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First-of-Its-Kind Financing Brings Transit Oriented Development to D.C.

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

A new mixed-use development near the Rhode Island Avenue Metro Station in Washington, D.C. will provide housing, shopping and restaurants for residents and commuters. The \$107 million project combines U.S. Department of Housing and Urban Development (HUD) financing with new markets tax credits (NMTCs) and District of Columbia payment in lieu of taxes (PILOT) financing. Urban Atlantic and A&R Development Corporation will build 274 apartments, 70,000 square feet of retail, two private garages and a Metro commuter garage.

“We were able to build this beneficial project using unique financing tools,” said Lois Fried, Urban Atlantic’s chief operating officer. “For this community, it is a catalyst to development in the future.”

Rhode Island Station’s redevelopment began in 2001 when the Washington Metropolitan Area Transit Authority (WMATA) awarded the Urban Atlantic-A&R Development joint venture development rights to what was then an 8.5 acre commuter parking lot for a northeastern Washington, D.C. metro station. It is the latest project in a system wide effort to improve the area’s transit stations by replacing surface parking with multilevel garages. In addition to building replacement garages, developers will construct mixed-use buildings on the former parking lots. Rhode Island Station

is also a target area for the District Department of Transportation’s Great Streets Initiative which provides funds to improve and maintain the streetscape in distressed areas of the city.



Rendering Courtesy: InterFace Multimedia

Rhode Island Station will feature 274 apartments above 18 to 22 ground floor commercial spaces.

“We always want to increase our ridership and the best way to do that is to provide a way for people to live, work and shop next to the station. It further anchors the redevelopment of that overall area,” said Steven Goldin, WMATA’s director of real estate.

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The development consists of three components: the Metro garage and two mixed-use buildings. Metro garage construction is under way and expected to take 12 to 15 months. The 215-space public parking garage, owned by WMATA, will provide combined commuter parking. The two Class A residential buildings will front a main street and include 219 market-rate residential units and 55 affordable housing units. The ground floors will feature 18 to 22 storefronts totaling 70,000 square feet. The developers expect restaurants to fill half of the spaces; the rest will be neighborhood services, such as dry cleaners and florists. They expect a drug-store to fill the largest space. The developers will deliver the first residential and retail units in autumn 2011, with the entire project completed by spring 2012.

"We worked hard to develop a design that looks and feels great for this community," said Caroline Kenney, Urban Atlantic project developer.

Kenney and Fried described the area as distressed and believe that the development will be a catalyst for further development in the neighborhood. Twenty percent of the residential units will be affordable to people earning up to 50 percent of the area median income and 10 percent of the retail space will be leased to local residents and community businesses.

"Because it's transit-oriented, Rhode Island Station is going to attract even more people. It's two stops from downtown. Retailers see the draw of having the metro right there," Kenney said.

Financing for the \$107 million project includes several public and private funding sources. The NMTC transaction included an \$18.7 million allocation from Low Income Investment Fund (LIIF) and Mid-City Community CDE (an Urban Atlantic affiliate), which resulted in a \$5.3 million equity investment from US Bancorp Community Development Corporation (USBCDC) and a \$13.4 million leveraged loan from the sponsor's affiliate and an equity bridge loan from USBCDC. Other financing included an \$82.4 million FHA loan with a Government National Mortgage Association (Ginnie Mae) guarantee. The Ginnie Mae guarantee gives the loan an AAA rating. The District of Columbia also provided \$7.2 million in PILOT financing and a \$1 million construction sales tax abatement in support of the Metro parking garage.

"LIIF is focused on transit-oriented development projects that create a neighborhood hub for living, working, shopping and transportation to job-rich areas. This project fits that description," said Judith Kende, LIIF's New York region director.

Funding the First

Rhode Island Station is the first development to combine HUD's

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Federal Housing Administration (FHA) 220 loan with NMTC financing. "HUD's dusting off the [Section] 220 program at a transit site. It's a trophy property, a feather in HUD's cap," said Fried.

The Section 220 loan program provides funding for multifamily housing properties in urban renewal and concentrated development areas. With a Section 220 loan, 20 percent of a property's square footage and 30 percent of its income can be commercial; this is compatible with the NMTC requirement that no more than 80 percent of the property's use may be residential.

"This is one HUD program where the new markets tax credits can match up," said Margaret Allen, AGM Financial Services Inc.'s chief executive officer. AGM served as the mortgager of record for the transaction.

Combining NMTCs with FHA loans can be complicated, but the programs can provide funding at a time when it is in short supply. "It's well worth it. It really fills a financing gap and allows investors to come into projects," Kende said.

When completed in a little more than two years, Rhode Island Station will join the ranks of a growing number of HUD-NMTC financed properties. HUD has been working with developers to get urban revitalization projects funded in the last couple of years and has seen projects using FHA Section 221(d)(4) loans in a master lease structure come to fruition, including New Orleans's Maritime Building (see the *Journal of Tax Credits'* April issue). ♦

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