percent would qualify for historic designation.

Most of these buildings are clustered in the Northwest quadrant of D.C. (*See Figure 1*), where there is an overall lack of affordable housing, and those units that do exist are more vulnerable to market rate pressures. There is also some stock available in relatively lower cost portions of D.C. in the Northeast quadrant and east of the Anacostia River, in Wards 7 and 8. Most of the stock (60 percent) is made up of buildings with 50-100 units, 30 percent have 100-200 units, and 10 percent have more than 200 units.

This is a fairly conservative estimate of potentially eligible buildings given the large stock of other buildings that can qualify for both HTCs and LIHTCs, such as:

- Buildings that can be converted to housing from other uses, such as hotels, schools, or industrial facilities.
- Buildings built after 1950 that may otherwise be historically significant.
- Buildings with fewer than 50 units that can be combined under one financing structure when timing and other considerations permit.

LOWER ACQUISITION COSTS

In order to further investigate the opportunity for HTCs, OP used tax assessment data to estimate the number of properties that might fit the acquisition and rehab cost profile discussed in Section 6, Interview Recap. Given that typical substantial rehabilitation costs range from \$50,000 to \$100,000 per unit, OP looked at properties where acquisition costs might be less than \$50,000 per unit in order to maximize the value of the HTCs. OP determined that the “sweet spot” of pairing HTC and LIHTC is for buildings that are not only older and larger, but also on sites where acquisition costs are less than the costs of rehab. OP estimates from property tax assessments that 76 buildings currently have potential acquisition costs of less than \$50,000 per unit. Sixty-four percent of these sites range between \$25,000 and \$50,000 per unit, and are mostly among properties with 50-100 units (Figure 2). Lower acquisition costs result in a larger ratio of HTC equity to total development costs, and help maximize the benefit of the HTC program.



Project Focus: Wardman Court

Built in 1916 as luxury apartments fitted with marble foyers and ornate chandeliers, Wardman Court (formerly Clifton Terrace) had become a symbol of urban blight and a magnet for criminal activity with more than 1,200 building code violations by 1967. HUD took over the complex in 1996 and sold it to the Community Preservation and Development Corporation and Michaels Development Company for \$1 in 1999. Total development costs were \$25 million to restore the original historic character, modernize the interior, and add community amenities. The property is now a mixed-income community with 152 rental apartments and 76 condominiums. The project received \$6 million in historic tax credits and in addition to 4-percent low-income housing tax credits.

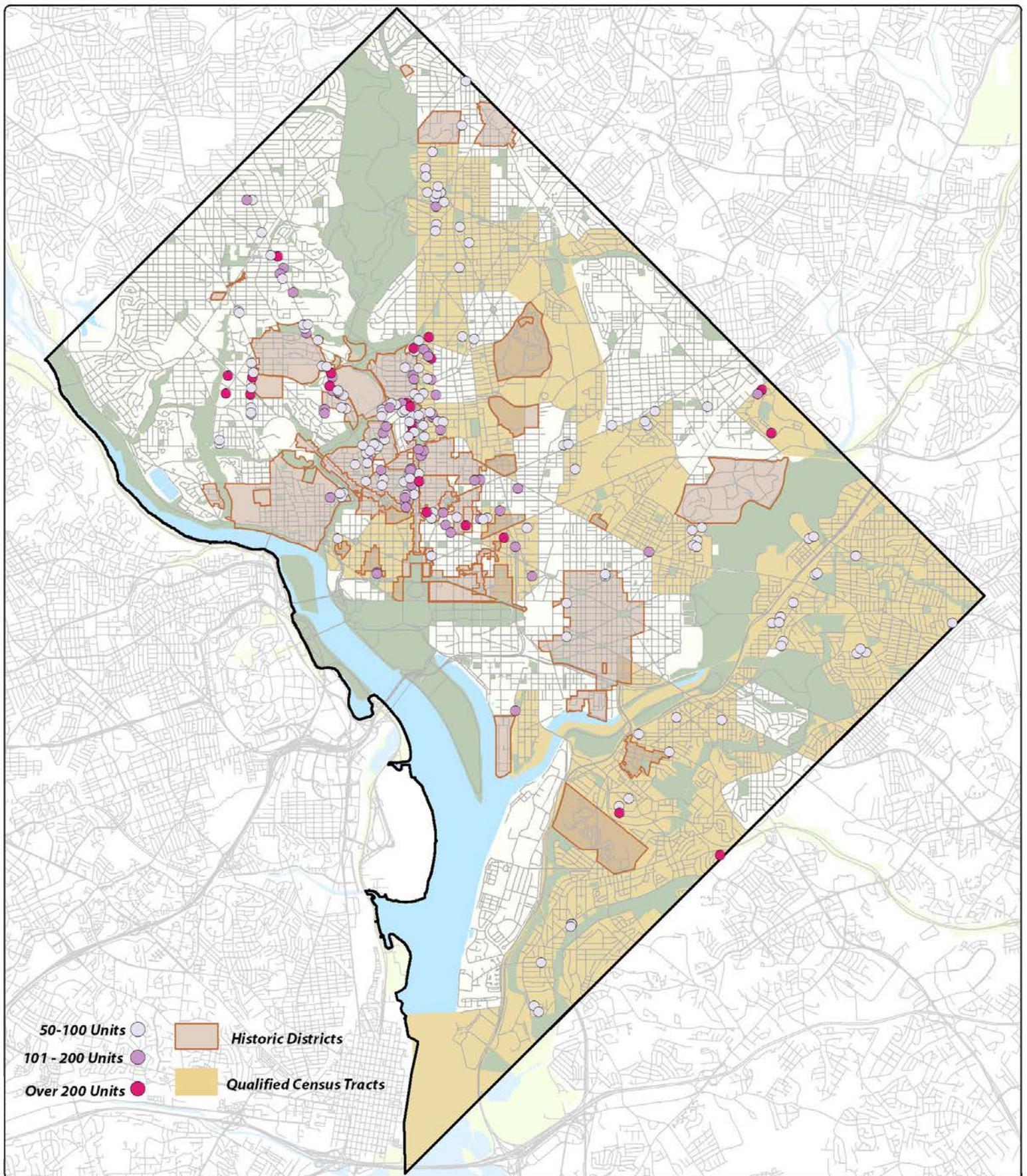


Figure 1. Pre-1950 Multi-family Buildings in D.C. with 50+ Units

Source: Department of Housing & Urban Development
 Qualified Census Tracts, 2014; D.C. Office of Planning GIS layers

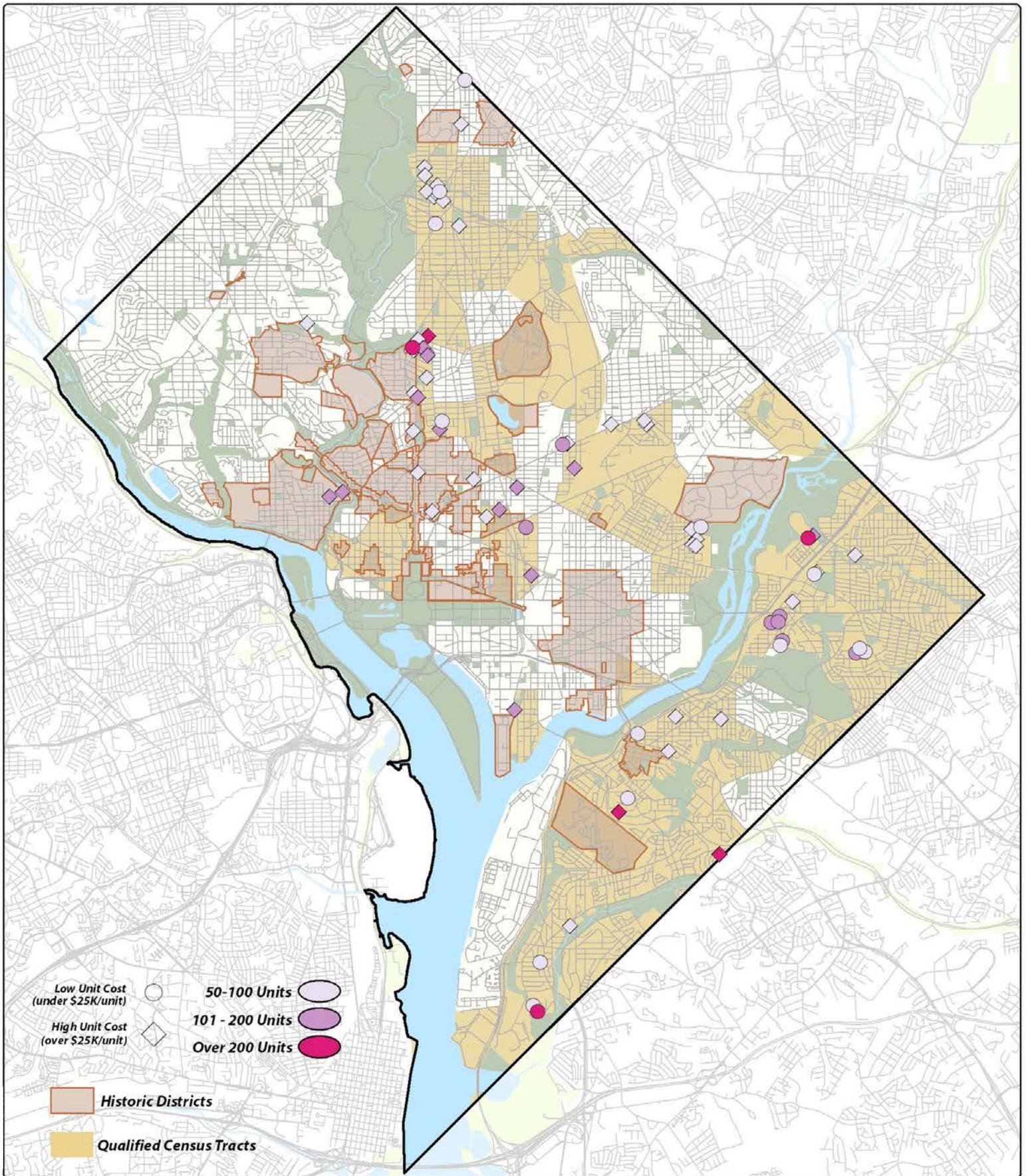


Figure 2. Pre-1950 Multi-family Buildings in D.C. with 50+ Units and Building Tax Assessment Less Than \$50,000 Per Unit

Source: Department of Housing & Urban Development Qualified Census Tracts, 2014; D.C. Office of Planning GIS layers

3 AFFORDABLE HOUSING HISTORIC TAX CREDIT PROJECTS IN D.C.

Since 2003, affordable housing providers have renovated more than 1,600 affordable housing units in historic buildings in the District using both the LIHTC and HTC programs. Four additional projects are in various stages of the construction process for a total of 20 projects and

nearly 1,900 units of affordable housing across five wards in the District. As shown in *Table 1*, 75 percent of projects that paired LIHTC with HTC are concentrated in Ward 1 and Ward 4, resulting in much needed affordable housing in otherwise high cost neighborhoods of the city.

