Initiative Adds Renewable Energy to Affordable Housing in Washington, D.C.

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NHT Renewable, a green affiliate of the affordable housing developer National Housing Trust/ Enterprise Preservation Corporation (NHT/ Enterprise), recently created a model for installing renewable energy sources on affordable housing properties. For its first project, NHT Renewable installed four solar photovoltaic systems and two solar thermal systems on the roofs of five affordable housing developments in Washington, D.C. This included installing a solar array on top of the St. Dennis Apartments, in the Mt. Pleasant Historic District.

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"Energy costs are the largest variable for affordable multifamily housing. Our goal was to take a look at the expenses and figure out how to work on the cost constraints," said Michael Bodaken, executive director of NHT Renewable. "To reduce costs, make a more comfortable living for residents and to better the environment; those are the three reasons for starting this initiative."

The project, across all five housing developments, will generate 300,000 kilowatts of solar photovoltaic generation per year and 10,000 therms of solar thermal generation per year. The renewable energy generated at these developments will account for 50 percent of the communal area electricity. Under this model, NHT Renewable owns the renewable energy systems on St. Dennis Apartments and the other developments and sells electricity back to them. NHT Renewable was inspired in part by the Better Buildings Challenge, which aims to make commercial and industrial buildings across the country 20 percent more energy-efficient by 2020. While St. Dennis underwent rehabilitation in 2011, the renewable energy components at St. Dennis and throughout the portfolio were installed in September 2014.

St. Dennis Apartments' History

The St. Dennis Apartments were constructed in the 1920s as market-rate apartments. Over time, the building wore down and become housing for low-income individuals. In 2006, the development was in the midst of a lawsuit between the Martinez family, long-term residents, and the building owner. At that time, the owners desired to vacate the building with the goal of turning the rental units into market-rate condominiums in a rapidly gentrifying neighborhood. Among other tactics, according to development partners, the landlord neglected the buildings until residents left. After all other residents left, the Martinez family lived in the building's deteriorating conditions alone for more than a year, said Blake Biles, retired partner at Arnold & Porter LLP, who represented the Martinez family during the legal wrangling. After the two-year legal battle, a settlement was reached that gave the Martinez family the opportunity to purchase the building for $3.4 million, as long as they settled by July 31, 2008.

Arnold & Porter helped the Martinez family find a new buyer and developer: NHT/Enterprise. Biles said that NHT/Enterprise became interested in the development after reading about the Martinez family in the local newspaper. "The most difficult part was finding someone to buy the building," said Biles. He said this was challenging because it was during the start of the Great Recession. "NHT/Enterprise stepped up and got us to closing." Bodaken observed that it was important to

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the Martinez family that this development remains affordable to the neighborhood's low-income earners, so much so that they turned down a $100,000 offer from the previous owner to leave the building.

NHT/Enterprise purchased the St. Dennis Apartments on behalf of the Martinez family before the settlement deadline, with the goal to preserve and improve 32 units of affordable housing, eight of which ultimately received Section 8 project-based vouchers post rehabilitation. The development is reserved for residents earning up to 60 percent of the area median income (AMI). The rapidly increasing home prices were pushing the lower income earners out of the area, according to NHT/Enterprise. NHT/Enterprise found that home prices in this area increased by 69 percent in recent years: in 2000 the average home price in the area was $421,427, compared to $714,795 in 2007.

Breaking Down the Deal: 2011

In order to preserve the St. Dennis Apartments as affordable housing, a number of financial tools were used. This included a $3.24 million low-income housing tax credit (LIHTC) allocation provided by the District of Columbia Department of Housing and Community Development (DHCD), syndicated by Enterprise Community Investment Inc. "This is not what I would call your traditionally attractive deal. The building was in dire need of repairs, it had been intentionally neglected by the owners to get rid of its tenants. Our colleagues called it a compelling investment," said Monica Warren-Jones, director of relationship management, Mid-Atlantic impact market, at Enterprise Community Partners Inc. "This deal fit within our mission: to support the preservation of affordable housing for low- and moderate-income folks who would otherwise be priced out of a high-cost market like the Adams Morgan neighborhood."

