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Google's Investment in Affordable Housing Gets Results

By Jennifer Dockery, Staff Writer, Novogradac & Company LLP

Google Inc.'s first low-income housing tax credit (LIHTC) investment will fund the construction of 227 California seniors' search for affordable housing. In March the search engine company made a \$25 million investment in two California affordable housing properties. The investment will fund the construction of Fair Oaks Plaza in Sunnyvale, Calif. and the acquisition and rehabilitation of Regency Towers Senior Housing in Inglewood, Calif. Google, one of the few companies outside the financial services industry to invest in LIHTCs, made the investment through a fund with Union Bank's community development finance division.

"Google recognizes the challenges associated with developing affordable housing in California and is proud to help meet this need by providing LIHTC financing for some of the region's developers," said Brent Callinicos, Google's vice president and treasurer.

A New Investor in the Affordable Housing Market

Fair Oaks Plaza features 124 senior housing units adjacent to the year-old Santa Clara County Mental Health Centers in Sunnyvale, Calif. The three-story development includes 18 units for seniors with mental health disabilities and 2,400 square feet of community space. In consideration for a longer term ground lease, Mid-Peninsula Housing (Mid-Pen) built replacement parking for the clinic. The development also includes a partially submerged parking podium for residents.

"The elegance of being able to create our housing immediately adjacent to the health center and transit and services in the neighborhood is just a wonderful combination," said

Matthew Franklin, executive director of Mid-Pen, the property's not-for-profit developer. The health center will provide services for residents of the special needs units.



Rendering Courtesy: Jon Worden

Google has invested \$19 million in Fair Oaks Plaza, a 124-unit senior development in Sunnyvale, Calif.

Google invested \$19 million in LIHTCs into building Fair Oaks Plaza. Other funding for the \$40 million development includes \$21.8 million in debt financing from Union Bank, \$6 million in HOME and redevelopment funding from the city of Sunnyvale, \$6.6 million in California Proposition 1C infill grants and \$2 million in Mental Health Services Act funding. Mid-Pen entered into a ground lease with the city and county for the property's ground lease and the County of Santa Clara Housing Authority provided Section 8 vouchers for 120 of the units.

"It's just a wonderful group of investors and funders that

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have come together," Franklin said.

Google's second property is Regency Towers, a seven-story high-rise constructed in 1977 in Inglewood, Calif. in Los Angeles County. Thomas Safran & Associates (TSA) acquired and is rehabilitating its 104 units of senior housing. Icon Builders will install a sprinkler system and update the units without displacing residents. The developers also plan to invest heavily in landscaping and other outdoor improvements. Renovation costs are expected to average \$50,000 per unit and are slated for completion by December.

Additionally, TSA, which also manages the property, will add services to the Section 8 property. TSA will host social activities, such as weekly bingo games, guest speakers, line dancing and karaoke nights.

Google has invested \$6 million in tax credit equity in the \$22 million project. Other financing includes a \$9 million permanent loan from Citi Community Capital and \$5.6 million from the city of Inglewood.

Getting Results

Franklin said that Union Bank is a preferred partner for equity and debt and that the bank brought Google in as an investor in Fair Oaks Plaza. After Google visited the property and reviewed the balance sheet, it decided to invest in the property. "We're very proud that they've chosen Mid-Pen to sponsor their first investment," Franklin said.

Union Bank also brought Google into the Regency Towers transaction. "We went to Union Bank as the equity investor and the bank approached Google," said Rick Siebert, TSA's chief financial officer.

Union Bank and Google began discussing the potential for an arrangement to create affordable housing in November. The bank had heard that Google was interested in community development investments and thought that the LIHTC properties might be a good opportunity. Judy Kong-Cheung, Union Bank senior vice president, described the process as smooth.

Kong-Cheung said that Google liked the tax benefits of the transaction and that its investment would create affordable housing. Union Bank has syndicated tax credits for investors since 2000, and Kong-Cheung said that syndicating LIHTCs for Google wasn't significantly different than syndicating a transaction for any other investor.

Next

Kong-Cheung, calling Google an innovator, said the developers hope that Google's investment is a sign of things to come for the

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affordable housing industry. "Google has the potential to bring in a significant amount of equity into the LIHTC market," she said.

TSA's vice president of development Andrew Gross agreed. "We couldn't be more pleased seeing Google entering the space." He called it a positive sign and speculated that Google's investment could draw other companies into the LIHTC market.

Google has not announced any plans for future LIHTC investments. In May, the company announced on its blog that it had made its first direct investment in a utility-scale wind farm in North Dakota. ❖

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