



NOVOGRADAC

Journal of Tax Credits™

Insights On Affordable Housing, Community Development, Historic Preservation, Renewable Energy and Opportunity Zones
November 2020 ♦ Volume XI ♦ Issue XI

Published by Novogradac

Private Equity Fund Incorporates Tax Credits to Revitalize Struggling Communities across the South

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The American South Real Estate Fund (ASREF) is making possible high-impact developments that larger funds typically overlook.

“Most funds are really large—hundreds of millions of dollars or billions of dollars. They target gateway cities and very large transactions,” said David Alexander, managing partner at Vintage Realty and ASREF, which partnered with SDS Capital Group (SDS) on this fund. “Large funds typically aren’t looking at secondary markets or low-income urban communities. They don’t want deals smaller than \$50 million. These are ASREF markets, where we see lots of great development taking place. Our deals are not as big and flashy, but the sponsors often face very real equity gaps. ASREF can provide up to 90 percent of the equity the developer needs. We have the capital, the expertise and we can move quickly. We are also very comfortable with complicated deals having a range of market-based and government funding sources.”

ASREF invests preferred equity and mezzanine debt, often alongside tax credits, to inject capital into developments in struggling economies across the South.

ASREF is a \$58 million impact fund seeking risk-adjusted returns for its investors while also meeting Community Reinvestment Act criteria for its bank investors. To date, ASREF has financed 10 properties across Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas. Two additional investments are currently closing. ASREF invests between \$1 million and \$10 million into projects that cost less than \$75 million.

“Early on in my career, I believed that government and nonprofit funding were really the core capital tools available to attack poverty,” said Deborah La

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Franchi, CEO of SDS and managing partner of ASREF. “Then ... while assistant deputy mayor for economic development in Los Angeles, I was tapped to help launch the Genesis LA Double Bottom Line funds in the late 1990s. I witnessed firsthand how private equity can be a very effective capital tool for attacking poverty. This changed the course of my career.”

ASREF is focusing its investments in communities that traditionally lack investment. ASREF’s investments have been in communities that have an average 37 percent poverty rate, 15 percent unemployment rate and residents incomes are at 50 percent of the area median income. In terms of demographics, ASREF’s investments are in communities with populations that

average 46 percent Black and 76 percent non-white. Project types include multifamily housing, offices, industrial buildings, mixed-use properties, retail and hospitality. ASREF’s 10 investments have financed 1,522 housing units, of which 89 percent are affordable and workforce units, created 318 permanent jobs (71 percent low-income accessible jobs), and revitalized seven blighted and abandoned buildings or properties in serious disrepair. Many of these developments used state and federal historic tax credits (HTCs).

“We seek to meet both the investment expectations of our investors as well as achieve substantial impact to low-income communities and people. We are very pleased that by investing with very capable sponsors, we are achieving both of these core goals,” said La Franchi.

Image: Courtesy of Strategic Development Solutions
The St. James Hotel in Selma, Ala., is one of the developments financed by ASREF.

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“ASREF is an impact fund,” said Alexander. “Our process seeks to ensure we only fund those projects that can meet both our financial underwriting as well as our impact goals.”

In this partnership, SDS, known for launching and managing impact funds, works on the fund management side of the business, handling capital flows, investors and overall operations of the fund. Vintage Realty is a full-service real estate firm, acting as the “boots on the ground,” said Alexander.

“When Debbie at SDS approached me with this opportunity to partner on ASREF, it made tremendous sense,” said Alexander. “Our firms are very synergistic with each other, bringing a great deal to the table. I saw this as a great opportunity to use our collective skills to make a difference in these higher-poverty communities while still achieving our investors’ financial goals.”

ASREF Investments

Among the developments financed by ASREF is the renovation of one of the last remaining antebellum hotels in the country. The St. James Hotel is located at the foot of the infamous Edmund Pettus Bridge in Selma, Ala., where Civil Rights protestors were attacked by police in 1965 while marching to Montgomery, Ala. More recently, the bridge supported the memorial procession for famed and deceased Civil Rights leader Rep. John Lewis. Alabama submitted both the hotel and the bridge for UNESCO World Heritage site consideration.

The developer, Rhaglan Hospitality, used a variety of funding sources, including federal and state HTCs. An additional 13 rooms were recently added to the development, financed by capital from opportunity zones investors.

Underscoring the potential of this market, despite being in a very small, low-income, tertiary market, the



Image: Courtesy of Strategic Development Solutions
Westpark in Houston is a former LIHTC property financed by ASREF.

shuttered hotel will be reopened under the esteemed Hilton Tapestry Collection brand.

“A typical private equity real estate fund does not finance a project located in a community like Selma, with only 18,000 people and a poverty rate of 54 percent,” said La Franchi. “This is what makes ASREF different. Our financial underwriting is always very rigorous and impacts never trump our role as financial stewards of our investors’ capital. The growth driver supporting the hotel investment became very clear to us in our underwriting. An astounding 20,000 tourists on the Civil Rights Trail come through Selma each year. Yet not a single hotel exists in the downtown.”

For these reasons, La Franchi is confident the hotel will be successful. “We expect the hotel to be tremendously catalytic,” said La Franchi. “The lengthened tourist stays will generate demand to support the reopening of many of the long-shuttered locally-owned retail shops and restaurants.”

Another building in ASREF’s portfolio that will operate under the Hilton Tapestry Collection brand is the Commerce Hotel in Birmingham, Ala. This redevelopment used federal and state HTC equity to transform the 1920s office building into a hotel.

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The fund is also investing in affordable housing developments coming out of their LIHTC compliance periods. The properties used LIHTCs many years ago but are using ASREF's market-rate financing and commercial debt to remain affordable for years to come.

ASREF financed the developer Olive Tree, providing preferred equity for them to acquire and renovate the 309-unit Parkview Apartments in southeast Houston. After the renovations, apartments will be reserved for residents earning up to 60 percent of the area median income through 2025 and possibly an additional 15 years depending on the takeout loan.

Westpark in Houston is another former LIHTC development by the same developer. ASREF moved quickly—closing in less than 30 days. ASREF's preferred equity enabled the developer to acquire and rehabilitate the 312-unit property along with a commercial loan. Westpark will remain affordable housing through 2025 and possibly an additional 15 years depending on the takeout capital used.

“The South has substantial poverty as well as a lack of capital for lower-middle market developments. ASREF benefits these communities, provides the developer the critical equity needed, and is laser-like focused on achieving the financial goals of our investors,” said La Franchi.

ASREF II

With only enough capital for one additional investment, ASREF's management team is looking to start raising capital for its ASREF II fund in the near future.

La Franchi said they are seeking for ASREF II to be substantially larger than ASREF I, which is \$58 million. “Vintage and SDS are both very excited to continue this partnership,” said Alexander. “We already have a very strong pipeline of future projects needing our capital. It is all very positive.”

Underscoring the core goals behind ASREF II, La Franchi said, “We hope in ASREF II to develop many new relationships with sponsors having projects that are strong financially and transformative to communities in need of economic development.” ❖

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