Hometown Developer Carves Out Space for Neighbors in Revitalizing Community

Cleveland-based Sustainable Community Associates (SCA) have broken ground on their fourth development in the city—The Tappan—which will bring 95 new apartments and a bakery to the Tremont neighborhood. SCA views The Tappan as building upon Cleveland’s ongoing efforts to revitalize the Tremont neighborhood and invest along the Scranton Corridor. Once completed in Q3 2020, The Tappan will offer homes that are affordable, and will provide a local entrepreneur the opportunity to open a bakery on the ground floor.

The Tremont neighborhood is located within a five-minute drive of downtown Cleveland, and is home to one of the city’s largest anchor institutions, MetroHealth. The healthcare provider has embarked upon a $1 billion renovation of its main campus, making it the first health care system to anchor an EcoDistrict in the U.S. The revitalization of MetroHealth’s campus has sparked broader investment interest in Tremont and along the Scranton Corridor. Having community-based developers like SCA steward revitalization efforts—just as they have with their other Tremont developments, The Fairmont Creamery and Wagner Awning Building, can help to foster inclusive growth amidst broader reinvestment.

The Cleveland City Planning Commission notes that, while major new housing developments are contributing to the rebirth of the Tremont neighborhood, the increased investment brings with it the challenge of ensuring residents will continue to have affordable places to live. The Tappan is a new building and therefore is adding new homes to the community. Leveraging the Opportunity Zones tax incentive allowed SCA to provide lower rents. Sixty percent of the homes will be workforce apartments, ensuring there are affordable places to live in a neighborhood poised for increased investment.
The information presented was gathered through interviews with project stakeholders (e.g., the project sponsor, fund manager, housing finance agency, etc.). Statistics from the American Community Survey are included, and additional publicly available data from the U.S. Department of Housing and Urban Development, the U.S. Department of Agriculture, the U.S. Department of Education, and the Centers for Disease Control may be included as well.

Opportunity Zone Development Profile

Capital Stack and Phasing

As is typical in financing real estate, multiple sources of funding have been leveraged for this project. The chart below illustrates both the different sources of financing used to date and the point in which each source was accessed during development.

- Opportunity Zones equity (developer and partner) – $6.9 million
- Opportunity Zones equity (PNC Bank) – $11.4 million
- City of Cleveland debt – $180,000
- PNC Bank debt – $3.8 million

Total Development Cost: Approximately $22.3 million

“Some of our investors are able to invest into this project and take less of a return than they typically would, due to the additional tax benefits from the Opportunity Zone. What that means is our capital stack is less stressed for dollars, so we’re able to take some of the units and [charge less for] them, and still pay back our investors.”

- Josh Rosen
  Partner, Sustainable Community Associates

About the Investment

PNC Bank (PNC) is supporting The Tappan through both a $3.8 million construction loan and an $11.4 million equity investment financed through its Qualified Opportunity Fund; both closed in Q2 2019. PNC’s investment was catalytic in attracting additional Opportunity Zone investments totaling $6.9 million through two separate Opportunity Funds.

The Opportunity Zones equity will remain invested in the deal through 2029, when the project will refinance and recapitalize. At that point PNC has the option to put its equity interest to the partnership, which would allow SCA to take ownership interest in The Tappan.

SCA secured a $180,000 loan from the City of Cleveland to finance the project, and the project will also benefit from a 30-year non-school tax increment financing package in addition to the city’s typical 15-year residential property tax abatement.

The Impact of Opportunity Zones Financing

Workforce housing, sometimes referred to as “the missing middle,” is typically defined as homes that are affordable to those earning 80 to 120 percent of Area Median Income.

The Opportunity Zone benefit enables the developer to deliver apartments at lower rents than would otherwise be sufficient to generate the necessary equity capital for development.

SCA is ensuring 60 percent of the apartments are affordable to the missing middle—people who are not eligible for affordable housing support due to income but still often pay too much for housing. In total, 59 apartments will be reserved for people earning 80 to 120 percent of Area Median Income.

About Opportunity Zones

Opportunity Zones are a new national investment tool designed to spur economic growth and community development by encouraging long-term private equity investment in distressed urban, suburban, and rural communities across America. In 2018, local leaders in every state, U.S. territory, and Washington, D.C. supported the nomination of more than 8,700 low-income census tracts for Opportunity Zone designation. Individuals and companies can receive a series of graduated tax benefits based on the amount of time invested in a Qualified Opportunity Fund, which must have 90 percent of assets invested in real estate or operating businesses located in Opportunity Zones. The Opportunity Zones policy is based on the bipartisan Investing in Opportunity Act, which was championed by a regionally and politically diverse coalition of congressional cosponsors.