Nonprofit Housing and Layered Financing in a Main Street Community

SMALL PROJECT SCENARIO #3

Overview

In downtown Astoria, Oregon—a designated Main Street community with one of the highest concentrations of historic buildings in the state—sat the long-vacant Merwyn Building. Once a prominent hotel at the center of the district, it had fallen into significant disrepair.

At the same time, Astoria was facing a growing need for workforce and affordable housing, particularly within its walkable downtown core. By strategically combining multiple funding sources—including Historic Tax Credits (HTCs), Low-Income Housing Tax Credits (LIHTCs), and Main Street funding—a project that would rehabilitate the building into affordable housing became financially feasible.

MERWYN BUILDING BEFORE REHABILITATION IN DOWNTOWN ASTORIA.

Project Vision and Scope

Innovative Housing—an experienced affordable housing developer—led the project and initiated a collaborative effort involving a range of local and regional partners, including the Main Street program.

The Merwyn project required approximately five years of planning, financing, permitting, and construction between Innovative Housing's initial involvement in 2016 and completion in 2021.

When it opened, the Merwyn provided 40 new apartments in downtown Astoria, including 36 affordable units for individuals in need of stable housing.

With a total project cost of approximately $7 million, the rehabilitation also included repairing the building's exterior envelope, preservation of historic lobby spaces, corridors, and architectural features, and upgrades to building systems.

MERWYN BUILDING UPON COMPLETION

The Role of Main Street Funding

Because Astoria participates in the Oregon Main Street program, the Merwyn project was eligible for a $100,000 Oregon Main Street Revitalization Grant. While modest relative to the total project cost, this funding played a critical role. It provided early-stage capital that helped demonstrate project viability and leverage additional funding sources. For many small or rural projects, this type of early funding can be the difference between a project moving forward and remaining stalled.

Pairing Historic Tax Credits with Low-Income Housing Tax Credits

The rehabilitation project also generated approximately $1.5 million in federal Historic Tax Credits. On its own, this very likely would not have been enough to support a cost-effective tax credit equity investment for a project of this size. Furthermore, direct use of the tax credits was not an option because the project was led by a nonprofit housing developer.

What made the Merwyn project feasible was the ability to pair the HTCs with Low-Income Housing Tax Credits. By combining these two programs, the project was able to attract a tax credit investor interested in the larger combined credit package. This type of financing structure is common in affordable housing but requires specialized expertise to assemble.

An Important Distinction

Not all nonprofit historic rehabilitation projects can use this approach, however. Projects involving nonprofit organizations that have long owned and occupied their historic buildings are structured differently from nonprofit affordable housing projects. These nonprofit owner-occupants—often theaters, museums, or other cultural facilities—may be subject to additional IRS rules governing "disqualified leases," which can complicate their ability to monetize HTCs. See Small Project Scenario #4 for an example.

Key Takeaways

While the $7 million project was relatively large in the context of a small town, it was still modest compared to many urban HTC developments. At this scale, HTCs alone may not generate enough equity to support a cost-effective syndication, particularly given transaction costs and the complexity of tax credit financing.

For some projects, Historic Tax Credits can be most effective when they are:

- Combined with other programs, such as the Low-Income Housing Tax Credit or New Markets Tax Credits.
- Supported by Main Street or other early-stage grant funding.
- Structured by teams experienced in assembling layered financing packages.

By combining HTCs with other funding sources, the Merwyn Building project achieved the financial structure needed to attract an equity investor and move forward.

Learn More

To learn more about the topics discussed in this scenario, please see the following Toolkit resources:

- Module 2: *Understanding Direct Use vs. Syndication of HTCs*
- Small Project Scenario #4 – *Longtime Nonprofit Owner-Occupant Rehabilitating Their Historic Building*