

Tax Credit Case Study:
Use of Tax Credit to Develop Affordable Housing in a High Cost Area
Villa Nueva – San Jose, California

The San Francisco Bay area is the highest cost region in the United States for housing. The problem is particularly acute in Santa Clara county home to the region's electronic technology industry and known world-wide as "Silicon Valley". By conventional measures, less than ten percent of the population of the largest city in Santa Clara county – San Jose – can afford to buy a home. The housing cost problem is also seen both in rental housing costs – often more than \$2,000 / month – and in the cost of land and property development.

Most affordable rental housing development in this area places heavy reliance on the low income housing tax credit which is usually coordinated with selected public sector funding from the State of California and localities.

Villa Nueva is sixty-three transitional housing development located near the central business district of San Jose, California. It was co-developed as part of a new YWCA facility which was programmed to offer services of special relevance to Villa Nueva's residents – dominantly poor, female headed households with young children.



Rents at Villa Nueva are more than fifty percent below market rental rates in the city. In addition to the sixty-three apartments, the development program includes a child care center, outdoor secure play areas, fitness facilities, a YWCA administered career and personal counseling center, a women's crisis center, a hostel for temporary housing, and limited on site parking.



The development was completed in 1993 and used more than \$7 million in paid in equity structured to provide an tax credit investment vehicle for a major investor owned utility. Bank of America provided more than \$9 million of development phase debt. Total development costs were approximately \$14 million. The high development cost environment, the large social service component and the extraordinarily low rental rates combined to produce a property whose value as used of less than one half of the total development cost.

Absent the critical role played by the low income housing tax credit, the development would not have been possible.

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