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Tax credit key to housing deal

BY SHARON SIMONSON
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After years of negotiations and planning, the extraordinarily complex financing for the largest affordable housing project ever in San Jose was finalized this week and work on the 300-unit development has begun.

But in this case, project size is only one of several qualities that matter.

The deal marks a significant milestone in the development of affordable housing in the South Bay by virtue of its \$78.5 million pricetag — excluding the value of the land — and the \$33 million in federal tax credits that make the deal possible.

That's many times more than the typical affordable housing development, which entails \$5 million to \$10 million in tax credits, says Blake Davis, a senior vice president for Hudson Housing Capital, the New York firm buying the credits on the San Jose project.

"This is the largest deal we've ever done at Hudson since the company was founded in 1998," Mr. Davis says. "It will also be one of the biggest deals done in 2005 (nationally) in terms of the tax credits it generates."

The Corde Terra Family Apartments will sit on roughly 10 acres adjacent to Tully Road in East San Jose, land that was once part of the Santa Clara County Fairgrounds. When ready for occupancy in April 2007, units will go to families earning 60 percent or less of the area's median income, or \$63,660 a year or less for a family of four. Rents will range from \$851 a month for a one-bedroom apartment to \$1,346 for a three-bedroom unit.

Federal tax credits allow the holders to reduce their federal tax liability dollar for dollar. The federal government essentially forsakes the right to receive income taxes to encourage construction of affordable housing that is financed by the private sector.

In this case, the money put up to buy the tax credits is being used to help pay for the construction



COURTESY ROEM DEVELOPMENT CORP.

NEW LIVING ROOM: Ground-breaking was held Sept. 9 for the Corde Terra project, shown in an artist rendering. The 12-acre project is located at 2600 Corde Terra Circle in San Jose and will be comprised of 300 units of affordable family housing and 43 single family homes.

of the homes, Mr. Davis says. The tax credits then are doled out over 10 years at roughly \$3.3 million a year. That reward over time ensures that the investors remain active in managing the project and that living standards within the project do not wane. The federal government retains the right to take back tax credits under certain conditions.

Hudson ultimately plans to sell the credits to third-party investors. Such investors are typically companies with significant annual net income such as banks and insurance companies that sometimes face "huge annual income tax bills," Mr. Davis says.

In addition to the tax credits, the investors also will receive the projected operating losses that the project will generate as it is depreciated over the next 40 years. While varying from year to year, those annual losses are generally about \$2 million and also can be used to shelter other income from taxes.

"This has been one of the most challenging deals that I've had to deal with to date," says Daniel A. Goncharoff, a certified public ac-

countant and the chief financial officer for the developer, ROEM Corp. of Santa Clara.

ROEM, which specializes in affordable housing construction along with a small group of other local companies, is developing the apartments in conjunction with the Housing Authority of Santa Clara County, a local non-profit unaffiliated with county government.

"This is the largest, single affordable housing project that we've funded in San Jose" as measured by the number of units, says Mike Meyer, assistant director of the San Jose Housing Department.

The city's housing department has provided \$21 million in permanent financing for the project as well as \$19 million in construction financing that will be folded into the final loan. The city uses revenue generated by its redevelopment agency to finance affordable housing construction. Since 1999, it has built 7,000 affordable housing units in San Jose. It plans to build or have under construction another 3,000 by the end of next year, he says.

The California Housing Finance

Agency is supplying a \$24 million mortgage loan to round out the deal, using the proceeds from tax-exempt bonds.

The land beneath the complex is being leased by Santa Clara County, which will receive payments from the project of \$364,000 a year for the next 75 years.

Still in the works are 200 apartments planned for extremely low-income seniors, also on the fairgrounds site.

Finally, as part of a related but separate deal, ROEM is buying just more than two acres next to the apartment development from the county. It is to pay \$2.523 million for the land and expects to build 43 single-family detached homes on the property. ROEM will sell those homes, which will range from 1,615 square feet to about 2,100 square feet, at whatever price the market will bear. Escrow for that sale is expected to close any day, says Pat Love, development and special projects director at Santa Clara County.

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