Table 1. Historic Rehabilitation Tax Credit Projects that Paired Low-Income Housing Tax Credit Projects in D.C.

	Project Name	Address	Ward	Unit Counts	Year Historic Tax Credits Approved
1	Meridian Manor Apartments ⁽¹⁾	1424 Chapin Street, NW	1	34	2003
2	Trinity Towers	3023 14th Street, NW	1	122	2004
3	Wardman Court Apartments ⁽²⁾	1312 Clifton Street, NW	1	228*	2004
4	The Olympia	1368 Euclid Street, NW	1	54	2005
5	Webster Gardens ⁽¹⁾⁽³⁾	124-26-28-30 Webster St, NW	4	52	2008
6	Fort View Apartments ⁽²⁾⁽³⁾	6000-20 and 6030-50 13th Place, NW	4	62	2009
7	Hubbard House ⁽²⁾	3500 14th Street, NW	1	230	2009
8	Wardman Row ⁽¹⁾	1416-40 R Street, NW	2	124	2009
9	Saint Dennis Apartments ⁽¹⁾	1636 Kenyon Street, NW	1	36	2011
10	The Euclid ⁽⁴⁾	1740 Euclid Street, NW	1	47	2011
11	The Sorrento ⁽⁴⁾	2233 18th Street, NW	1	23	2011
12	Mayfair Mansions ⁽¹⁾	3743-3819 Jay St, NE	7	410	2012
13	Monsenor Romero Apartments ⁽¹⁾	3145 Mount Pleasant St, NW	1	63	2012
14	Whitelaw Hotel ⁽²⁾	1839 13th St, NW	1	35	2012
15	Dahlgreen Courts ⁽¹⁾	2504 and 2520 10th Street, NE	5	96	2014
16	House of Lebanon ⁽²⁾	27 O Street, NW	5	82	2014
17	Concord Apartments ⁽¹⁾⁽⁵⁾	5807-25 14th St, NW	4	78	Pending
18	Maycroft Apartments ⁽¹⁾	1474 Columbia Rd, NW	1	64	Pending
19	The Valencia ⁽¹⁾⁽⁵⁾	5922 13th St, NW	4	32	Pending
20	Vizcaya Apartments ⁽¹⁾⁽⁵⁾	1388 Tuckerman St, NW	4	17	Pending
TOTAL: 1,889					

Notes:

- (1) Pursuant to the Tenant Opportunity to Purchase Act(TOPA), tenants exercised and assigned their rights to the developer to purchase the building for affordable housing. Tenant association groups from the following projects have ownership interest in the General Partnership structure: Webster Gardens, Mayfair Mansions, and Meridian Manor
 - (2) Project received full or partial subsidy from the Federal or Local Government (Outside of TOPA) for site acquisition costs
 - (3) Webster Garden and Fort View Combined Financing Structure and Construction Schedule
 - (4) The Euclid and Sorrento Combined Financing Structure and Construction Schedule
 - (5) Concord, Valencia, and Vizcaya submitted one application as part of acquisition assistance to DHCD
- *Unit Count reflects 152 rental apartments and 75 condominiums

Sources: Developer Project Galleries, DC Department of Housing and Community Development Annual Reports, DC Historic Preservation Office

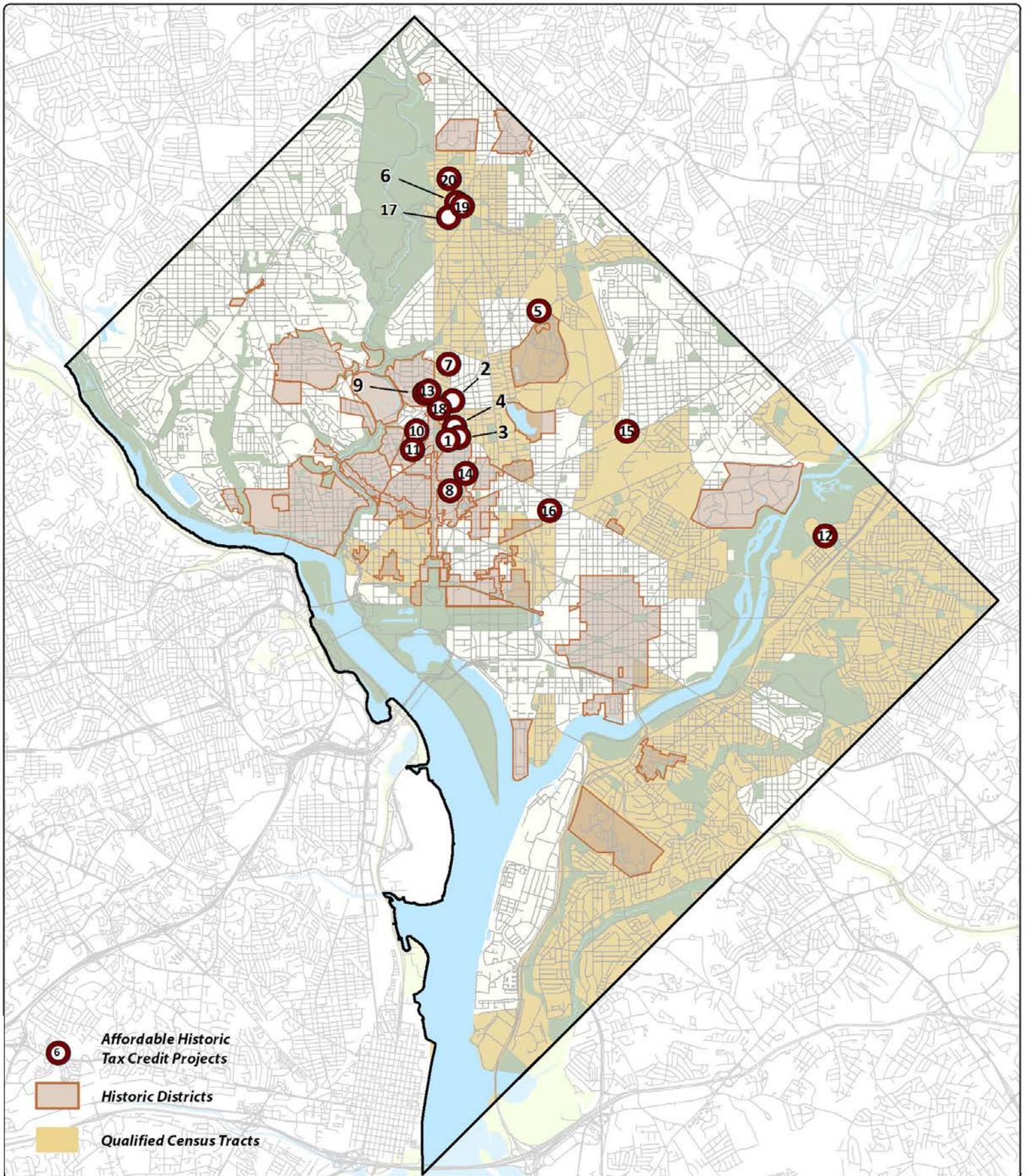


Figure 3. Projects that paired Historic Rehabilitation Tax Credits with Low-Income Housing Tax Credits in D.C.

Source: Department of Housing & Urban Development Qualified Census Tracts, 2014; D.C. Office of Planning GIS layers

TOPA AND HISTORIC PRESERVATION

The combination of LIHTC and HTC has been particularly useful for projects using the District's First Right Purchase Program, under the Tenant Opportunity to Purchase Act (TOPA). TOPA projects represent nearly 900 of the affordable housing units that utilized historic preservation tax credits. The TOPA program is a useful tool to prevent displacement as neighborhoods develop, land prices increase, and previously affordable apartment buildings become vulnerable to market rate conversion. Through this program, residents are able to remain in their homes at prices affordable to them. Much of the historic building stock is located in areas with high land values and where new development is occurring rapidly, and TOPA can be an important tool to promote affordable housing and historic preservation.

The TOPA program, which is overseen by the D.C. Department of Housing and Community Development (DHCD), often uses the Site Acquisition Fund Initiative (SAFI) program to provide low-interest financing and grants to tenant association groups to purchase, and if needed, rehabilitate their building when a landlord decides to sell. In some cases – including all of the TOPA cases in Table 1– tenants assign part or all of their rights to a non-profit or for-profit developer in exchange for a commitment to rehabilitate and maintain the units as affordable housing for a set period of time. In these cases, DHCD loans were provided to the development entity to finance the project. Tenant organizations that assign their rights to a development team enable the developers and investors to access LIHTCs and HTCs, which, in turn, increases the amount of investment that comes from the private sector.



Dahlgreen Courts Apartments
Mission First Housing Corporation



Project Focus: Dahlgreen Courts Apartments

Dahlgreen Courts is a 96-unit multi-family building located in the Brentwood neighborhood in Ward 5 and was originally built in the 1920s to provide housing for federal government workers. Under the TOPA program, tenants assigned their rights to Mission First Housing to purchase the property in 2009. Rehab costs were more than \$20 million to upgrade the building systems and preserve the historic building elements. The project received \$600,000 in historic tax credits in addition to 4-percent low-income housing tax credits.

4 BASIC PARAMETERS OF THE HISTORIC TAX CREDIT PROGRAM

The HTC program makes tax credits available to developers equal to 20 percent of “qualified expenditures” in the renovation of certified historic structures. Thus, if a developer spends \$5 million on qualified expenditures for a project, \$1 million in tax credits becomes available to directly offset income taxes owed. Developers may transfer the historic tax credits to investors in exchange for equity in the deal. The HTC alone may not be enough to finance a project; rather, it is intended to leverage private resources for preserving a building that might be costlier and riskier than a non-historic renovation project. In addition, the program can maximize a historic structure’s value to the economic revitalization of a community.

The HTC program is jointly administered by the U.S. Department of the Interior, through the National Park Service (NPS) and by the Department of the Treasury, through the Internal Revenue Service (IRS). Each state, territory, and the District of Columbia has a State Historic Preservation Office (SHPO) to help facilitate the tax credit program and other historic preservation efforts at the local level. Located within the Office of Planning, the D.C. SHPO serves as first point of contact for property owners interested in the HTC program.

