



# Debt and Equity Market Updates

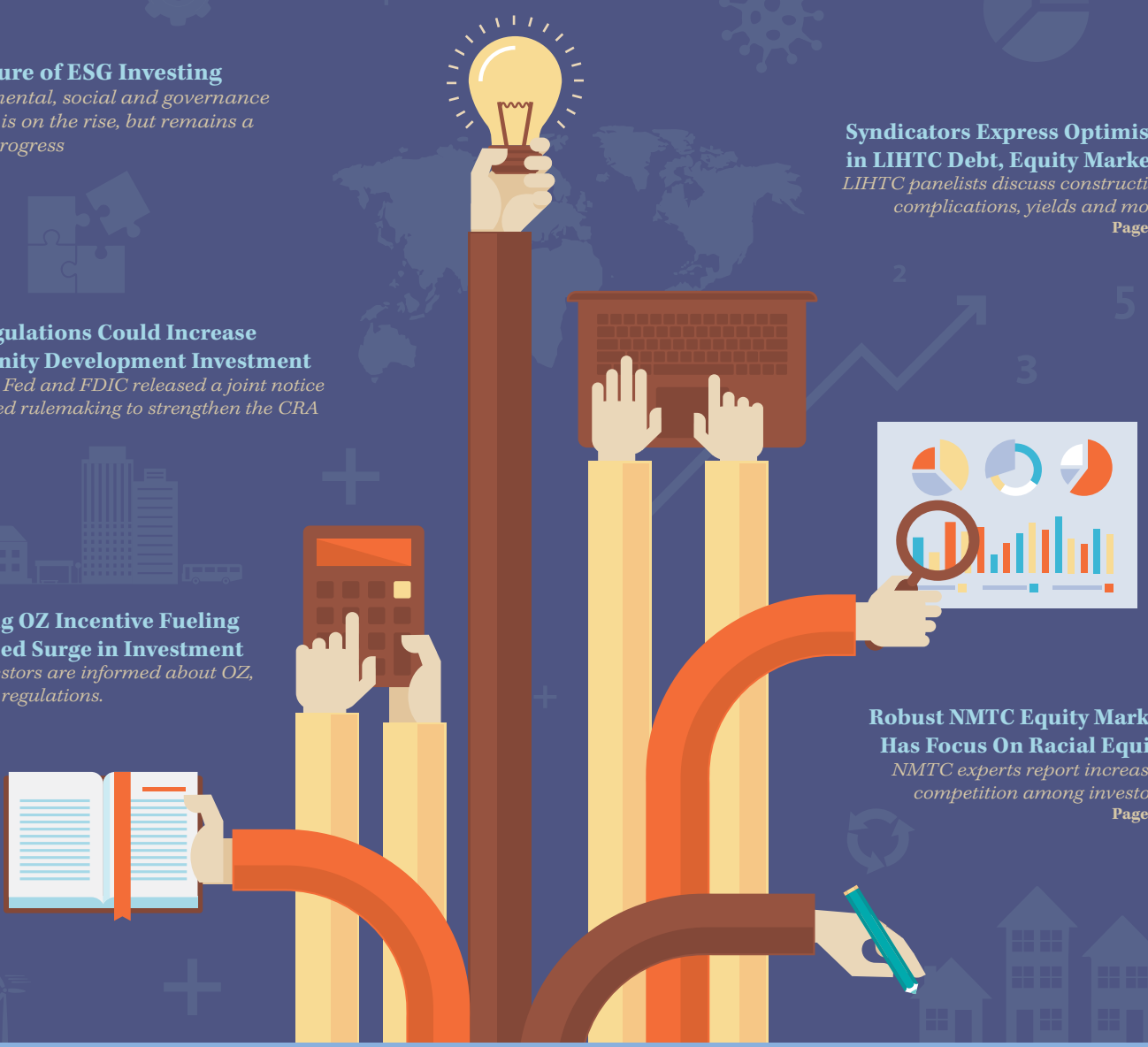
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# Navigating Functionally Related Properties: Baltimore's Eastern High Pumping Station



CINDY HAMILTON, HERITAGE CONSULTING GROUP

For many residents of Baltimore's Broadway East neighborhood, the decaying buildings of the former Eastern High Pumping Station have been a daily reminder of disinvestment within their working-class neighborhood. In fact, for many who have never even resided in Baltimore, the six buildings within the former water pumping station serve as either their first or last view of the city as they commute along Amtrak's northeast corridor. For decades, the lasting image was one of the decrepit and vegetated state of the complex.

