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CT/KDF Awarded \$90 Million for Infill Mixed-Use Developments

By Anne Townsend, Staff Writer, Novogradac & Company LLP

In September, CT/KDF Community Development Partners (CT/KDF) received a \$90 million allocation from the U.S. Treasury Department's New Markets Tax Credit (NMTC) program. CT/KDF — an investment entity formed in partnership between CT Realty Corp. and KDF Communities — intends to use the funds to provide equity at significant discounts for the creation of infill mixed-use communities that combine housing with retail and office, preferably located near transit-oriented sites in distressed areas of Southern California.

"Because Southern California remains the nation's least affordable area, it is becoming increasingly difficult for hardworking families and residents to find affordable housing options," said Bob Campbell, managing member of CT/KDF. "By offering inexpensive equity, we can lower the developer's risk, thus encouraging the development of affordable for-sale housing in low-income communities that are closer to where people work or near public transportation. We can also employ the same strategy to subsidize retail lease rates for merchants if such space is available in the project to help ensure their success."

The selection process for NMTC funding is highly competitive, as only one of four applicants was selected in the most recent round of funding. Five community development entities, including CT/KDF Community Development Partners, were chosen to serve regions in California in the fourth allocation round. In total, 63 entities were selected, with their awards ranging from \$2 million to \$143 million.

CT/KDF received one of the largest NMTC awards to a private firm that in conjunction with construction financing and the reinvestment of proceeds, could result in investments of approximately \$400 million.

CT/KDF attributes its success to its team that brought to the table a unique depth of experience and a successful development history in both commercial and affordable housing. The team has been involved in the financing and development of a wide variety of real estate projects over the last 12 years, completing approximately 210 projects involving total capital in excess of \$2 billion.

Paul Fruchbom, a managing member of CT/KDF, says that it's hard to know why anyone receives an allocation, but that the secondary reasons in this case may have to do with the solid track record of CT Realty Corp and KDF Communities. "It's hard to know why the CDFI [Fund] selects anyone, but we received a large allocation for our type of company. Our allocation is almost as large as that of the national banks, so we surmise that they picked us for our ability to execute, as many of the prior allocatees have not put the money out as fast as the government would have liked."

Diana Letsinger, a partner in Novogradac & Company LLP's Long Beach, Calif. office specializes in new markets tax credits and worked with CT/KDF during the application process. "There are four aspects to the NMTC application," she says. "The business plan, how they're going to raise the money, the impact of the investments in the community and the management team behind the product. CT/KDF delivered a consistent message throughout their application; their business plan in conjunction with their strong track record convinced the CDFI Fund that they would deliver as an allocatee."

Fruchbom noted that the team's business strategy is primarily to provide equity since equity and mezzanine debt are the highest risk components of a project's financial structure. That is why equity is virtually non-existent

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or expensive for projects in distressed or low-income areas. "Ideally, we will finance projects that are large enough to serve as catalysts for more redevelopment in the surrounding area. This will multiply the investment potential, encourage greater job creation, and provide more economic opportunity for cities and residents," he said. CT/KDF's strategy is to build mixed-use communities with a significant for-sale housing component along with retail and office and close to freeways and mass transit for easy commutes.

The tax credits will be disbursed over a seven-year period. Fruchbom observed that ideally CT/KDF would like to work with large projects. "Our projects vary in size, and one project will be completed within a year, but the bulk of our projects will be completed over a four-to five-year span," he said. "We'd like to make developments that can act as a catalyst for neighborhood redevelopment."

KDF Communities was founded in 1997 and has built and acquired a long-term portfolio of more than 4,300 affordable rental units located throughout California. The company closely monitors the management of each property it develops, making certain to serve as a stable landlord for tenant families. KDF Communities is headquartered in Newport Beach, Calif.; its properties are located throughout the state, including San Francisco, San Bruno, San Jose, Anaheim, Camarillo and Hesperia.

CT Realty Corp was established in 1994 and has completed more than 140 transactions totaling more than \$2 billion, which includes acquisitions, sales, development and redevelopment. The company also provides development equity financing through partnerships with developers in the Southwest. CT Realty Corp. focuses on acquiring well-located assets with value-enhancing potential, including the following asset types: industrial, suburban office, mixed-use, single-family and multifamily residential, senior housing, retail, golf course and self-storage properties.

CT/KDF is located in Newport Beach, Calif., and intends to make investments in Southern California, such as the communities of Riverside and Corona. ❖

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