

Novogradac Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

February 2012, Volume III, Issue II

Published by Novogradac & Company LLP

Redeveloped Villas Kick-Start LIHTC Development in U.S. Virgin Islands

By Jennifer Hill, Staff Writer, Novogradac & Company LLP

After a seven-year dry spell, a fresh stream of affordable housing development in the U.S. Virgin Islands is under way. The replacement of a former public housing development in St. Croix that fell victim to multiple hurricanes marks the first of several low-income housing tax credit (LIHTC) developments planned for the region, which can sometimes be inhospitable for construction projects. In December, Gov. John de Jongh Jr. and U.S. Department of Housing and Urban Development (HUD) Assistant Secretary Sandra B. Henriquez cut the ribbon on the first phase of Louis E. Brown Villas, which eventually will encompass 27 buildings with 244 affordable units for families and seniors.

Reviving the Villas

When Hurricane Hugo slammed into St. Croix in 1989, it rendered most of Louis E. Brown Villas' buildings uninhabitable. Damage from the category five hurricane was simply too extensive for rehabilitation to be feasible, according to Robert Graham, executive director of the Virgin Islands Housing Authority (VIHA). Subsequent storms in the early 1990s wiped out the property's remaining structures, and the agency spent more than a decade clearing the land for demolition.

With approximately 4,000 names on its affordable housing waiting list, VIHA sought to replace the lost units and came

up with a design concept for a new community that would serve multiple populations. The agency worked with Miami, Fla.-based Carlisle Development Group to finalize the design and develop the property – Carlisle's first development in the Virgin Islands and VIHA's first project in 20 years.



Photo: Courtesy of Quiana Adams from Q Studio, LLC

Louis E. Brown Villas I in St. Croix, codeveloped by Carlisle Development Group and the Virgin Islands Housing Authority, is the first of six affordable developments slated for the Virgin Islands.

At full build-out, Louis E. Brown Villas I will offer 102 units in 13 buildings to households earning a maximum of 60 percent of the area median income, which is \$18,660 on St. Croix. The \$32 million development was financed with a \$30 million LIHTC allocation and supplemented with replace-

continued on page 2

continued from page 1

ment housing funds from HUD's capital grant program and a HUD development grant from VIHA. In its first endeavor in the Virgin Islands, Raymond James Tax Credit Funds (RJTCF) provided Louis E. Brown's LIHTC equity.

To lower residents' utility bills, Carlisle equipped the property with solar lighting, solar thermal water heaters, energy efficient appliances and a rainfall cistern. The property's 100 kW photovoltaic system, which Carlisle installed to reduce the common area utility costs, will be the second largest solar array in the Virgin Islands, according to Marvin Wilmoth, Carlisle regional director. Combined, the green energy features will shave an estimated \$7,000 off the property's annual utility costs, he said. In another nod to sustainability, Carlisle was able to reuse components from the original structures as reinforcements to shield the newly constructed homes from severe weather.



Photo: Courtesy of Quiana Adams from Q Studio, LLC
From left to right: John Wessel, owner of GEC LLC; Adrienne Williams, executive director of VIHA; St. Croix Sen. Ronald Russell; USVI Lt. Gov. Gregory Francis; Sandra Henriquez, assistant secretary of HUD; USVI Gov. John P. de Jongh Jr.; Kimberly Wize, HUD-appointed VIHA board chair; Robert Graham, executive director of VIHA; Marvin Wilmoth, regional director of Carlisle Development Group; and Larry Richards, senior project manager of Carlisle attended a ribbon-cutting ceremony for Louis E. Brown Villas I in November.

Natural Impediments

"During the first eight months of construction we had four tropical storms and three hurricanes," Wilmoth said. "I've heard horror stories about developments [in the Virgin Islands] not being completed and closing timelines getting extended."

The weather is only a minor problem compared to the logistical complications that go along with constructing and maintaining large properties on a remote island community. Utility costs in the Virgin Islands are high – approximately four times that of a typical development on the mainland, Wilmoth said. In addition,

continued on page 3

Novogradac Journal of Tax Credits Editorial Board

PUBLISHER

Michael J. Novogradac, CPA

MANAGING EDITOR

Alex Ruiz

EDITOR

Jane Bowar Zastrow

TECHNICAL EDITORS

Robert S. Thesman, CPA

James R. Kroger, CPA

Owen P. Gray, CPA

Thomas Boccia, CPA

Daniel J. Smith, CPA

ASSIGNMENT EDITOR

Jennifer Dockery

STAFF WRITER

Jennifer Hill

CONTRIBUTING WRITERS

Brandi Day

Brad Elphick

Tony Grappone

Jim Kroger

Peter Lawrence

John P. Lee

John Leith-Tetrault

Diana R. Letsinger

George F. Littlejohn

Forrest David Milder

Charles A. Rhuda III

Rodney C. Sommers

John Tess

Phong T. Tran

CARTOGRAPHER

David R. Grubman

PRODUCTION

Jesse Barredo

James Matuszak

Novogradac Journal of Tax Credits Information

Correspondence and editorial submissions:
Alex Ruiz / 415.356.8088

Inquiries regarding advertising opportunities:
Emil Bagalso / 415.356.8037

Editorial material in this publication is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding the low-income housing tax credit or any other material covered in this publication can only be obtained from your tax advisor.