The DC SHPO provides the following services:

- **Maintains complete records of the city’s buildings and districts already listed in the National Register of Historic Places, as well as properties that may qualify for historic designation.**
- **Assists anyone wishing to list a property in the National Register.**
- **Provides application forms, regulations and other HTC program information.**
- **Provides technical assistance on appropriate rehabilitation treatments.**
- **Advises owners on their applications and makes site visits to assist owners.**
- **Recommends certification to the National Park Service.**
- **Reviews all building permit applications for historically designated buildings.**

NPS assists HTC applicants in the following ways:

- **Reviews all applications for conformance to the Secretary of the Interior’s Standards for Rehabilitation.**
- **Issues all certification decisions (approvals or denials) in writing.**
- **Transmits copies of all decisions to the IRS.**
- **Develops and publishes program regulations, the Secretary of the Interior’s Standards for Rehabilitation, the Historic Preservation Certification Application, and guidance on appropriate rehabilitation treatments.**

The IRS is the final reviewing agency for HTC applications and assists by:

- **Publishing regulations governing which rehabilitation expenses qualify, the time periods for incurring expenses, the tax consequences of certification decisions by NPS, and all other procedural and legal matters concerning both the rehabilitation tax credit and LIHTC.**
- **Answers public inquiries concerning legal and financial aspects of the rehabilitation tax credit program, and publishes the audit guide, Market Segment Specialization Program: Rehabilitation Tax Credit, to assist owners.**
- **Ensures that only parties eligible for the rehabilitation tax credit utilize them.**

HOW TO OBTAIN THE HISTORIC TAX CREDIT

To receive historic tax credits, a property must be a certified historic structure, meaning it is listed on the National Register of Historic Places either individually or as part of a historic district. If located within a historic district, the building must be determined to be “contributing” to that district. The proposed work must meet the “substantial rehabilitation” test and the Secretary of the Interior’s Standards for Rehabilitation, which are described more fully in *Appendix A*. In addition, the property must be income-producing for at least five years after the completion of the project. The owner applies for tax credits by filing a three-part application with NPS, which reviews each part in succession so that approval for each part must precede the next part of the application. Applicants apply through the SHPO, which transmits each part of the application and its recommendations to NPS.

Part 1 - Evaluation of Significance

If a property is individually listed in the National Register, then it is already a certified historic structure, and this section can be bypassed. Properties that are not yet designated as historic may also qualify for certification through a preliminary determination of eligibility for National Register listing. The developer should prepare for the SHPO and NPS to each take consecutive 30-day review periods.

For properties that are within historic districts, NPS must individually determine whether they “contribute” to the district’s significance, meaning they are representative of the district’s

historical development and/or architecture and have not been significantly altered over time.

The Part 1 application includes photos and a narrative that describes the appearance and history of the particular building. To streamline the process, the SHPO uses the Multiple Property Document that describes the types of eligible apartment buildings and the criteria for designation.

Part 2 - Description of Rehabilitation

The Part 2 application describes the proposed rehabilitation work in detail through a written narrative, architectural drawings, and photos to document existing conditions and important architectural features of the building. The proposed work must conform to the Secretary of the Interior Standards for Rehabilitation and must be consistent with the historic character of the structure and/or the applicable historic district. The features which define the building’s historic character must be maintained and not compromised by the rehabilitation work.

Part 3 - Request for Certification of Completed Work

This final part of the application process is filed after the completion of construction and includes photographs of the completed rehabilitation project. At this point, the National Park Service makes a determination that all work has met the Secretary’s Standards for Rehabilitation and the project is eligible for tax credits through the owner’s income tax filing.

CLAIMING CREDITS AND COMPLIANCE PERIODS

HTCs are generally claimed in the taxable year that the rehabilitated building was completed and a certificate of occupancy was issued. An owner who claims the tax credit must retain ownership of the property for at least five years after the date the project was placed in service or the tax credits are subject to recapture.

Recapture can also occur if changes are made to the property within this five year period without receiving NPS approval. The amount of the credit recapture is calculated on a sliding scale, reduced by 20 percent every year that the project is out of compliance within the 5 year period.

A building's designation as a historic resource remains in effect in perpetuity, even after the recapture period expires. The Historic Preservation Office reviews exterior alterations for compliance with the city's historic preservation regulations; this review occurs during the permitting process.

THE HISTORIC PRESERVATION REVIEW BOARD

Most projects seeking HTCs are reviewed only by the staff of the DC SHPO, but sometimes they must be approved by the District's Historic Preservation Review Board (HPRB). The HPRB is the official body of advisors appointed by the Mayor to guide the government and public on historic preservation matters in D.C. Generally, HPRB review is only necessary when new construction or an addition is proposed, and in fact, most projects described in this report did not need HPRB approval. In order to review projects, the HPRB members look at plans, photographs, and other information in order to understand and evaluate the impact of a project on a historic resource. These materials are reviewed at the Board's monthly public meetings.



Whitelaw Hotel
Manna, Inc.



Project Focus: The Sorrento

The Sorrento apartment building was built in 1915 and is located in the Washington Heights Historic District north of Adams Morgan in Ward 1. The property was purchased by Jubilee Housing in 1978 and underwent a significant rehabilitation process from 2009-2010 made feasible by historic tax credits and nine percent low-income housing tax credits. The terrazzo and multi-colored floor tiles in the lobby and vestibule were retained and repaired to match their original appearance. The exterior, once painted an off-white hue, was restored to its original exposed-brick conditions. The Sorrento was added to the National Register of Historic Places in 2006 and features 23 affordable rental units. This project received \$1.5 million in historic tax credits in addition to 9 percent low-income housing tax credits.

5 CASE STUDIES

The following case studies highlight projects in D.C. that successfully used both low-income housing and historic rehabilitation tax credits. The infusion of equity from both tax credit programs as well as site acquisition assistance in high cost areas helped breathe new life to projects in need of substantial repair, decreased blight in the community, and preserved the historic fabric and cultural significance of these buildings.

Fort View and Webster Gardens – A TOPA case and combined financing application

Fort View and Webster Gardens Apartments are located in Ward 4 and total 114 apartments in six historic buildings. This case presents an exemplary model of creative financing by combining two separate properties in the project's financing structure, and incorporated tenant representation in the ownership structure to provide affordable housing.

This project won an award for best large affordable housing project by the Housing Association for Nonprofit Developers, a financial innovation award from Novogradac Journal of Tax Credits, and an Excellence in Historic Preservation award from the D.C. Historic Preservation Office. This project offers affordable housing to a wide range of families at or below 60 percent of the Area Median Income (AMI) - from formerly homeless individuals to working families. The project received Tax Exempt Bonds, \$3.9 million in 4 percent low-income housing tax credits and an additional \$3.2 million in historic tax credit equity to finance the project.

Fort View, in the Brightview neighborhood, was built in 1939 and is comprised of 62 units in two buildings. Transitional Housing Corporation (THC), a non-profit faith-based development company, gained site control of one of the

vacant buildings in 2007. In partnership with Somerset Development Company, THC gained site control of the second building in 2009 and began construction on the pair in 2010. Prior to acquisition, these buildings sat vacant and were in need of infrastructure, energy, and safety upgrades, significant environmental remediation to create habitable buildings, and community space to offer resident services. What were once blighted, deteriorated, and vacant buildings were restored to their true historic character.

Webster Gardens, in the Petworth neighborhood, was built in 1921 and is comprised of four buildings with 52 units. It is the earliest example of a garden apartment in D.C. Promulgated by the Garden City Movement, garden-style apartments offered a suburban-like alternative to dense urban living through low-scale buildings grouped within a landscaped setting. While the historic nature of the site was largely intact, the buildings were deteriorating and in need of major renovation, including remediation of lead paint, lead in the water pipes, and asbestos. In 2008, the Webster Gardens Tenant Association exercised its right to purchase through the TOPA program, and elected to transfer their rights to a partnership between THC and Somerset Development Company. The development team worked closely with the Tenant

Association to acquire the buildings, develop the renovation plans, and create a resident services plan.

The tenant association has a ten percent ownership interest in the general partner entity, giving it a position to participate in the decision making process. The development team established a Tenant Services Fund with \$100,000 of project sources and established a recurring fund through ten percent of net cash flow, which represents the resident's ownership structure in the deal. The Webster Gardens Tenant Association was vital to the development of resident programming and on-site services. As a result of this, employment workshops, computer classes, budgeting workshops, youth enrichment activities, and English as a Second Language classes are offered in the community space. Although no residents were living at Fort View at the time of acquisition, a similar resident services fund was dedicated with THC administering these programs.

Due to the depressed financial market in 2008, neither project could have been financed on its own. By coupling Webster Gardens with Fort View and tapping into new federal financial incentives, the properties were able to attract bond and tax credit equity investors. There were over 25 sources of funding for \$32.63 million to acquire and rehabilitate Webster Gardens and Fort View. These sources include tax exempt bonds through the New Issue Bond Program; four percent low income housing tax credit equity; historic tax credit equity; subordinate loans from DHCD through a Community

Development Block Grant, Tax Credit Assistance Program, Site Acquisition Fund loan, and the District's Housing Production Trust Fund; soft subordinate loans from D.C. Housing Authority; grants from the D.C. Department of Environment for storm water management; and gap acquisition financing from the Episcopal Diocese of Washington, among others.

Both properties were placed on the National Register of Historic Places and developed by the same team, financed with similar sources and structure, and were closed and renovated simultaneously. Despite the properties not being adjacent, this project demonstrates the flexibility and economy of scale that can be achieved when multiple sites are merged into one project. Now, Fort View and Webster Gardens provide safe and affordable housing for working families and permanent homes for formerly homeless families. The development team brought life back to Fort View and revitalized and protected homes for residents at Webster Gardens.

