



Novogradac

Journal of Tax Credits

News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

July 2019 • Volume X • Issue VII

Published by Novogradac & Company LLP

HISTORIC TAX CREDIT TOOL BOX

State Historic Tax Credits and Historic Rehabilitation: Union Central Annex in Cincinnati



BY JOHN M. TESS, PRESIDENT, HERITAGE CONSULTING GROUP

More than 30 states have a state historic tax credit (HTC) program to encourage the rehabilitation of historic properties.

These programs vary in form, complexity and applicability. Most work seamlessly with the federal HTC program. Like the federal program, these state credits are by right and use the Secretary of Interior's Standards to evaluate proposed work. Others are competitive, using historic preservation as a public policy or economic development tool.

Over the years, state HTC programs have generally been considered supplemental to the federal HTC. As shown by experiences with the Texas HTC, state programs can in fact be a significant driver for historic rehabilitation projects and in the right circumstances, the state credit can become the primary reason for an investor to join a project.

One of the more competitive state programs is in Ohio. In addition to the 20 percent federal HTC,

the Ohio program offers a state credit equal to 25 percent of qualifying rehabilitation expenses with a \$5 million per-project cap.

The program is jointly managed by the Ohio Development Services Agency (ODSA), which scores the applications and evaluates economic impacts, and the Ohio State Historic Preservation Office (SHPO), which evaluates proposed work against the Secretary of Interior's Standards. There are two rounds of credit awards annually (June and December). Each round has approximately \$30 million to invest and the available tax credits are divided into three groups: small, medium and general. Applicants are classified by the amount of the tax credit requested.

continued on page 2



continued from page 1

Within each category, developments are scored using a 100-point system. Preference is toward “shovel-ready” properties that have the potential for the greatest economic impact in the areas that need it the most. In addition to rehabilitation work, scoring is weighted by factors such as whether project funding is secured, the extent to which the state HTC is leveraged, the overall size of the development, the extent to which the building is vacant, the proposed use and the anticipated economic impacts. Scoring also takes into consideration participation and involvement by local government. It also takes into account jurisdictional balance, local poverty levels and local unemployment levels. Developments are ranked by score and the tax credits are awarded until all funding is exhausted. If

a development is not awarded credits, it may reapply in future rounds.

Image: Courtesy of Heritage Consulting Group
City Club Apartments Cincinnati was developed using federal and state historic tax credits.

The program also has a “pipeline initiative,” which provides grants and technical assistance to building owners, local communities and civic organizations to register historic buildings or districts in their community. Potential funding includes \$4,000 to nominate an individual building, \$12,000 to nominate a historic district, \$12,000 to assess the integrity of a building and \$8,000 for a multiple-property opportunity. All funds must be used for third-party expenses and applications are accepted on an open cycle starting with a National Register preliminary questionnaire, which Ohio SHPO reviews and makes a recommendation regarding the potential for ultimate success in designation.

The Ohio HTC program began in 2007. With typically semiannual deadlines, the program is now in its 22nd round. The program has funded 407 developments in 68 Ohio communities, rehabilitating 553 buildings—

continued on page 3



continued from page 2

which equates to 34.6 million square feet. These impacts are significant, both as a historic preservation tool and as an economic development one.

“Ohio has always been a leader in the use of the federal historic tax credits, so it was a surprise to no one in the preservation community that the Ohio Historic Preservation Tax Credits would be well received and highly utilized,” said Mariangela Pfister, deputy director of the Ohio SHPO. “Many Ohio projects apply for both the state and the federal historic tax credits and last federal fiscal year, Ohio had the highest number of certified (completed) projects of any state in the nation. Projects from across the state, both large and small, have benefited from the state and federal programs.”

The economic impact is significant, too.

“The Ohio Historic Preservation Tax Credit Program is transforming rundown, vacant spaces into new opportunities for small businesses, cultural centers and housing,” said Penny Martin, ODSA’s public information officer. “These projects can be a catalyst for additional investment in a community and preserve the unique character of a neighborhood.”

