



NOVOGRADAC

Journal of Tax Credits™

Insights On Affordable Housing, Community Development, Historic Preservation, Renewable Energy and Opportunity Zones

August 2021 • Volume XII • Issue VIII

Published by Novogradac

TAX, AUDIT AND CONSULTING SERVICES FOR TAX INCENTIVE TRANSACTIONS ISSUE

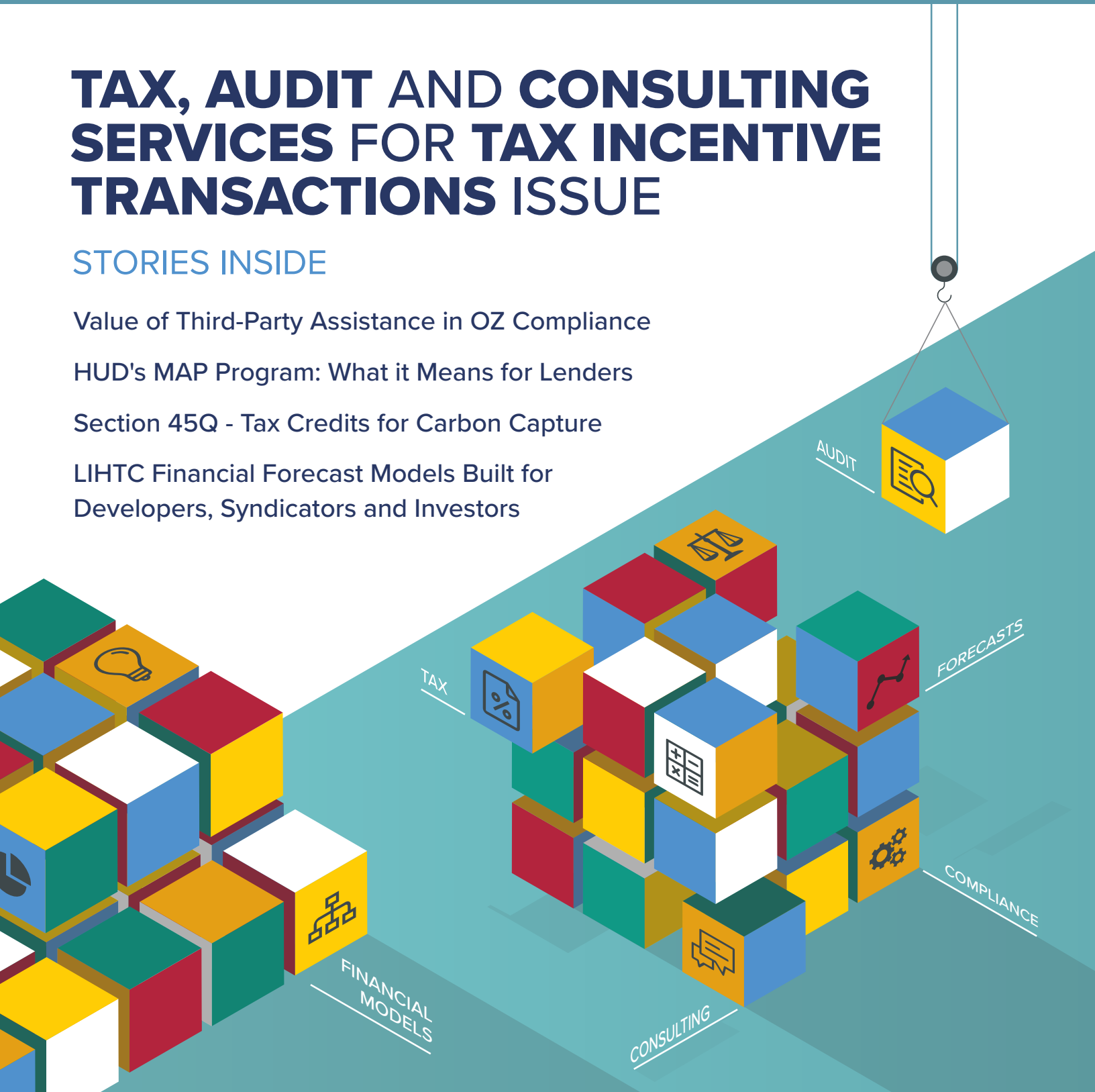
STORIES INSIDE

Value of Third-Party Assistance in OZ Compliance

HUD's MAP Program: What it Means for Lenders

Section 45Q - Tax Credits for Carbon Capture

LIHTC Financial Forecast Models Built for Developers, Syndicators and Investors



Opportunity Zones Incentive Delivers Tiny Homes in Flagstaff, Arizona

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

A 1.5-acre portion of Kachina Village near Flagstaff, Arizona, proved difficult for real estate development, sitting atop a thick rock bed.

“Some smart developers looked at it before and they couldn’t make it work,” said Ryan Scott, founder and chief executive officer of Scottsdale, Arizona-based Aspire Fund.