¹The New Issue Bond Program (NIBP) temporarily allowed HFAs to issue new housing bonds equal to what they would ordinarily have been able to issue with the allocations Congress provided them, but were unable to issue because of challenges in housing and related markets

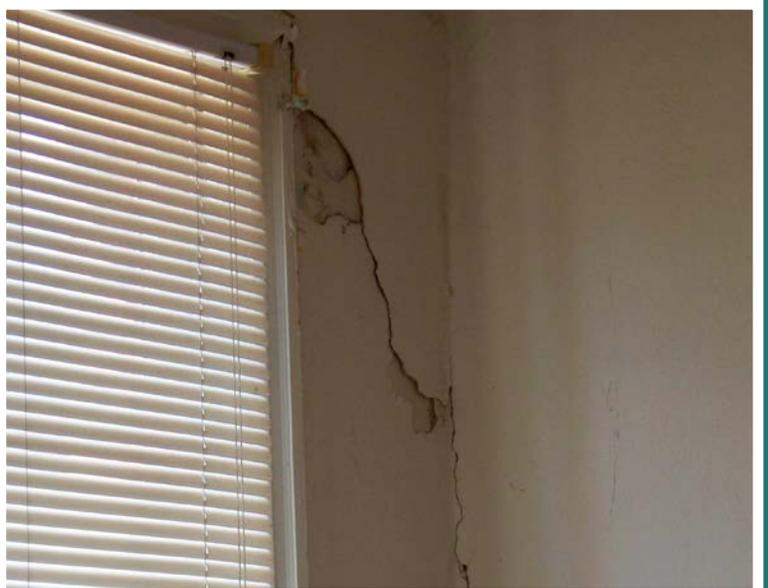
²The Tax Credit Assistance Program (TCAP) provided grant funding for capital investment in Low Income Housing Tax Credit (LIHTC) projects based upon the same formula which determines annual 9 percent LIHTCs given to each State. DHCD distributed these funds competitively according to their qualified allocation plan.

BEFORE REHABILITATION

Fort View



Webster Gardens



POST REHABILITATION

Fort View



Webster Gardens



House of Lebanon – A former school conversion project

House of Lebanon in the Truxton Circle neighborhood is an example of an adaptive re-use project that converted a dilapidated, vacant school into 82 units of affordable housing for seniors who earn at or below 60% of the area median income. The complex was formerly the Margaret Murray Washington School, which was built in 1912 and closed in 2008. Deemed as surplus space by D.C. Public Schools, the District Government awarded the site, through a \$1 per annum ground lease, to Mission First Housing Development Corporation, Mt. Lebanon CDC and Urban Matters LLC as a part of a competitive bid process in 2009.

During its heyday, M.M. Washington School played an important role in shaping the surrounding neighborhood and was one of five African-American schools in the Truxton Circle neighborhood, illustrating the evolution in public facilities for African-Americans. The two-building complex had significantly deteriorated, was unoccupied, and in dire need of substantial improvements and environmental remediation to ensure that the building was not only safe to enter, but livable for its senior residents. The adaptive re-use of the site not only brought much needed affordable housing and community space to a transforming neighborhood, but it preserved the historic integrity and cultural significance of the former school. The development team was able to maintain key features of the school, including large classroom windows, lockers along the wall, subway tiling in the hallways, and terrazzo flooring. The project received \$3.7 million in historic tax credit equity to enhance and retain these features and \$6.8 million four percent low-income housing tax credits to keep rents affordable.

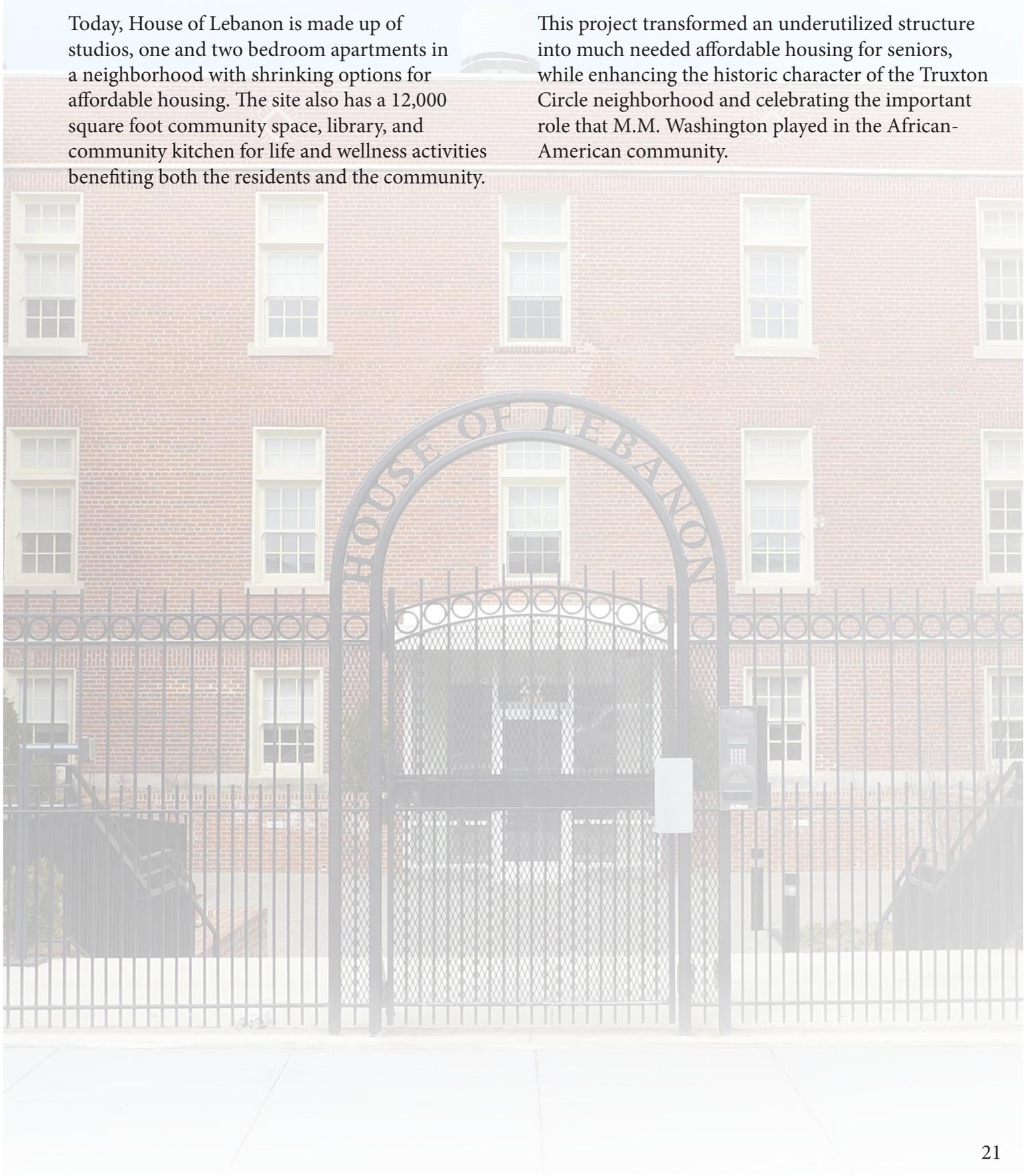
In using the HTC program, the development team faced some challenges common to an adaptive re-use of a historic building. The development team was able to retain the look and feel of a school building by retaining the tall ceilings, the wide stairwells and corridors that are larger than a typical apartment building. While these features diminished the net leasable area and increased cooling and heating costs, their retention made the project eligible for HTCs and the development team was able to identify additional sources to cover the gap.

M.M. Washington presented another challenge because portions of the building were built over four different periods, which meant that historic elements from each period were retained and matched, making the use of a single material universally difficult. However, the size of classrooms adapted nicely to the new use and provided flexibility for the layout of the apartments. Existing window groupings within classrooms helped the development team determine where new walls should separate the kitchen from the living room and bedroom.

The project was financed with tax exempt bonds issued by the D.C. Housing Finance Agency under the New Issue Bond Program; Freddie Mac Credit Enhancement; a bank Letter of Credit during construction; HOME funds through DHCD; pre-development funding and Neighborhood Investment Fund financing through the Office of the Deputy Mayor for Planning and Economic Development; 4 percent low-income housing tax credit equity; and federal historic rehabilitation tax credits.

Today, House of Lebanon is made up of studios, one and two bedroom apartments in a neighborhood with shrinking options for affordable housing. The site also has a 12,000 square foot community space, library, and community kitchen for life and wellness activities benefiting both the residents and the community.

This project transformed an underutilized structure into much needed affordable housing for seniors, while enhancing the historic character of the Truxton Circle neighborhood and celebrating the important role that M.M. Washington played in the African-American community.



BEFORE REHABILITATION

House of Lebanon



POST REHABILITATION

House of Lebanon



6 INTERVIEW RECAP

This section presents suggestions from practitioners who have successfully completed LIHTC and HTC deals in the District. It outlines best practices on how to approach challenges and lays out important tips to successfully navigate the process. The Office of Planning interviewed thirteen organizations, including developers, general contractors, architects, historic consultants, NPS, and DHCD to represent the full range of perspectives, goals, and concerns about pairing these two federal resources. As shown in Table 2, there is a wide range of priorities among stakeholders. In some cases, goals are similar and in others they require a high level of discussion; however, one objective remains constant – completing a successful project.

The purpose of each interview was to learn how the District can produce more affordable housing and historic tax credit projects in D.C. Questions were focused around this theme, including the benefits of the program, the challenges about the program's requirements and process, how the development team navigated through obstacles, and how the District government can better facilitate more of these deals. The lessons and suggestions gleaned from interviews are organized by topics of interest: motivation for pairing the two resources, business development considerations, tips for a solid team, key rehab elements that are particularly challenging, financing, and process improvement considerations.

MOTIVATION FOR PAIRING THE TWO RESOURCES

To provide affordable housing in the District's high-cost market, a project must raise sufficient capital to offset the gap between the high market

value of the property, the cost of rehab, and the limited value derived from the reduced cash-flow in LIHTC deals. HTCs represent a viable option to finance a significant portion of the remaining gap by attracting additional equity and increasing the developer fee.

Additional Equity

The additional investor equity from HTCs lowers the amount of debt the developer needs to finance the project, making lenders more comfortable with the size of the loan. The additional hard costs associated with historic rehabilitation, along with the additional design and historic consultant fees, are almost always surpassed by the value of the 20 percent equity from the HTCs; which are received in the first year the building is placed in service. See Appendix C for a pro-forma analysis that compares in greater detail a hypothetical LIHTC-bond deal that incorporates HTCs and one that does not. This exercise demonstrates that HTCs positively impact a 100-unit project by increasing the source of funds by more than \$1.5 million.