Union Central Life insurance Company (Cincinnati)

A good example of the impact of the Ohio HTC can be found in the recently completed Union Central Life Insurance Company Annex in downtown Cincinnati. The building is centrally located between Cincinnati’s “The Banks” district along the Ohio River and the city’s traditional downtown around Fountain Square.

The 1928 neoclassical terra cotta building was designed by Cincinnati architects Garber & Woodward as an office annex to Cass Gilbert’s iconic 500-foot tall 32-story Union Central Tower to the north. It was intended to accommodate Union Central Life Insurance Company’s rapid growth. Structurally, the annex could support the construction of 17 floors above

the nine floors that were actually built. By 1967, Union Central moved to the suburbs and the Annex became an oversized Class C office building. Like so many similar properties, it was modernized in the 1980s, but by the early 2000s was largely vacant.

In 2014, Detroit-based developer Jonathan Holtzman became interested in both the Cincinnati marketplace and specifically this building. Holtzman’s father started the company, developing single-family homes in Detroit in the 1920s. By the 1980s, the family business expanded into historic rehabilitation

Image: Courtesy of Heritage Consulting Group
The Union Central Life Insurance Company Annex in downtown Cincinnati was preserved using the Ohio State Historic Preservation Tax Credit and the federal historic tax credit.



continued on page 4

continued from page 3

projects across the Midwest. One of its first historic projects was the redevelopment of downtown Detroit's 14-story 1919 Fyfe Shoe Company Building into luxury market-rate apartments. More recently, under the brand "City Club Apartments," Holtzman's projects included the Fisher Building in Chicago and the Soo Line Apartments in Minneapolis. Today, the company has \$500 million in projects under development in 20 Midwest communities, including Kansas City, Detroit, Louisville and Pittsburgh.

Holtzman's vision for City Club is to develop a product that meets the needs and desires of a new demographic of luxury renters. Cincinnati's work in transforming the waterfront into a vibrant, new 24/7 neighborhood and the location of the Annex Building made it a good prospect. The scale of the property and its distinctive architecture styling created to opportunity for nearly 300 apartments, but also potential for dramatic amenity space that included a rooftop pool as well as commercial space. Built on a hill, as constructed, the building also had two levels of garage space.

Integral to the City Club concept is having a sufficient budget that allows high-end buildouts that will draw top lease rates while being low enough to be sustainable on a larger scale. The \$75 million development budget supported a residential project in the \$200-per-square-foot range, but to support this level, both the federal and state HTC's were essential.

The benefit of the deadline-driven competitive process for state tax credits in Ohio is that it forces the development team to address project planning with vigor and resolve. It does require more upfront funding and project coordination than in a noncompetitive process, but by definition, it also means that awards of the state tax credit will result in concrete steps forward.

Conclusion

State tax credits have emerged as a critical source of additional funding in rehabilitation projects. Many states offer HTC's by right, more or less as a companion to the federal HTC. Some states, such as Ohio, integrate the state HTC into broader public policy goals. In Ohio, the program emphasizes projects that are ready for construction, have a significance leverage component and are economically impactful in areas that need it most. The added financial boost of state HTC's has stimulated more historic preservation projects and the Ohio program has had impressive results with historic rehabilitation investments in the billions of dollars.

One project that illustrates the impact of the Ohio HTC is the Union Central Annex building in Cincinnati. The developer secured \$5 million in state HTC's and \$13 million in federal HTC's. The development transformed a vacant 350,000-square-foot historic 1928 terra cotta office building located between the city's downtown and its riverfront stadium district into a mixed-use community with 300 market-rate apartments, ground-floor commercial space and rooftop amenities that include an alfresco restaurant. Without the added benefit of the state HTC, the development would not have moved forward. The finished property leveraged the state HTC by a factor of 15, created 400 construction jobs, strengthened the downtown's 24/7 vitality and added an estimated \$24 million in new annual economic power to the city's core. ❖

John M. Tess is president and founder of Heritage Consulting Group, a national firm that assists property owners seeking local, state and federal historic tax incentives for the rehabilitation of historic properties. Since 1982 Heritage Consulting Group has represented historic projects totaling more than \$3 billion in rehabilitation construction. He can be reached at 503-228-0272 or jmtess@heritage-consulting.com.