Aspire, a qualified opportunity fund (QOF) focusing primarily in business opportunities in northern Arizona, was able to succeed where others could not. Aspire raised more than \$1 million to fund the purchase and development of homes on the site in the woods.

With tiny homes on top of wheels, Scott was able to deliver a solution that satisfied the challenge.

“Because we had a unique approach where you don’t have to have a permanent foundation, we stay on wheels, we didn’t have to drill so deeply into the rock,” Scott said. “That was one of the hurdles.”

Thus far, Aspire has delivered two tiny homes for its Kachina Pines development—a pair of one-bedroom, one-bathroom homes named Wooded Bliss and Ponderosa Peace—that serve as rental properties, with plans for additional tiny homes on the site.

Fulfilling the Intent of the OZ

While Aspire was able to provide homes that suited the landscape, a further part of Scott’s success was splitting the property into smaller parcels with the tiny-home approach.

Scott said that flexibility in the site improvements allowed Aspire to present a proposal for the site that didn’t come with a hefty price tag. The risk associated with the rock also made for shy lenders, making the opportunity zones (OZ) route a practical solution.

“Because we’re an opportunity zone fund, we were able to come in with all cash and finance on the back end,” Scott said. “Others tried to get bridge financing up front.”

Scott said the cost for each one of the improved sites is approximately \$170,000 between the costs of the land, improvements as well as the homes themselves.

“If you’re renting it for \$150-\$200 a night, that’s a nice cap rate,” he said.

Scott said he wants to deliver high-quality, reasonably priced, affordable short-, medium- and long-term housing.

Scott said the OZ incentive was key to making the homes and the site a reality.

“It’s a perfect example of the OZ program’s original intent, to encourage investment in innovative projects that weren’t able to be done before,” he said.

Key Partnerships

Scott partnered with Mike Partana from Uncharted Tiny Homes in Phoenix to manufacture the homes.

“He’s a very interesting local shop,” Scott said. “He’s a little higher end and still small enough that he can be very focused.”

Scott said Uncharted was able to custom-design the homes. He partnered with a Flagstaff, Arizona, construction company to do the preparatory work on-site in Kachina Village.

The homes presented a challenge to government officials in Coconino County. Though regulations were unclear, as they often are when new housing innovations hit the market, Scott said county officials encouraged him to push through the uncertainties to make the tiny homes a reality.

“One building department official in Coconino County said, ‘Look, Ryan, you’re the first to bring these ideas so we’ve got to get up to speed, but keep pushing us. We’ll do our best to keep up,’” Scott said.

Because the tiny homes sit on wheels, Coconino County treats them as recreational vehicles (RVs), which benefit from recent local regulations that increase flexibility to allow RVs as rentals. Scott said the homes are the first of their kind within the county.

Scott has partnered with KD Prime Properties to manage the homes, operating Wooded Bliss and Ponderosa Peace as rentals. Kathryn Duncan, the designated broker for KD Prime, has worked with Scott for years, managing other properties for him in Sedona, Arizona, and Williams, Arizona. She said she has been on board since Scott first brought the idea of the tiny homes to her.

“After he brought it up, I said, ‘this sounds really cool,’” she said.

KD Prime focuses primarily on short-term rentals, which is Duncan’s role with the tiny homes, managing them on-site and providing a bevy of services to guests, from booking to inquiries about tourist attractions and on-site amenities. The homes thrived

during the COVID-19 pandemic, with the average guest booking a three-night stay, she said.

“The good news about tiny homes is they work for everyone,” Duncan said. “They’re eco-friendly, they’re new, they’re novel, guests like it. They’re booked all the time. Overall, it’s a winning concept.”

Digital Witness

The tiny homes are also well-positioned to deal with the aftermath of the COVID-19 pandemic, Scott said. His primary audience is the under-40 crowd of millennials who are increasingly moving toward remote work after the past year.

“This is here to stay,” Scott said of the trend toward telecommuting. “More and more people are looking to downsize and/or work remotely.”

In future endeavors, Scott said he hopes to be able to deliver homes with more customization to allow work/life uses at same time such as desk space.

Because he’s appealing to a crowd that can be active on social media, Scott said people who stay in the homes have photographed them and showed them off on Instagram.

“People love them,” he said. “We designed them to be ‘Instagramable’ so we encourage people to post about their stay.”

Scott said the homes provide the practicality of hotel for a comparable price while offering a locale and privacy in the woods.

“It’s a cool thing and it’s at the right price,” he said.

Duncan agreed.

“It’s a different experience, but yet I think if you look at reviews, guests feel like it’s all-inclusive and they have everything they need,” she said. “They’re beautiful. They’re not rudimentary, they’re not rustic. They’re beautiful.” ❖

© Novogradac 2021 - All Rights Reserved.