Increased Developer Fee

Historic rehabilitation projects may require more time and attention to detail to match period elements. As a result, developers may be able to negotiate higher developer fees as a result of the additional work. HTCs may improve the ability to maximize the fee and potentially reduce the need to defer it. However, it is important to remember federal and local fee caps. For projects that receive federal funding, the Department of Housing and Urban Development (HUD) imposes a 12 percent developer fee cap to cover developers' overhead and profit: All LIHTC projects must be within this limit regardless of

Table 2. Stakeholders' Goals and Concerns

Developer	General Contractor	Architect	Historic Consultant	Investor	National Park Service/SHPO	DHCD/HFA
Mission Driven Organizations: Increase the number of affordable housing units	Construct a sound and safe building with the allotted budget from the client	Produce historically appropriate, energy efficient site plans and drawings which satisfy the clients' needs	Thoroughly research historic nature of property	Decrease tax liability	Preserve the unique historical, archaeological, architectural, and cultural resources of DC's built environment	Revitalize District neighborhoods
Maximize Developer Fees			Prepare HTC applications	Monitor compliance to protect tax credits through enforcement period		Increase the number of affordable housing units
Minimize Costs			Guide developer through the process	Invest in projects that fit within their underwriting models		Maximize leverage/impact of their financial resources
Demonstrate Capability						

whether the financing structure incorporates historic tax credits. In addition, DHCD imposes a \$2.5 million developer fee cap if the project requires financial resources from the agency. Despite these limits, the pro-forma still demonstrates the HTC's ability to increase the developer's fee.

BUSINESS DEVELOPMENT CONSIDERATIONS

Scouting new business opportunities for the next development in the pipeline can be challenging, and becomes more challenging when historic rehab is added to the mix. Not all historic property redevelopment projects are natural candidates for the tax credit. If the

project does not fit the tax credit criteria or the developer cannot structure the deal to bring in the tax credit investor, then the project will not work as an historic tax credit venture. The following provides some considerations for the types of projects viable for historic tax credits.

If a project incorporates LIHTC into the deal, and the building can qualify for historic tax credits, then the developer should pursue both.

Tax credit deals are a complex and expensive process, requiring legal counsel. As a result, many LIHTC projects in D.C. target buildings with at least 50 units to have enough rehabilitation expenses to offset syndication

fees, tax credit applications, and legal fees not included within eligible basis. Because LIHTC renovations are usually substantial, and there is minimal increase in legal expenses for adding HTC, pairing both achieves economies of scale and attracts more equity while minimally changing the development budget.

High rehab costs and low acquisition costs create the ideal situation to maximize the benefit of the historic tax credit program.

Because the historic tax credit can only be applied to expenditures related to the rehabilitation of the building, the benefit of the 20 percent credit is maximized when all other expenses are minimized. Projects that received site acquisition subsidies decreased or eliminated their acquisition costs, which helped close the financial gap and maximized the ratio of HTC equity to total development costs.

Attract a minimum of \$1 million - \$1.5 million in historic tax credits. The project must be large enough to attract a substantial amount of equity to offset tax credit legal fees and transaction costs. This is the case for both HTC and LIHTC.
For projects where rehabilitation costs are

substantial, historic tax credits can make the difference between a project that is financially viable and one that is not. Generally, projects of at least 50 units and rehabilitation costs between \$50,000 and \$100,000 per unit are typical candidates for pairing a historic tax credit project and LIHTC project in the District. Minimum eligible rehab costs are recommended to be roughly \$5 million to \$7.5 million in order to attract a minimum of \$1 million to \$1.5 million in historic tax credit equity. While this is general practice, some HTC projects have been completed with lower rehabilitation costs.

Four Percent LIHTCs may better maximize the benefit of HTC equity.

HTCs are frequently paired with LIHTC when a developer is pursuing Tax Exempt Bonds and four percent credits. Because most of the rehab costs are eligible for both LIHTCs and HTCs, the IRS requires that owners reduce the LIHTC eligible basis by the twenty percent historic tax credit before calculating LIHTCs or boosting eligible basis by thirty percent for a Qualified Census Tract. As a result, the lower eligible basis reduces the substantial impact that a nine

Table 3. Four percent vs nine percent scenario

Sample 100 Unit Project		LIHTC ONLY	LIHTC & HTC		
Eligible Costs per Unit		\$ 80,000	\$ 80,000		
Total Eligible Basis		\$ 8,000,000	\$ 8,000,000		
Value of HTC	20.00%	\$ -	\$ 1,600,000		
LIHTC Eligible Basis		\$ 8,000,000	\$ 6,400,000		
4% Tax Credits	3.24%	\$ 259,200	\$ 207,360		
9% Tax Credits	7.55%	\$ 604,000	\$ 483,200		
4% Equity		\$ 2,592,000	\$ 2,073,600		
9% Equity		\$ 6,040,000	\$ 4,832,000		
HTC Equity		\$ -	\$ 1,600,000		
Total Equity Raised				Net Increase	Percent Increase
4% Project		\$2,592,000	\$3,673,600	\$1,081,600	42%
9% Project		\$6,040,000	\$6,432,000	\$392,000	6%

percent LIHTC would have on attracting more equity. After accounting for the reduction in the eligible basis, the difference in equity attracted between the two LIHTC options is significant.

Table 3 demonstrates the effects of pairing HTCs with four percent and nine percent LIHTCs. The table shows that the HTC more than makes up for the reduction in equity raised by four percent credits by increasing the net equity raised by 42 percent, while net equity for a nine percent project only increases six percent. When acquisition credits are added in, the value of HTC equity to nine percent projects is reduced even more, potentially eliminating the value altogether.

Consider grouping two or more smaller projects to create one large deal.

Smaller projects that may not make sense financially on their own could be coupled with other projects, similar to the Webster Gardens and Fort View case study and other successfully completed affordable historic tax credit projects in the District. Coupling sites has a number of benefits, including achieving better economies of scale by combining design fees, lowering contractor overhead and increasing profit, lowering legal fees, completing two or more projects under one construction timeframe, and obtaining public financing more quickly than if the developer filed two or more proposals.

TIPS FOR A SOLID DEVELOPMENT TEAM

Emphasizing the importance of a strong development team with proven experience is not unique to projects that include historic preservation. However, the additional coordination – navigating the historic designation process and ensuring compliance

with the Secretary of the Interior Standards for Rehabilitation – makes it even more crucial to organize a solid team. The following are best practices in team development:

Hire and retain a historic consultant through the end of construction.

Historic consultants can help navigate through documentation for National Register listing, local landmark designation and certification for federal historic tax credits. They provide technical assistance with applications, architectural design review, and expertise in translating the Secretary's Standards. Retaining historic consultants through the full development process of the project will help in the initial designation phase and during construction as issues may arise about historic elements.

Hire an architect/contractor experienced in historic preservation.

Architects with experience in historic preservation rehab projects are better equipped to inform their clients about the historic standards at the start of the project, which can help prevent changes mid-way through pre-development or even construction. Equally as important is hiring a general contractor who can cost and execute the historic preservation practices.

Issues related to historic elements may arise. Throughout the process, the team submits renovation changes or questions to the SHPO and NPS for review and feedback. An experienced contractor understands that this process can take time and identifies other work to be done during the wait to speed up completion of the project.

Ensure all team members are present at concept, pre-development, and construction meetings – especially meetings with NPS. Moving forward with all team members present and engaged will help the project run smoothly. This will ensure that everyone understands how the standards may affect the project.

Require that architects and historic consultants review each other’s work and suggestions.

Historic consultants write a narrative about the rehabilitation project, which is the basis for the historic tax credit certification. Architects develop drawings and plans as a guide for the contractor during construction. Requiring architects and historic consultants to review each other’s work provides useful feedback among team members and ensures additional security that these guiding documents are in line with each other and with all federal and state regulations and laws.

Consult with an insurance carrier to purchase historic tax credit insurance.

Developers should purchase historic tax credit insurance to protect the tax credits in unforeseen situations (i.e. a fire during the construction phase in which the building burns and is unrecoverable). In addition to just being prudent, historic tax credit insurance would also particularly benefit any smaller developer or non-profit organization in their negotiations with the investor. That could translate into reduced contingencies, reserves or liquidity requirements, because the investor does not have to worry about recapture risk in the event of a major casualty event. The property insurance agent or consultant that a developer uses should be able to guide them to a carrier who will provide the insurance for the tax credits.

KEY ELEMENTS FOR HISTORIC PROJECTS

When combining LIHTC and HTC, projects must comply with the requirements of each program. Priorities such as public health and safety, energy efficiency, and increasing the number of larger units can cause difficulty in certain historic rehab projects. Some of the construction challenges in meeting these rules are listed on the following pages:

In any HTC project, it is important to remember these three rules before developing a plan:

- 1. Retain and preserve the historic character of a property and avoid removal or alteration of features and spaces that characterize a property.**
- 2. Repair rather than replace deteriorated historic features. When features are deteriorated beyond repair, the new feature must match the existing visual qualities and materials of the historic elements, if possible.**
- 3. New construction shall not destroy historic materials that characterize the property, and be and compatible yet differentiated from the historic features.**

ENVIRONMENTAL REMEDIATION



Lead and asbestos remediation is required by HUD, the D.C. Housing Finance Agency (DCHFA), and DHCD. While the inclination from developers and housing agencies is to replace all hazardous materials with new ones, compliance with the Standards requires applicants determine if retaining existing elements is possible.

Hazardous materials can either be encapsulated or treated off-site and returned to the building. Both methods drive construction costs higher than replacing with new materials.

ADDITIONAL EGRESS/ HANDICAP ACCESSIBILITY



Many historic buildings do not have enough means of egress and handicap accessibility that meets federal and local codes, such as the Uniform Federal Accessibility Standards (UFAS), American Disabilities Act (ADA) and Architectural Barriers Act (ABA). All buildings funded by the federal government, including LIHTC deals, must abide by these standards and often require new construction added to the building. When new elements are added, it can be challenging to identify an appropriate design that is compatible with other historic features.

WINDOWS



Original windows are significant to the historic character of older buildings, contributing as one of the most important and prominent features of the building, both inside and out. Windows differ in size, number of panes, operability, framing and trim. A window that is historically appropriate for one building may not be approved in another building, even if they were built in the same time period. In some cases, windows that have already been replaced do not need to match the replacements or the originals and may use modern material.

Another challenge is the pressure to meet or exceed sustainability goals as they relates to heating and cooling. Windows play a major role in helping to seal the building envelope. Using replacement windows is often touted as the green choice, because historic windows by themselves may not perform as well in reducing energy costs over the life of the project. However, the longevity of maintained historic windows can be far greater than replacements, resulting in less waste and costs over time. To improve a building's energy efficiency, many developers decide to use storm windows, which meet the Secretary's Standards. Historic windows used in combination with storm windows have been shown to have even better insulating properties than double-pane windows, according to preservation publications by NPS.