Capital One Bank was the end investor for the LIHTCs. It provided a $2.59 million equity investment. Capital One Bank also provided a $900,442 historic tax credit (HTC) equity investment, a $4.4 million construction loan and a $2.2 million permanent loan, and was the lead bank on the $400,000 grant from the Federal Home Loan Bank of Atlanta. Ed Delany, senior vice president, Capital One Bank, said that this was an attractive deal because Capital One Bank had recently acquired Washington D.C.-based Chevy Chase Bank and the opportunity aligned with

Photo: Courtesy of National Housing Trust/Enterprise Preservation Corporation

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Capital One's growing community investment goals. "On 9 percent LIHTC transactions, we like to be on both the debt and the equity side of the transaction," said Delany. "Now in D.C., there is a lot of development going on. There is a kind of renaissance going on in the Mt. Pleasant and Columbia Heights neighborhoods, making property values skyrocket. Folks who live there are getting priced out, and the need to preserve and create affordable housing is greater than ever."

The District of Columbia Housing Authority provided eight project-based Section 8 vouchers and DHCD provided $1.845 million in Housing Production Trust Funds and a $1.837 million Section 1602 grant. "DHCD's involvement with the St. Dennis project impacted the lives of so many residents who are well-deserving of a quality, decent and safe place to live," said Marcus Williams, director of the office of communications and community outreach at DHCD. "[The redevelopment of the St. Dennis Apartments] helps to promote the

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preservation of affordable rental housing in an area with access to good schools, public transportation and retail outlets all of which provide important economic development while encouraging diverse neighborhoods, ensuring easy access to good jobs and services for low-income families."

"The acquisition and renovation of St. Dennis Apartments exemplifies National Housing Trust's continued commitment to preserve affordable housing for low- and moderate-income families," said David Conway, partner in the Dover, Ohio, office of Novogradac & Company LLP, which provided the accounting consulting services to NHT/Enterprise.

Historic Rehab

In order to receive federal HTCs, many of the building's defining features had to be preserved. When NHT/Enterprise purchased the building, the windows had been replaced. Therefore, MacRostie Historic Advisors, the historic consultant for NHT/Enterprise, worked closely with the National Park Service (NPS) and the architectural team to obtain an approved design for historic replica windows. Furthermore, two brick walls in the back of the development were very soft and had begun crumbling before renovations took place, said Bill MacRostie, senior partner at MacRostie Historic Advisors. Therefore, MacRostie worked with the NPS and came to an agreement to use a stucco design to stabilize the back two walls. Finally, the marble work in the main lobby had to be preserved, too.

"The building was unusual in that it had been largely gutted; at least all of the finishes had been removed. Walls were all framed, but the finishes were removed," said MacRostie. MacRostie also helped secure the certifications necessary to receive HTCs.

Future of NHT Renewable: 2014

NHT Renewable's initial project received a $1 million MacArthur Award for Creative and Effective Institutions, $140,000 of which was used on this initial project. The remainder will be used for future projects. It was also funded with an approximately $730,000 loan from Enterprise Community Partners Loan Fund and a $40,000 grant from the District of Columbia Sustainable Energy Utility.

With the success of its first five projects, NHT Renewable is using the same model on another development in Washington, D.C., Channel Square, a 223-unit, 4-acre development in southwest Washington, D.C. Jared Lang, sustainable development manager at NHT Renewable, said that NHT Renewable intends to work with up to 10 owners over the next two years to further test this model. "We are actively looking to replicate this model both inside and outside of the D.C. area," he said.

St. Dennis Apartments
FINANCING

- $4.4 million construction loan from Capital One Bank
- $3.6 million acquisition loan from Enterprise Community Loan Fund
- $2.59 million LIHTC equity from Capital One Bank
- $2.2 million permanent loan from Capital One Bank
- $1.845 million in Housing Production Trust Funds from the District of Columbia Department of Housing and Community Development (DHCD)
- $1.837 million Section 1602 grant from DHCD
- $900,442 historic tax credit equity syndicated by Enterprise Community Investment with direct investment from Capital One Bank
- $400,000 grant from the Federal Home Loan Bank of Atlanta

NHT Renewable Development Financing (For the renewable energy components)

- $1 million MacArthur Award for Creative and Effective Institutions, $140,000 of which was used on this initial project.
- $730,000 loan from Enterprise Community Partners Loan Fund
- $40,000 grant from the District of Columbia Sustainable Energy Utility