This article first appeared in the August 2021 issue of the Novogradac Journal of Tax Credits. Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.

Notice pursuant to IRS regulations: Any discussion of U.S. federal or state tax issues contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice intended to be used to support the promotion or marketing of a transaction. Any discussion on tax issues reflected in the article are not intended to be construed as tax advice or to create an accountant-client relationship between the reader and Novogradac & Company LLP and/or the author(s) of the article, and should not be relied upon by readers since tax results depend on the particular circumstances of each taxpayer. Readers should consult a competent tax advisor before pursuing any tax savings strategies. Any opinions or conclusions expressed by the author(s) should not be construed as opinions or conclusions of Novogradac & Company LLP.

This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit www.novoco.com.

EDITORIAL BOARD

PUBLISHER

Michael J. Novogradac, CPA

EDITORIAL DIRECTOR

Alex Ruiz

TECHNICAL EDITORS

Thomas Boccia, CPA
James R. Kroger, CPA
Diana Letsinger, CPA

Matt Meeker, CPA
John Sciarretti, CPA
Stacey Stewart, CPA

COPY

SENIOR EDITOR

Brad Stanhope

SENIOR MARKETING MANAGER

Teresa Garcia

COPY EDITOR

Mark O'Meara

SENIOR WRITER

Nick DeCicco

CONTRIBUTING WRITERS

Kelly Behr
Chad Durden
Stacy Gordon
Alex Gunnerson
Cindy Hamilton
Nick Ives

Karie McMillen
Stephanie Naquin
Warren Sebra
Monica Sussman
Jason Watkins

ART

CREATIVE DIRECTOR

Alexandra Louie

CARTOGRAPHER

David R. Grubman

GRAPHIC DESIGNER

Brandon Yoder

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

Alex Ruiz
alex.ruiz@novoco.com
925.949.4243

ADVERTISING INQUIRIES

Christianna Cohen
christianna.cohen@novoco.com
925.949.4216

ALL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED AS PROFESSIONAL ADVICE OFFERED BY NOVOGRADAC OR BY ANY CONTRIBUTORS TO THIS PUBLICATION.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX AND/OR LEGAL ADVISOR.

ADVISORY BOARD

OPPORTUNITY ZONES

Dan Altman	SIDLEY AUSTIN LLP
Glenn A. Graff	APPLGATE & THORNE-THOMSEN
Shay Hawkins	OPPORTUNITY FUNDS ASSOCIATION
Martin Muoto	SOLA IMPACT

LOW-INCOME HOUSING TAX CREDITS

Jim Campbell	SOMERSET DEVELOPMENT COMPANY LLC
Tom Dixon	BOSTON CAPITAL
Richard Gerwitz	CITI COMMUNITY CAPITAL
Elizabeth Bland Glynn	TRAVOIS INC.
Rochelle Lento	DYKEMA GOSSETT PLLC
John Lisella III	U.S. BANCORP COMMUNITY DEV. CORP.
Derrick Lovett	MBD COMMUNITY HOUSING CORP.
Thomas Morton	PILLSBURY WINTHROP SHAW PITTMAN LLP
Rob Wasserman	U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Jen Brewerton	DOMINIUM
Kristen Han	WNC
Michael Kotin	KAY KAY REALTY CORP.

HOUSING AND URBAN DEVELOPMENT

Victor Cirilo	NEWARK HOUSING AUTHORITY
Flynann Janisse	RAINBOW HOUSING
Ray Landry	DAVIS-PENN MORTGAGE CO.
Denise Muha	NATIONAL LEASED HOUSING ASSOCIATION
Monica Sussman	NIXON PEABODY LLP

NEW MARKETS TAX CREDITS

Frank Altman	COMMUNITY REINVESTMENT FUND
Maria Bustria-Glickman	US BANK
Elaine DiPietro	BLOOMING VENTURES LLC
Chimeka Gladney	ENTERPRISE COMMUNITY INVESTMENT INC.
Merrill Hoopengardner	NATIONAL TRUST COMMUNITY INVESTMENT CORP.
Scott Lindquist	DENTONS
Tracey Gunn Lowell	U.S. BANCORP COMMUNITY DEV. CORP.
Ruth Sparrow	FUTURES UNLIMITED LAW PC
William Turner	WELLS FARGO

HISTORIC TAX CREDITS

Irvin Henderson	HENDERSON & COMPANY
Bill MacRostie	MACROSTIE HISTORIC ADVISORS LLC
Claudia Robinson	BANK OF AMERICA
Donna Rodney	MILES & STOCKBRIDGE
John Tess	HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Jim Howard	DUDLEY VENTURES
Elizabeth Kaiga	DNV GL
Forrest Milder	NIXON PEABODY LLP

© Novogradac
 2021 All rights reserved.
 ISSN 2152-646X

Reproduction of this publication in whole or in part in any form without written permission from the publisher is prohibited by law.