INSULATION, VENTILATION, AND WIRING



Finding ancillary space for electric, water, and gas meters, sprinklering, and new ductwork can be a challenge. Ordinarily, bulkheads are used to lower ceilings for additional wiring and ventilation; however, according to the Standards, a typical ceiling height cannot be dropped in main living areas and bedrooms where they would obscure windows or architectural features. Any new ductwork to improve energy efficiency may need special accommodations, including the installation of a small-ducted air conditioning system, often referred to as “pancake” units, or soffitting work. Increasing the energy efficiency of the building envelope can be a challenge, because proper insulation requires furring out the walls. Furring refers to the preparation of a wall, ceiling, or floor with strips of wood or metal to provide space for plaster or insulation. It can be a challenge because of the need to retain and reinstall original interior trim, such as baseboards and window surrounds.

FLOOR PLAN RECONFIGURATION



Preference points in DHCD's financial incentive application are given to projects that provide wraparound services, such as workforce development, health and wellness activities, and others specific to the needs of the residents, and larger unit sizes with at least three bedrooms.

To design around these policy priorities, an architect may need to alter the layout of a building to accommodate a large multi-purpose meeting space or combine two or three units into one large four-bedroom unit. Generally, a historic project needs to keep public spaces, such as lobbies and corridors, as well as unit configuration intact. Due to the often repetitive nature of upper floors in a mid-rise building, minor floor plan changes may be easier to get approved, although the corridors and lobby still must remain intact. Altering units will ultimately depend on the property itself – if there are no other alternatives available, there may be some flexibility to reconfigure a few units. Development teams have found space for community rooms in existing basements, combined one to two bedrooms into a large multi-purpose room, or even built bumpouts to extend an apartment.

Even with these common challenges, development teams, in collaboration with NPS and SHPO, found solutions to meet the Standards and complete the rehabilitation projects. In addition, NPS develops best practices in response to new materials,

methodologies, and public priorities and their application to historic preservation projects. To assist developers, NPS can identify ways to weave common construction priorities into a rehabilitation project.



INVESTOR

A primary benefit of financing a HTC project is the opportunity to claim the full amount of federal tax credits in the year that the building is placed in service. This is different from LIHTCs, which are received over 10 years after the building is occupied and functioning. Because of this benefit, historic tax credits may improve developers' average equity pricing. HTCs help boost an investor's return on investment to a certain extent, because more tax credits are received earlier on, which helps with pricing. HTC deals are not more difficult from an underwriting perspective as long as the return on investment fits within the model of the investor. Investors interviewed have never seen HTCs negatively impact equity pricing.

The HTC program requires that the rehabilitation is maintained, the building is income-producing and remains under the same ownership for a minimum of five years from the date it was first placed in service. As previously mentioned, if a project fails

to comply, the IRS can recapture the benefits by reducing the tax credit by twenty percent for each full year after the rehabilitated property is placed in service. Because of this rule, investors want to ensure that their return on investment remains intact and nothing about the deal will prevent them from receiving the tax credits. Investors will incorporate compliance language into legal documents and send an asset manager to monitor and enforce affordability covenants as part of LIHTC and historic rehab issues for HTC.

Throughout the 15-year LIHTC compliance period, investors' asset managers visit each property at least once a year. There is frequent contact with the deal's partners, mainly the developer and management entities, to ensure the property is in compliance and operating as anticipated. Contractual language within the Operating Agreement regarding the loss of credits – for both LIHTC and HTC helps minimize tax credit losses or recapture through HTC's five-year compliance period.

DHCD

DHCD has provided gap financing to most of the projects that have utilized both HTC and LIHTC in D.C. Major underwriting issues that arise with these projects are not related to the historic nature of the property. Instead, issues like development team capacity or faulty project budgets can create concern for DHCD.

As part of DHCD's underwriting process, developers are required to provide a "clean" environmental report without hazards. If the building has any environmental issues such as lead or asbestos, the developer must provide a plan to remediate any hazards as part of the

development plan. If the developer plans to remediate lead or asbestos through encapsulation rather than replacement because of HTC program requirements, then DHCD requires an explanation of the remediation plan. The developer and DHCD then ask the SHPO whether the remediation plan is appropriate according to the Standards. This process often comes later in the underwriting phase and may delay DHCD's financial evaluation of the project.

PROCESS IMPROVEMENT CONSIDERATIONS

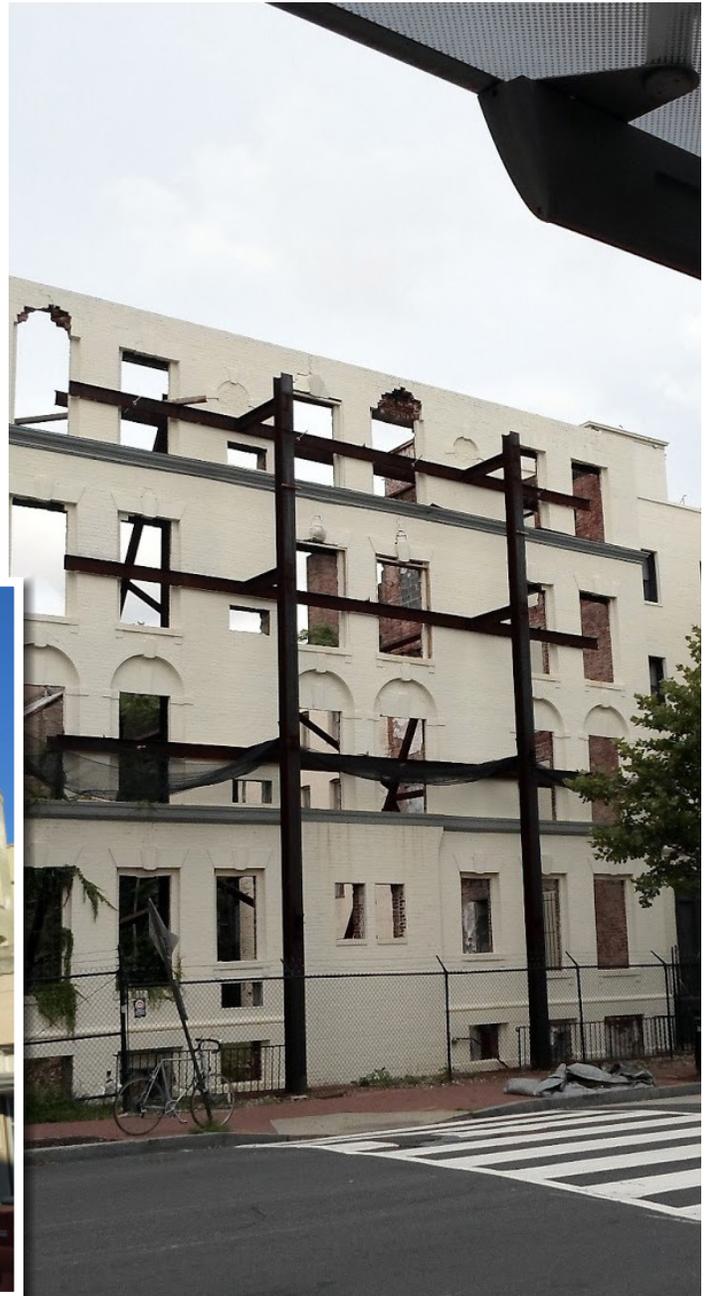
Many of the challenges development teams face can be eased with improved processes, including better communication between the developer, architect, and consultant, and better coordination between SHPO and DHCD.

There are times when a developer moves ahead with historic renovation treatments before receiving NPS approval. In this instance, NPS could deny the project for federal tax credits.

It is important that developers communicate early and regularly with the SHPO, be flexible with the design, document the project through pictures before, during, and after construction, become educated on policies through NPS' website and case studies, and understand that the written narrative for Part 2 of the certification process takes precedent over architectural plans in reviewing the application. These practices can help ensure a smooth process.

It is also important that development teams allow enough lead time to discuss the development plan and building's eligibility for certification on the National Register before submitting the project

to DHCD for gap financing. Development teams should speak with the SHPO about three months in advance of submitting an application to DHCD. The historic tax credit regulations suggest a 30-day review by the SHPO and a thirty-day review by NPS for each respective part in the certification process. Multiple points of contact, for SHPO and NPS on historic preservation issues and for DHCD on financing, can create additional challenges for development teams. The more SHPO and DHCD can coordinate on policies related to projects that pair both HTC and LIHTC, the easier the process for development teams.



Project Focus: The Monsenor Romero Apartments

The Monsenor Romero Apartment building, once known as the Deauxville Apartments, is located in the Mount Pleasant Historic District. Half of the building burned down in March of 2008, which left nearly 200 residents homeless. Tenants were provided rent vouchers to find temporary housing as they waited to return to their homes. After the fire, only the southern twin portion built in the 1920s and the connecting tower built in the 1950s remained. Later, the Deauxville went up for sale, and the tenants association, with the help of a \$4 million loan from DHCD, exercised their right of first refusal through TOPA and assigned their rights to the National Housing Trust. The building's deteriorated walls and units were gutted to restore the building's original 57,000 square feet. The building originally had 102 efficiency units prior to the fire. Post construction, the unit count decreased to 63; however, the building now provides a range of unit sizes from efficiencies to family-sized three-bedroom units as well as community space. Of these units, 45 were dedicated to returning residents with rent restrictions limited to 30 percent of the residents' income. The \$19 million development costs generated \$1.7 million in historic tax credits in addition to 9 percent low-income housing tax credits.

7 RECOMMENDATIONS FOR DISTRICT GOVERNMENT

This section synthesizes content from previous sections into a list of actions that can help developers better navigate the historic tax credit process and may improve inter-agency coordination. To foster more affordable housing and historic tax credit projects, District agencies should consider the following strategies:

- **Better Evaluate Historic Tax Credit Projects within the Underwriting Process**
- **Develop Additional Financial Incentives for Historic Tax Credit Projects**
- **Increase Outreach and Education about the Historic Tax Credit Program, Rules, and Requirements**

STRATEGY 1: UNDERWRITING PROCESS

DHCD should request that the SHPO provide a threshold review of all historic renovation projects as part of its underwriting process. This threshold review would be an addition to DHCD's current evaluation of a project. The SHPO could review and comment on:

- The participation of a historic specialist on the development team.
- Positive track record, or solid capacity, to complete a historic rehabilitation tax credit project.
- A development plan that meets the Secretary of the Interior's Standards for Rehabilitation.

