



NOVOGRADAC

# Journal of Tax Credits™

Insights On Affordable Housing, Community Development, Historic Preservation, Renewable Energy and Opportunity Zones  
May 2020 ♦ Volume XI ♦ Issue V

Published by Novogradac

## HISTORIC TAX CREDIT TOOL BOX

# Opportunities to Twin New Markets Tax Credits and Historic Tax Credits



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Opportunities in the marketplace remain for twinning tax incentives, such as new markets tax credits (NMTCs) and historic tax credits (HTCs).

Pairing these credits provides additional incentives to benefit projects in low-income communities, while redeveloping underperforming and deteriorating properties. This article explores considerations in twinning NMTCs and HTCs through an investor's lens as we interview an investor experienced in twinning NMTCs and HTCs. We also feature the recently completed rehabilitation of the landmark Lamar Life Building in Jackson, Mississippi that successfully twinned the two tax credit programs.

The NMTC was conceived to stimulate investment in communities that otherwise lack access to capital needed to spur revitalization. The economic strain facing low-income communities can be observed in their deteriorating infrastructures, vacant commercial and residential properties,

obsolete manufacturing facilities, and substandard health care and educational services. The NMTC Program incentivizes private capital investment into low-income communities by providing tax incentives to investors for equity investments in Community Development Entities (CDEs), which invest in low-income communities. The NMTC incentive aims to mitigate and disrupt this cycle of poverty and disinvestment by generating billions of dollars in new private-sector investments in low-income communities. Similarly, HTCs incentivize investment in economically distressed areas through the reuse and rehabilitation of historic buildings and sites.

By providing investors with a federal tax credit, private capital is injected into businesses and

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properties located in economically distressed and underserved communities. Often, low-income communities include deteriorating buildings that are of historical value. Tax credit initiatives including HTC and NMTC have incentivized the adaptive reuse of these buildings as a practical and financially beneficial opportunity to retain the character of the community. However, complex issues may arise when using the NMTC incentive, especially when it is used in conjunction with other tax credit incentives such as HTCs. Therefore, it is crucial that a developer looking to embark on a twinned transaction consult with experienced accountants, attorneys and historic consultants before diving into a project.

### **NMTCs and HTCs: An Investors' Perspective**

Twinning NMTCs and HTCs begins with the developer. Will Purdy of Twain Financial Partners, when approached by a developer about pursuing NMTCs in an HTC project, begins the conversation by asking the developer if NMTCs are critical to funding the project. "Twinning NMTCs with any tax credit initiative, including HTCs, has its challenges," Purdy said, "There are more projects seeking NMTC allocations than there are dollars to go around."

Securing an NMTC allocation is a highly competitive process and because of this, projects that are reliant on NMTCs may have challenges moving forward. Generally, a project with a NMTC allocation will seek an investor that specializes in that arena. However, some NMTC investors do not have appetite for HTCs and will decline to participate in the historic portion of the project if asked by the developer. The developer will then approach groups like Twain for assistance in the HTCs. In the past, Purdy and Stephanie Deterding of Twain participated in one or two NMTC/HTC investments a year.

Deterding opined that most NMTC/HTC projects that Twain has been involved in were community centers and other neighborhood-oriented services, surmising

that "in recent years, NMTC projects have trended away from traditional real estate transactions to projects that have a demonstrable community benefit."

Realistically, the rehabilitation and conversion of a historic building to a high-end hotel might be a tough sell for the purpose of acquiring NMTCs. However, an HTC rehabilitation of a historic school for senior housing that offers some sort of community benefit such as a healthcare facility has the potential to capitalize on twinning NMTC/HTC. While there are still opportunities for a twinned NMTC/HTC project, the project must have the necessary components that would appeal to a CDE. As to what the future holds for twinned NMTC/HTC projects, Deterding expressed optimism that Twain will be involved in more twinned NMTC/HTC projects going forward.

### **Case Study: the Lamar Life Building**

A recent example of a completed property that successfully twinned HTCs and NMTCs is the Lamar Life Building in downtown Jackson, Miss.

Built in 1925, the 11-story Lamar Life Building was considered the first skyscraper in Jackson and is the eighth-tallest building in the city. The white terra cotta-clad Gothic Revival office tower, designed by renowned Fort Worth architect Wyatt Hedrick, was built as the headquarters for the Lamar Life Insurance Company. The tower also served as the radio tower and broadcast studio for Mississippi's first network radio station, WJDX. The building maintains a strong association with Pulitzer Prize-winning writer Eudora Welty, who edited a radio program broadcast from the station and whose father was an executive with Lamar Life. The building's distinctive white terra cotta exterior and the prominent clock tower make this building a visual landmark in the capital city.

In 2019, Mattiace Development Company completed the rehabilitation of the historic Jackson building, using both NMTC and HTC equity to reuse the

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building as mixed residential and commercial/office space. The rehabilitation project is part of a greater effort by Mattiace Development Company to revitalize downtown Jackson and other downtowns across Mississippi.

Included in the scope of the Lamar Life Building rehabilitation was restoration of the distinguishing white terra cotta facades, the installation of new architecturally compatible storefronts and the addition of office space and apartments in the building interior, which afford views of the governor’s mansion directly across Capitol Street. The prominent clock tower was reactivated to serve as a landmark in the city for decades to come.

“Revitalizing the former Lamar Life building will have a significant impact on downtown Jackson, and U.S. Bank is proud to play a role in making this project happen,” said Jennifer Westerbeck, vice president with U.S. Bancorp Community Development Corporation, the tax equity and community development subsidiary of U.S. Bank.

“Both new markets tax credit and historic tax credit financing give us the unique opportunity to invest in economic development projects that truly make a difference in our communities. Bringing new residential, retail and office space to Jackson while preserving this historic building will do just that.”

**Conclusion**

Twinning NMTCs and HTCs incentivizes stakeholders to develop and invest in the buildings and neighborhoods of low-income areas across the country. By combining these tax credit programs, the available capital to spend on a project increases exponentially.

Rehabilitation projects such as Mattiace Development Company’s Lamar Life Building use these tax credit initiatives to revive architecture and business in



*Image: Courtesy of Heritage Consulting Group*  
**The Lamar Life Building was revitalized in downtown Jackson, Miss.**

economically distressed communities. Despite many investors and developers twinning these tax credit programs, securing an NMTC allocation is an uphill battle, as there are more applications than dollars available. Investors active in this arena anticipate an increase in opportunities to twin NMTCs and HTCs in the coming years. ❖

*Cindy Hamilton is the vice-president of Heritage Consulting Group. Hamilton heads the firm’s Philadelphia office, where she develops strategies for owners to maximize rehabilitation incentives and represents clients in negotiations through all aspects of the historic tax credit process.*

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*This article first appeared in the May 2020 issue of the Novogradac Journal of Tax Credits.*

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