

Transforming Communities.
Transforming Lives.



[Home](#) / [TCA Articles](#) / [Case Study: Paxton Apartments in Washington, DC](#)

Case Study: Paxton Apartments in Washington, DC



By Mark Fogarty / Issue: February 2023

SHARE:



DC Bond Deal Takes Advantage of Inverted Yield Curve

The four percent Low Income Housing Tax Credit goes hand-in-hand with tax-exempt bonds. To paraphrase the old song “Love and Marriage,” you really can’t have one without the other. The current interest rate environment, however, has led to some creative opportunities for pairing these financing elements. For example, in one recent bond deal, parties utilized a “cash-backed forward structure” created by Washington, DC-based Tiber Hudson LLC to take advantage of the current inverted yield curve.

That yield curve inversion (as of this writing the two-year Treasury was trading at approximately 4.15 percent, while the Municipal Market Data was trading at approximately 2.15 percent) creates an opportunity to capture positive earnings for the deal, according to Lauren Marcus, Esq., a senior associate with Tiber Hudson, which acted as counsel to underwriter Stifel, Nicolaus & Company, Incorporated on the project.

In 2022, the DC Housing Finance Agency issued \$47.49 million in bonds for the construction of Paxton Apartments in Washington, DC. The bonds were sold by the underwriter to public investors and cash-collateralized with the trustee. At closing, Freddie Mac delivered a forward commitment to lock in a permanent tax-exempt loan rate that will be effective when the project converts from its construction phase to its permanent phase. Bond proceeds and cash collateral were reinvested in short-term Treasuries to fully offset the interest owed on the bonds and take advantage of the higher yields at the short end of the yield curve, Marcus says.

Marcus describes the many benefits to using the cash-backed forward structure in today’s inverted yield curve environment. “This structure eliminates the ‘substantial user’ and ‘program investment’ issues that arise where the construction lender also provides the tax credit equity. There is also potential for additional equity proceeds if the borrower makes an election under Section 266 of the Internal Revenue Code to treat interest on the bonds as going to capital account, allowing the inclusion of both construction interest and bond interest in the eligible basis calculation. Additionally, the cash-backed forward structure creates the possibility for a project to capture positive earnings on investments held with the bond trustee, which otherwise would have to be rebated back to the IRS. It is a tool that can be used to fill the gap for new construction projects in today’s rising interest rate environment.”

At Paxton, Moody’s rated the bonds Aaa/VMIG 1, and commented that “The... rating of this cash collateralized transaction is based on the strong legal structure and the high credit quality of the investments securing the bonds.”

A Double-Edged Sword

But interest rates proved to be a double-edged sword for Paxton, according to Bobvala Tengen, affordable housing development manager at Foulger-Pratt, the Potomac, MD-based developer of the project.

At one point the developer feared it would have to redo a significant amount of work if the ten-year Treasury rose above 3.5 percent. However, rates stayed just below that benchmark.

In addition to Paxton, Foulger-Pratt did one additional project with tax-exempt bonds in 2022, Tengen says. It has a portfolio of 13 multifamily communities with more than 2,500 units in the Washington, DC area. And another several thousand residential units have been proposed across the nation.

Paxton will provide 148 affordable units to residents in Northwest Washington, DC, 90 percent at 60 percent of area median income, and ten percent at 50 percent of area median income. Construction is expected to be completed by Spring 2024.

It is a transit-oriented development, Tengen says, with residents having access to the city's streetcar line, which connects the community to the Metro system at Union Station. And with some three-bedroom units included, residents will include families. A total of 53 units are two- or three-bedroom.

The 160,000-square-foot project is in a trending location, he says. "Paxton sits a few blocks away from the H Street corridor, which has seen significant investment in the last several years. We believe that there will be continued investment in the Benning Road corridor and Paxton is a unique opportunity to ensure that low-income residents will have a home in a neighborhood rich with amenities."

The project includes four percent Federal LIHTCs (the investor is Hudson Corp.) and State LIHTCs (the investor is Monarch Capital). The Federal credits are generating \$35.6 million in equity and the DC tax credits are generating \$6.4 million.

Besides the bonds and tax credits, the financing includes:

- A \$20 million permanent loan from Freddie Mac;
- \$2 million in District of Columbia Department of Housing and Community Development (DHCD) accrued interest;
- \$3.7 million in interest from the cash-backed forward bond structure;
- \$3.9 million in deferred developer fees; and
- \$29 million in DHCD Housing Production Trust Fund money.

Supportive Housing

Ten percent of the units will be permanent supportive housing for the formerly homeless. Washington, DC requires such projects to set aside five percent of units this way, so the 15 units at Paxton will be twice the minimum, Tengen says.

Community of Hope (COH) will be the services provider for the supportive housing units. Started in 1990, COH is a nonprofit whose goal is to end homelessness in the District of Columbia. (See sidebar.)

The architect for the project is Hickok Cole.

According to the developer, "The primary facade along Benning Road is modulated with slight recesses and material changes to provide an overall massing and scale that is contextually proportional, without attempting to copy or duplicate the surrounding vernacular."

The developer says, it "has taken a keen interest to design a high-quality project that has the appropriate level of amenity space to enhance the quality of life of all residents, and particularly, families. The project will have 5,300 square feet of amenity and programmatic space within the building."

Tengen adds that amenities will include free Wi-Fi, a game room, a community room, a fitness area, a bike rack and storage space.

COH Spells Out Supportive Services (Sidebar)

Community of Hope has a robust eight-point plan to support the formerly homeless tenants in Paxton Apartments.

They include:

- Obtain referrals of individuals and families matched to the permanent supportive housing (PSH) program through the District of Columbia's Coordinated Assistance and Housing Placement system and support them through application and lease-up.
- Provide home-based case management services to individuals and families residing in PSH units at the property, offered by COH case managers on-site during the usual business hours, Monday through Friday. COH staff will have a minimum of two contacts per month with each household, including one in-home visit and one other contact.
- Support positive landlord/tenant relations through tenant education, mediation between the PSH program participants and the property management, and ongoing budgeting and bill-paying support for families as needed.
- Refer and connect individuals and families to community resources. These may include physical and behavioral health and dental care at the nearby COH Family Health and Birth Center; DC public and charter schools; after-school and summer youth programs; employment and adult education programming.
- Review each household's individualized support plan quarterly.
- Promote stability, self-sufficiency and well-being of individuals and families.
- Meet caseload, case manager and other applicable requirements outlined in the Case Management-Supportive Services section of DHCD's RFP.
- Assure that appropriate managers and case management staff are available to clients after business hours and on weekends.

SPONSOR

TCA Digital Edition Access

In order to access Tax Credit Advisor Digital Edition and Articles, please login above. Once you have selected the issue you want to read, click on cover image to access digital edition.

NOTE: May not be compatible with Mozilla Firefox web browser. Google Chrome or Internet Explorer recommended.

GET WEEKLY UPDATES FROM NH&RA

Sign Up For Our Free Newsletter



NH&RA

NATIONAL HOUSING & REHABILITATION ASSOCIATION

1400 16th Street NW, Suite 420

Washington, DC 20036

P: (202) 939-1750

F: (202) 265-4435

E: info@housingonline.com



© 2023 NH&RA ® All rights reserved [Privacy Notice](#)