NEF, Fifth Third tap OZ capital to fuel workforce housing in Cincinnati

National Equity Fund, Inc. (NEF) has closed on its first cohort of Opportunity Zone investments, including a major effort to develop rental housing for low- and moderate-income families in Cincinnati's historic Over-the-Rhine neighborhood.

NEF collaborated with Fifth Third Bank to finance the innovative Willkommen project by blending $7.2 million in Opportunity Zones capital with more than $11.5 million in equity generated by Low Income Housing Tax Credits (LIHTCs), New Markets Tax Credits (NMTCs) and Historic Tax Credits, with multiple partners providing capital and expertise to ensure the project's success. The deal structure maximizes the impact of federal housing and economic development programs to do more than they could individually—filling a significant housing gap the private market could not otherwise address.

"This is the way Opportunity Zones were intended to work, supporting efforts that truly benefit communities, especially those where long histories of discrimination, disinvestment and job loss continue to affect the life prospects of residents," said Matt Reilein, NEF president and CEO.

When it is completed in 2022, Willkommen will include 163 rental apartments in 20 different buildings scattered throughout the neighborhood, as well as nearly 20,000 square feet of new commercial space. It will both build new structures and preserve existing ones, and it will set rents to be affordable to those earning from 50 to 104 percent of the area median income.

"Opportunity Zones capital and an impact-focused investor make it possible to include workforce housing in this development, providing units for middle-class people, as well as people with lower incomes in the Over-the Rhine community," said Karen Przypyszny, NEF managing director special initiatives, who leads the company's Opportunity Zones efforts.

"What we're talking about is essentially the 'missing middle' of the housing market," she explained. "Many developers avoid these kinds of projects because the rent levels can't support the debt required to build it, and there is no direct federal incentive, like there is with LIHTC, to make it feasible. But institutional investors looking to meet their CRA obligations can make this happen."

Willkommen is sponsored by The Model Group and the Cincinnati Center City Development Corp. (3CDC), both seasoned developers that have long been committed to building quality housing and revitalizing distressed communities. Known for their creative financing structures, they brought together almost all available federal community development financing sources to support Willkommen.

They divided the project into five different condos—each with multiple buildings and each with discreet funding streams to ensure a range of incomes can be served. The Model Group will serve as the general contractor for all of the proposed phases and will manage the residential units. 3CDC will manage all the commercial units, with a focus on attracting minority-owned businesses to the space.

For instance, units that will be affordable to families earning 50 percent of the area median income are being financed by LIHTCs and Historic Tax Credits, along with HOME funds awarded by the city of Cincinnati. For the commercial space and workforce housing, which includes a set-aside of units for people at 80 percent of AMI or less, the partners are tapping Opportunity Zone equity, NMTC capital and state and federal Historic Tax Credits. Importantly, the city is also providing a 15-year tax abatement to help make the financing work, as well as TIF financing provided through 3CDC. Neighborhood Stabilization Funds, provided by The Community Builders, were also included as part of the NMTC leveraging structure.

Pulling all those financing pieces together required a range of capital and expertise from multiple partners. Fifth Third purchased NMTCs through the Cincinnati Development Fund, as well as providing construction and permanent debt. Other financial participants included RBC Community Development Corporation, Consortium America, U.S. Bank, Foss & Company and Truist. NEF was represented in these transactions by Applegate Thorne Thomsen and Barnes and Thornburg.

As a result, Willkommen will carry little, if any, hard debt, which Przypyszny said allows it to set rents as much as 35 percent lower than comparable market-rate offerings. It also expands the city's overall stock of affordable housing, which is critical to supporting economic growth and catalyzing opportunity for residents.

"Willkommen exemplifies what we are trying to accomplish with our community development investments, which is to not only anchor a good quality of life for families but to build the economic resilience of our communities as well," said Catherine Cawthon, president of Fifth Third Community Development Corporation.

"That's particularly important right now, as COVID-19 threatens people's livelihoods and puts so many at risk of losing their homes," she said. "By blending Opportunity Zones capital with other financing tools, we can help communities build opportunities for residents at the scale needed to have a deep and lasting impact."

Reilein said Willkommen is a model for how banks with capital gains events can further their ongoing housing goals—if they are willing to make decisions that prioritize impact.

"There is no cookie-cutter approach to these complicated deals," he said. "They require patient, flexible investors focused on advancing community gains. They are driven by committed, expert developers that understand the needs of their neighborhoods. And they are supported by engaged local policymakers willing to work in new ways to fuel long-term growth. We have all of that in Cincinnati with Willkommen."

For more:
What are Opportunity Zones?
NEF Opportunity Zones
Fifth Third Opportunity Zones