This article first appeared in the July 2019 issue of the Novogradac Journal of Tax Credits.

continued on page 5

continued from page 4

© Novogradac 2019 - All Rights Reserved

Notice pursuant to IRS regulations: Any U.S. federal tax advice 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 advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.

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



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

MARKETING MANAGER

Teresa Garcia

COPY EDITOR

Mark O'Meara

CONTENT MANAGEMENT SPECIALIST

Elizabeth Orfin

CONTRIBUTING WRITERS

Paul Anderson
Richard Bell
Rebecca Darling
Michael Kotin
Ray Landry

Sandra Moore
Stephanie Naquin
Albert Rex
John M. Tess

ART

CARTOGRAPHER

David R. Grubman

CREATIVE DIRECTOR

Alexandra Louie

SENIOR GRAPHIC DESIGNER

James Matuszak

CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

Alex Ruiz
alex.ruiz@novoco.com
415.356.8088

ADVERTISING INQUIRIES

Christianna Cohen
christianna.cohen@novoco.com
925.949.4216

EDITORIAL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED OTHERWISE.

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 ADVISOR.

ADVISORY BOARD

OPPORTUNITY ZONES

Glenn A. Graff
Steven F. Mount
Mary Tingerthal

APPLGATE & THORNE-THOMSEN
 SQUIRE PATTON BOGGS
 NATIONAL HOUSING TRUST BOARD

LOW-INCOME HOUSING TAX CREDITS

Bud Clarke
Tom Dixon
Rick Edson
Richard Gerwitz
Alisa Kennedy
Rochelle Lento
John Lisella
Philip Melton
Thomas Morton
Rob Wasserman

BOSTON FINANCIAL INVESTMENT MANAGEMENT
 BOSTON CAPITAL
 NFP AFFORDABLE HOUSING CORP.
 CITI COMMUNITY CAPITAL
 DENTONS
 DYKEMA GOSSETT PLLC
 U.S. BANCORP COMMUNITY DEV. CORP.
 BELLWETHER ENTERPRISE
 PILLSBURY WINTHROP SHAW PITTMAN LLP
 U.S. BANCORP COMMUNITY DEV. CORP.

PROPERTY COMPLIANCE

Michael Kotin
Kerry Menchin
Michael Snowdon
Gianna Richards

KAY KAY REALTY
 CONAM MANAGEMENT CORPORATION
 HIGHRIDGE COSTA HOUSING PARTNERS
 SOLARI ENTERPRISES INC.

HOUSING AND URBAN DEVELOPMENT

Flynann Janisse
Ray Landry
Denise Muha
Monica Sussman

RAINBOW HOUSING
 DAVIS-PENN MORTGAGE CO.
 NATIONAL LEASED HOUSING ASSOCIATION
 NIXON PEABODY LLP

NEW MARKETS TAX CREDITS

Frank Altman
Merrill Hoopengardner
Scott Lindquist
Tracey Gunn Lowell
Ruth Sparrow
Elaine DiPietro

COMMUNITY REINVESTMENT FUND
 NATIONAL TRUST COMMUNITY INVESTMENT CORP.
 DENTONS
 U.S. BANCORP COMMUNITY DEV. CORP.
 FUTURES UNLIMITED LAW PC
 BLOOMING VENTURES LLC

HISTORIC TAX CREDITS

Jerry Breed
John Leith-Tetrault
Bill MacRostie
John Tess

MILES & STOCKBRIDGE
 NATIONAL TRUST COMM. INVESTMENT CORP.
 MACROSTIE HISTORIC ADVISORS LLC
 HERITAGE CONSULTING GROUP

RENEWABLE ENERGY TAX CREDITS

Bill Bush
Benjamin Cook
Jim Howard
Forrest Milder

STEM INC.
 NEXTPOWER CAPITAL
 DUDLEY VENTURES
 NIXON PEABODY LLP