**NOVOGRADAC
& COMPANY** LLP®

CERTIFIED PUBLIC ACCOUNTANTS

© Novogradac & Company LLP

2012 All rights reserved.

ISSN 2152-646X

Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.

Novogradac Journal of Tax Credits Advisory Board

LOW-INCOME HOUSING TAX CREDITS

Bud Clarke	BOSTON FINANCIAL INVESTMENT MANAGEMENT
Jana Cohen Barbe	SNR DENTON
Tom Dixon	BOSTON CAPITAL
Valerie White	STANDARD & POOR'S CORPORATION
Rick Edson	HOUSING CAPITAL ADVISORS INC.
Richard Gerwitz	CITI COMMUNITY CAPITAL
Rochelle Lento	DYKEMA GOSSETT PLLC
John Lisella	U.S. BANCORP COMMUNITY DEV. CORP.
Phillip Melton	CENTERLINE CAPITAL GROUP
Thomas Morton	PILLSBURY WINTHROP SHAW PITTMAN LLP
Stephen Ryan	COX, CASTLE & NICHOLSON LLP
Arnold Schuster	SNR DENTON
Mary Tingerthal	MINNESOTA HOUSING FINANCE AGENCY
Rob Wasserman	U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Rose Guerrero	CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Sharon Jackman	SIG SERVICES LLC
Michael Kotin	KAY KAY REALTY
Michael Snowdon	MCA HOUSING PARTNERS
Gianna Solari	SOLARI ENTERPRISES
Ruth Theobald Probst	THEOPRO COMPLIANCE & CONSULT. INC.
Kimberly Taylor	HOUSING DEVELOPMENT CENTER

HOUSING AND URBAN DEVELOPMENT

Sheldon Schreiber	PEPPER HAMILTON LLP
Monica Sussman	NIXON PEABODY LLP

NEW MARKETS TAX CREDITS

Frank Altman	COMMUNITY REINVESTMENT FUND
Bruce Bonjour	PERKINS COIE LLC
Neil Kimmelfield	LANE POWELL
Marc Hirshman	U.S. BANCORP COMMUNITY DEV. CORP.
Scott Lindquist	SNR DENTON
Ruth Sparrow	FUTURES UNLIMITED LAW PC
Herb Stevens	NIXON PEABODY LLP
Tom Tracy	HUNTER CHASE & COMPANY
Joseph Wesolowski	ENTERPRISE COMMUNITY INVESTMENT INC.

HISTORIC TAX CREDITS

Don Holm	HOLM LAW FIRM
John Leith-Tetrault	NATIONAL TRUST COMM. INVESTMENT CORP.
Bill MacRostie	MACROSTIE HISTORIC ADVISORS LLC
Donna Rodney	BRYAN CAVE LLP
John Tess	HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Ed Feo	USRG RENEWABLE FINANCE
Michael Hall	BORREGO SOLAR SYSTEMS
Jim Howard	DUDLEY VENTURES
Forrest Milder	NIXON PEABODY LLP
Darren Van't Hof	U.S. BANCORP COMMUNITY DEV. CORP.

continued from page 2

most raw materials are not available and must be imported. Carlisle hired GEC, a St. Croix-based general contractor with a well-stocked warehouse, for the property's construction. "In touring [GEC's] warehouse it was apparent they would be prepared if and when Murphy's Law decided to occur," said Sean Jones, associate director of acquisitions at RJTCF.

A limited amount of funds combined with the high cost of development are the main reasons for the Virgin Island's historically low production, Graham said. "The only resources available to build affordable housing are tax credits," he said, noting that the region's LIHTC allocation is rarely enough to cover the steep construction costs.

In spite of rain delays, Carlisle has been able to keep Louis E. Brown Villas I on schedule. The first residents moved in in September and, as of this writing, five of the 13 buildings in phase one are open for occupancy. This initial development phase is expected to be fully completed in March. Phase two, scheduled to be closed and constructed this year, will add 40 affordable senior units, and phase three will provide an additional 102 affordable family units. The entire community of 27 buildings is projected to cost roughly \$75 million.

Worth the Wait

Louis E. Brown Villas' three development phases are part of VIHA's three-year master plan to stimulate the Virgin Islands' economy by increasing the affordable housing supply. Louis E. Brown's first phase has already created 120 jobs for construction workers, more than a third of whom are low- or very low-income residents.

The agency has also implemented a net-zero energy housing concept; its aim is to completely offset residents' utility costs through on-site energy conservation and generation systems. Louis E. Brown's second and third phases will be designed to achieve net-zero energy, Graham said, and Carlisle will seek LEED certification for phase one.

"We're embarking on an aggressive production of affordable housing in the Virgin Islands," Graham said. "As we succeed and get funding for one, we're moving on to the next one." He added that VIHA expects to begin planning or production on three of the six affordable developments in its sights by the end of 2012. ♦

This article first appeared in the February 2012 issue of the Novogradac Journal of Tax Credits.

© Novogradac & Company LLP 2012 - All Rights Reserved

continued on page 4

continued from page 3

Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.