By incorporating an initial threshold review by the SHPO early in the process, DHCD can

immediately work with SHPO, NPS, and the developer to address issues related to historic preservation, such as environmental remediation or fire and safety code upgrades, before proceeding with the underwriting analysis.

STRATEGY 2: FINANCIAL INCENTIVES

DHCD should develop additional financial incentives that may attract more historic tax credit projects in D.C. One financial incentive could establish a "Difficult to Acquire Zone," which would provide an eligible basis boost similar in nature to the federal Qualified Census Tract (QCT). Because a high percentage of the historic stock is located in some of the most costly areas of the city, the basis boost would help developers maximize the benefit of the historic tax credit on sites where acquisition costs may exceed rehabilitation expenditures. The basis boost would be funded locally. More analysis is needed to determine the appropriate incentive package for the proposed Difficult to Acquire Zone.

A change in the current developer fee cap is a second opportunity to increase more historic tax credit projects among the affordable housing development community. The developer fee is currently capped at \$2.5 million, regardless of rehabilitation costs. As a result, larger projects, including severely deteriorated ones, may lose a portion of the developer fee that they would otherwise receive without pursuing DHCD financing. The project presented in *Appendix A* was capped at \$2.5 million and amounts to 10 percent of total project costs, which is less than HUD's 12 percent cap. DHCD should consider an increase in the dollar amount of

the fee cap or switch to a percentage of the development costs. This policy would help the developer's profit and overhead to better reflect the additional costs, effort, and time that larger, more substantially rehabbed projects require; thus making historic preservation and LIHTC projects more attractive. More analysis is needed to determine the appropriate percentage or fee cap.

The last financial recommendation is a charge to HPO to pursue additional funding sources that could enhance programming and offer incentives to affordable developers who pursue HTCs and LIHTCs. One incentive could be a grant program to hire and retain a historic consultant, who can provide valuable expertise to the development team, for the building's historic designation, predevelopment, and construction activities.

STRATEGY 3: OUTREACH AND EDUCATION

Holding more cross-agency trainings, educational events, and community outreach could help raise awareness of the historic tax credit policies, processes, and benefits. The SHPO and DHCD should consider the following outreach and education tactics:

- *Coordinate cross agency trainings:* Agencies that deal with historic preservation projects, including DHCD, SHPO, the Office of the Deputy Mayor for Planning and Economic Development, and the Department of General Services, could benefit from more communication about the Standards and common rehab hurdles. Cross agency trainings by HPO would help as these agencies underwrite projects and develop land disposition solicitations.
- *Host educational events:* SHPO should coordinate with member-led organizations, such as the Coalition for Non-Profit Housing and Economic Development

(CNHED), the National Development Council (NDC), and the Housing Association for Non-Profit Developers (HAND) to organize educational seminars and workshops around topical issues pertaining to the historic tax credit program. Topics may include: financing basics with HTC, an introduction to the Secretary of the Interior's Standards for Rehabilitation, case study presentations and tours, and key considerations and recommendations for common rehab challenges, such as window selection, energy efficiency, or UFAS compliance.

- *Increase awareness to tenant advocacy organizations:* Both DHCD and the SHPO should raise awareness about the historic tax credit program to tenant advocacy organizations. Tenants who seek to exercise their TOPA rights often reach out to these organizations for technical assistance. It is important that residents are aware of the additional financing source as they move through the TOPA process.

CONCLUSION

Over the past 13 years, the HTC and LIHTC pair have helped to reinvigorate 20 substantially deteriorated sites in the District that were in need of significant environmental remediation, upgrades to meet building code requirements, and/or structural work. In some cases, the infusion of capital brought new life to vacant and underutilized buildings.

The HTC has provided needed equity to help close the financial gap and complete a successful project. While the HTC program has generated a substantial benefit for those sites, the 20 projects reflect a small portion of projects that could qualify. This resource guide demonstrates the benefit of the tax credit through a pro-forma analysis and presents key rehab challenges. Through increased education and outreach among District agencies and the community, additional financial incentives, and better evaluation during the underwriting process, the District of Columbia could create opportunities for more projects that revitalize deteriorated buildings and preserve the unique historic fabric of the city.

8 APPENDIX A: HISTORIC TAX CREDIT DEFINITIONS

Substantial Rehabilitation Test: To qualify for historic tax credits, an owner must spend more than the the adjusted basis of the building. The adjusted basis of the building can be calculated with the following formula:

$$\begin{aligned} & \text{Purchase Price of the Property (Building and Land)} \\ & - \text{Cost of the land at the time of purchase} \\ & + \text{Cost of any capital improvements made since the purchase} \\ & - \text{Depreciation taken for an income-producing property} \\ \hline & = \text{Adjusted Basis of the Building} \end{aligned}$$

Secretary of the Interior's Standards for Rehabilitation:

1. A property will be used as it was historically or be given a new use that requires minimal change to its distinctive materials, features, spaces, and spatial relationships.
2. The historic character of a property will be retained and preserved. The removal of distinctive materials or alteration of features, spaces, and spatial relationships that characterize a property will be avoided.
3. Each property will be recognized as a physical record of its time, place, and use. Changes that create a false sense of historical development, such as adding conjectural features or elements from other historic properties, will not be undertaken.
4. Changes to a property that have acquired historic significance in their own right will be retained and preserved.
5. Distinctive materials, features, finishes, and construction techniques or examples of craftsmanship that characterize a property will be preserved.
6. Deteriorated historic features will be repaired rather than replaced. Where the severity of deterioration requires replacement of a distinctive feature, the new feature will match the old in design, color, texture, and, where possible, materials. Replacement of missing features will be substantiated by documentary and physical evidence.
7. Chemical or physical treatments, if appropriate, will be undertaken using the gentlest means possible. Treatments that cause damage to historic materials will not be used.
8. Archeological resources will be protected and preserved in place. If such resources must be disturbed, mitigation measures will be undertaken.
9. New additions, exterior alterations, or related new construction will not destroy historic materials, features, and spatial relationships that characterize the property. The new work will be differentiated from the old and will be compatible with the historic materials, features, size, scale and proportion, and massing to protect the integrity of the property and its environment.
10. New additions and adjacent or related new construction will be undertaken in such a manner that, if removed in the future, the essential form and integrity of the historic property and its environment would be unimpaired.

APPENDIX B: BASIC PARAMETERS OF THE LOW-INCOME HOUSING TAX CREDIT PROGRAM

The Low-Income Housing Tax Credit (LIHTC) program makes tax credits available to developers who rehabilitate or build new housing reserved for lower income renters. Similar to the HTC program, LIHTCs are not intended to finance the entire project; rather, the infusion of equity reduces the amount of money a developer has to borrow and pay interest on, which reduces the amount of rent that needs to be charged.

CREDITS AND BASIS BOOSTS

The LIHTC program has two levels of tax credit: nine percent and four percent of eligible project expenses. Projects financed with a permanent loan from a conventional lender are eligible for nine percent credits and projects financed with federally subsidized tax-exempt bonds are eligible for four percent tax credits. In addition, developers may receive a four percent tax credit for the cost to acquire the building.

Tax-exempt bonds, or loans, are used to promote certain private-sector projects that could be beneficial to the public, such as affordable housing. Because of the tax savings, bond purchasers are generally willing to accept lower interest payments, which are beneficial for LIHTC projects that have a stretched cash flow.

The major difference between the nine percent and four percent credits is that a nine percent credit can generate more tax credits and, therefore, more equity. As a result, the nine percent credits are limited and are allocated through a competitive application process. The LIHTCs are claimed over a ten-year period, but

require affordability compliance for a 15-year period and then an additional fifteen-year period of extended use obligation. In addition, D.C. requires a ten-year extended use period after that, totaling forty years of affordability.

The qualified expenses of a project can get a 30 percent increase, or basis boost, if the project is located in a census tract designated by HUD as a low-income tract, called a Qualified Census Tract (QCT), or a high-cost area called a Difficult to Develop Area (DDA). In fiscal year 2015, the District has 78 QCTs, but did not qualify as a DDA.

AFFORDABILITY REQUIREMENTS

Income and rent requirements are set each year by HUD. Washington D.C's Median Family Income (MFI) for a four-person household was \$107,000 in 2014. Rent is limited to 30 percent of the MFI. To qualify for credits, a project must have at least 20 percent of its total residential units rented to individuals or families who earn less than 50 percent of the gross median area income, or 40 percent of the total units at 60 percent of the area median income.

THE ALLOCATION PROCESS

The federal government, the District government, the developer, and the investor take part in the process of allocating, awarding, and then claiming the LIHTC. Below is a brief summary of each entity's role as it relates to the LIHTC allocation process.

- **Federal Government:** Determines allocation of LIHTCs and bond cap in each state based upon its population. HUD mandates that each state give priority to projects that (a) serve the lowest income families; and (b) are structured to remain affordable for the longest period of time. The IRS sets tax credit rates and publishes them each month.
- **State Government:** The administration of the tax credit program is carried out by each state's Housing Finance Agency (HFA). In the District, DHCD allocates nine percent credits and DCHFA allocates tax-exempt bonds and four percent credits. DHCD is charged with developing a Qualified Allocation Plan (QAP), which sets the state's priorities and eligibility criteria for awarding federal tax credits and tax-exempt bonds. Developers apply for credits by proposing development plans to the HFA. The QAP guides decision-making for competitive credits based upon the State's goals regarding affordable housing issues.
- **Developers and Investors:** Upon receipt of a LIHTC allocation, developers typically exchange the tax credits with an investor for equity. Pricing for equity is based upon the investors' return on investment and the real estate market. As of November 2014, some D.C. developers have been able to get more than \$1.00 of equity for every \$1.00 of tax credit in market.

APPENDIX C: PRO-FORMA ANALYSIS

This section presents a pro-forma analysis of a hypothetical project that utilizes HTCs for a low income housing deal in Washington, D.C. The analysis incorporates two scenarios, all else equal, one with and one without historic tax credits. Designed as a prototypical historic affordable housing deal – one that utilizes LIHTC, tax-exempt bonds, has substantial rehabilitation needs, and sets 100 percent of the units at affordable rents – this project mimics previous projects that paired LIHTC with HTC in the District. The analysis reveals that historic tax credits, while possibly adding some additional hard and soft costs, can positively impact a project by increasing the source of funds.

PROJECT INFORMATION

The following are project facts about the physical building, rehab and operating costs, and financing structure that served as a baseline for the analysis.

- 100-Unit Building
- 100 percent of the units set aside for 60 percent AMI or less (rents taken from HUD limits, 2014)
- Pursued four percent LIHTC rehab and acquisition credits and tax exempt bonds
- Rehab costs at \$80,000 per unit
- All-in tax-exempt bond rate: 5.2 percent (Recent DCHFA projects)

- LIHTC and HTC pricing set at \$1.00 for every \$1.00 of tax credit
- LIHTC floating rate set at 3.24 percent (IRS published rate for November 2014)
- Soft costs, professional fees, and other costs calculated from previous projects that utilized LIHTC, HTC, and bond financing (average of 7 DCHFA projects)
- Contingency is ten percent of rehab costs
- DHCD developer fee cap and fee calculation incorporated into the pro-forma

It is important to note that this analysis strips away the many layers of financing that can sometimes be found in these types of deals, including a soft second mortgage from DHCD, deferred developer fee, project-based vouchers through a Housing Assistance Payment Contract with HUD, or green building grants. Without these additional sources, it is easier to identify how HTCs impact the deal.

PROJECT PRO-FORMAS

All else equal, the addition of historic tax credits benefits the pro-forma by increasing sources of funds. The increase in funds leveraged outweighs the costs to incorporate historic tax credits into the deal. In this scenario, historic tax credits reduced the financial gap by \$1,515,813 or approximately \$1,500 per unit.

PROJECT DIFFERENCES IN SCENARIO THAT UTILIZED HISTORIC TAX CREDITS

There are some additional hard and soft costs associated with historic tax credits that were incorporated into the HTC scenario. Estimated changes were taken from stakeholders interviewed as follows:

- Five percent increase in rehabilitation costs – to account for more expensive elements, such as windows, doors, or trim. Project by project, this is the most volatile variable, and can fluctuate depending upon the building’s needs. Some development teams thought the historic tax credit program had little to no effect on rehab costs, while some who experienced significant structural repairs thought the historic tax credit program raised or lowered the rehab costs by at least ten percent or more;
- Two percent increase in architectural design fees, a small change because of the additional time required to select historic elements;
- Due to the increase in rehab costs, the contingency amount increased by five percent, but the percentage of rehab costs remains the same at ten percent;
- Additional costs for historic designation of \$20,000 for National Register fees (if needed) and \$40,000 for an historic consultant;
- Six percent increase in operating reserves - to account for historic elements that may need replacement;
- Due to the increase in rehab costs, the developer fee increased by \$43,910 while the fee cap and formula calculation remained the same.

Summary of Pro-Forma Gap Analysis Without Historic Tax Credits

Uses	Total Development Costs	% of Total Development Costs
Acquisition	\$6,500,000	26.97%
Hard Costs	\$9,693,000	40.22%
Professional Fees & Other Soft Costs	\$2,800,000	11.62%
Developer Fee	\$2,456,090	10.19%
Financing	\$1,950,000	8.09%
Reserves	\$700,000	2.90%
Total Uses	\$24,099,090	100.00%
Acquisition Costs Breakdown		% of Total Acquisition Costs
Build Acquisition	\$ 4,550,000	70.00%
Land Acquisition	\$ 1,950,000	30.00%
Total Acquisition Costs	\$ 6,500,000	100.00%

Sources	
Historic Tax Credits Equity	\$ -
LIHTC Equity	\$ 5,993,106
Tax Exempt Bonds	\$ 7,299,665
Total Uses	\$ 13,292,771
Gap?	\$ 10,808,319
Gap Per Unit?	\$ 108,063

Summary of Pro-Forma Gap Analysis With Historic Tax Credits

Uses	Total Development Costs	% of Total Development Costs
Acquisition	\$ 6,500,000	26.29%
Hard Costs	\$ 10,173,000	41.15%
Professional Fees & Other Soft Costs	\$ 2,900,000	11.73%
Developer Fee	\$ 2,500,000	10.11%
Financing	\$ 1,950,000	7.89%
Reserves	\$ 700,000	2.83%
Total Uses	\$ 24,723,000	100.00%
Acquisition Costs Breakdown		% of Total Acquisition Costs
Build Acquisition	\$ 4,550,000	70.00%
Land Acquisition	\$ 1,950,000	30.00%
Total Acquisition Costs	\$ 6,500,000	100.00%

Sources	
Historic Tax Credits Equity	\$ 2,910,309
LIHTC Equity	\$ 5,245,813
Tax-Exempt Bonds	\$ 7,274,372
Total Sources	\$ 15,430,494
Gap?	\$ 9,292,506
Gap Per Unit?	\$ 92,925

APPENDIX D: AFFORDABLE HOUSING PROJECT INDICES, FISCAL YEAR 2014

Since 2000, developers have provided nearly 1,900 rehabilitated affordable housing units, including more than 800 new units, in historic buildings in Washington, D.C. During fiscal year 2014, using the federal historic preservation tax credits, 252 affordable housing units were under rehabilitation throughout the District, including

188 new affordable units. Many of these buildings received historic designation after application by owners seeking to take advantage of the federal tax credits. Affordable housing projects are now the major beneficiaries of the federal preservation tax credits in the District of Columbia.

DC Affordable Housing Projects Using Federal Historic Preservation Tax Credits Since 2000

FY Certified	Project Name	Neighborhood	Net New Affordable Units	Net Rehabilitated Units	Certified Costs \$	Other Costs \$	Federal 20% Subsidy
Active	Concord Apartments	Brightwood	79	-	7,730,000	-	1,546,000
Active	The Vizcaya	Brightwood	16	-	1,581,000	-	316,200
Active	The Valencia	Brightwood	31	-	2,987,000	-	597,400
Active	Monsenor Romero Apartments	Mount Pleasant	63	-	8,563,000	-	1,712,600
Active	The Maycroft	Columbia Heights	(1)	64	8,000,000	-	1,600,000
2014	House of Lebanon	Mid North Capitol	78	-	18,500,000	703,000	3,700,000
2014	Whitelaw Hotel	U Street	-	35	3,280,000	5,802,000	656,000
2013	Dahlgreen Courts	Brookland	96	-	3,000,000	6,400,000	600,000
2013	Mayfair Mansions (Phase II)	Mayfair/Parkside	-	160	21,450,000	11,074,000	4,290,000
2012	Saint Dennis Apartments	Mount Pleasant	32	-	5,306,000	278,000	1,061,200
2011	Webster Gardens	Petworth	47	-	7,700,000	146,000	1,540,000
2011	Fort View Apartments	Brightwood	62	-	8,800,000	236,000	1,760,000
2011	The Euclid	Adams Morgan	(12)	47	9,779,000	-	1,955,800
2011	The Sorrento	Adams Morgan	(8)	23	7,585,000	-	1,517,000
2010	Mayfair Mansions (Phase I)	Mayfair/Parkside	2	409	40,636,000	5,267,000	8,127,200
2009	Hubbard Place	Columbia Heights	230	-	23,488,000	260,000	4,697,600
2009	Wardman Row	14th Street	-	124	9,723,000	15,317,000	1,944,600
2005	The Olympia	Columbia Heights	26	54	14,039,000	300,000	2,807,800
2004	Clifton Terrace	Columbia Heights	32	152	30,695,000	1,335,000	6,139,000
2004	Trinity Towers	Columbia Heights	-	122	9,427,000	130,000	1,885,400
2003	Meridian Manor	Columbia Heights	34	-	3,922,000	56,000	784,400
	Total (actual and estimated costs)		807	1,190	221,741,000	47,304,000	\$52,508,000
	Grand Total (net new plus net rehabilitated)			1,997	\$269,045,000		
	Cost and Federal Subsidy per Unit				\$134,724		\$ 26,293

Note: Unit Counts differ from Table 1 on page 12 of the document. This document sourced what developers reported to the National Park Service, while Table 1 sourced the developer project galleries and DHCD financing documents. Active project numbers are estimated.

ADDITIONAL RESOURCES

For more information:

D.C. Historic Preservation Office

www.planning.dc.gov/hpo
202-442-8800

D.C. Department of Housing and Community Development

www.dhcd.dc.gov
202-442-7200

National Park Service - Technical Preservation Services

www.nps.gov/tps/tax-incentives.htm

NPS Preservation Briefs

www.nps.gov/tps/how-to-preserve/briefs.htm

Includes such topics as Cleaning Historic Masonry, Repointing, Improving Energy Efficiency in Historic Buildings, Repair of Historic Wooden Windows, Exterior Paint Problems on Historic Woodwork, Rehabilitating Historic Storefronts, Repairing Historic Flat Plaster, Maintaining the Exterior of Small and Medium Size Historic Buildings, and many more.

NPS Preservation Tech Notes

www.nps.gov/tps/how-to-preserve/tech-notes.htm

Provides detailed information on specific products, materials, and treatment methods for rehabilitating historic buildings.

National Register Bulletin Series

www.nps.gov/nr/publications/index.htm

Bulletins cover such topics as How to Complete the National Register Registration Form, How to Apply the National Register Criteria for Evaluation, and Researching a Historic Property.

DC Preservation League Contractor Database

www.dcpreservation.org/contractors/

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10 ACKNOWLEDGEMENTS

PROJECT TEAM

Art Rodgers
Senior Housing Planner
DC Office of Planning

Jennifer Skow
Capital City Fellow
DC Office of Planning

Anne Brockett
Architectural Historian
DC Historic Preservation Office

ARCHITECTS

Michael Wienczek
President
Wienczek + Associates

Scott Knudson
Vice President
Wienczek + Associates

Scott Matties
Principal
Cunningham and Quill Architects

CONTRACTORS

Kunal Shah
Director of Affordable Housing
Ellisdale Construction and Development

Tom Wahl
Vice President
Hamel Builders

DEVELOPERS/CONSULTANTS

Avram Fechter
Managing Director
EquityPlus, LLC

Elizabeth Everhart
Senior Development Manager
Mission First Housing Development Corporation

Jim Campbell
Principal
Somerset Development Company

Jim Knight
President
Jubilee Housing

Nancy Hoof
Principal
Somerset Development Company

GOVERNMENT

Audrey Tepper
Historical Architect
National Park Service

David Maloney
State Historic Preservation Officer
DC Historic Preservation Office

Denise Johnson
Senior Realty Project Manager
D.C. Department of Housing and Community Development

Oke Anyaegbunam
Development Finance Manager
D.C. Department of Housing and Community Development

HISTORIC CONSULTANTS

Andi Adams
Architectural Historian
Goulston & Storrs

Bill MacRostie
Principal
MacRostie Historic Advisors LLC

Edna Johnston
Principal
History Matters

Jen Hembree
Senior Associate
MacRostie Historic Advisors LLC

Sean Jones
Director of Acquisitions, Coastal Region
Raymond James Tax Credit Advisors