New life, however, is being breathed into the complex and by extension, the Broadway East neighborhood. Rehabilitation of the former Eastern High Pumping Station into the rebranded Baltimore Pumphouse, is underway and is successfully combining historic preservation with food-based entrepreneurial efforts to spark investment in the long-neglected section of Baltimore.

The project would not be possible without the federal and Maryland state historic tax credit (HTC) programs, among other funding sources. Specific to the use of HTCs, significant financing challenges have arisen throughout the life of the project that necessitated quick thinking and expert understanding of HTC regulations surrounding the National Park Service's (NPS) functionally related guidance, which many investors and developers in the field find challenging to apply to multiple building sites.

## Baltimore Water Works-Eastern High Pumping Station

Historically known as the Baltimore Water Works-Eastern High Pumping Station, the complex was developed to serve the citizens of Baltimore's expanding northeast region. The municipal service station, therefore, featured a pumping station, machine shop and associated service buildings, ultimately reaching six buildings. The primary buildings in the complex, the pumping station, machine shop and storage building, were built in the early 1890s and were designed in the Richardsonian Romanesque style by noted Baltimore-based architect Jackson C. Gott. Gott's design for the complex incorporated a uniform red brick exterior highlighted by large arched window openings.

The Baltimore Water Works-Eastern High Pumping Station is a contributing resource to the Baltimore East/South Clifton Park Historic District, which

was listed in the National Register of Historic Places in 2002.

## Functionally Related Properties

Numerous properties listed in the National Register of Historic Places fall under the umbrella of the NPS functionally related guidance. HTC program regulations state that rehabilitated buildings under a shared ownership that historically served a functionally related purpose are considered one singular HTC project, rather than each building being treated as an individual HTC project. Functionally related guidance is commonly applied to historic industrial complexes, such as the Eastern High Pumping Station, that consist of multiple buildings that all historically served to meet the needs of their respective operation.

Functionally related guidance comes with its own set of challenges for developers and investors. This includes the NPS's review jurisdiction over any work completed at buildings with common ownership that are not part of the defined HTC project. For investors, the prolonged construction timeline and expanded scope of work can often be viewed as a significant risk.

Despite these challenges, the functionally related requirement can serve as a benefit to many HTC developments. One excellent case study of how functionally related guidance can ensure that certain HTC developments are viable is the rehabilitation of Baltimore's Eastern High Pumping Station.

## Baltimore Pumphouse

The rehabilitation of the six buildings at the Eastern High Pumping Station, now known as the Baltimore Pumphouse, began in the mid-2010s by the American Communities Trust (ACT). For much of that time, the project was overseen by China Boak Terrell, chief executive officer. According to Terrell, "ACT's primary goal from day one has been to use historic preservation and the food industry to create jobs and raise incomes where Baltimore needs it most."

For ACT, the Baltimore Pumphouse project serves as a proof of concept, which Terrell notes is, "their way to prove that residents can come together to revitalize their own community." As such, the campus is focused on bringing in small businesses to help balance the income-based services and programs in the neighborhood. According to Terrell, bringing in small business, including a restaurant and other retail, helps to create market value. That in turn will help build wealth for longtime residents and make the neighborhood more desirable.

Already, the campus boasts preleases with multiple catering companies, a gelato manufacturer and a restaurant. According to Terrell, the food industry is perfect to anchor this rehabilitation as ACT wants to "give people more opportunities and the chance to grow in their profession."

"In the food industry, you do not need a college degree to work and you can rise up the ranks quickly," she said. Not all tenants, however, are required to work in the food industry, as a photographer and two clothing designers also hold leases. Most businesses at the campus are or will be minority owned.

To finance the project, ACT is twinning HTCs, both state and federal, with new market tax credits and has been awarded various grants to help make the project viable. Perhaps the biggest challenge with the rehabilitation is that the assessed value of the property does not support the total development costs. Further, the goals of the project do not accommodate a high enough lease rate to support the total development costs. This issue has resulted in a prolonged construction timeline, in which tenants wait several years to move into their newly rehabilitated spaces, while funding is secured.

To make the project financially viable, ACT and its larger development team used the NPS's functionally related guidance to their advantage. Through the program regulations, as clarified in the guidance issued by the NPS in 2017, functionally related projects can seek a Part 3 Request for Certification of

Completed Work and begin a second HTC project at the same site, so long as the work completed to date meets the Secretary of the Interior's *Standards for Rehabilitation* and the project has gone a full year without any construction taking place. This scenario took place at the Baltimore Pumphouse project with the initial HTC project completed in 2020 and a second HTC project initiated in 2021.

Terrell explained that this plan essentially saved the project.

“By shutting down the first project and beginning the second, we were able to continue to subsidize construction,” she said. “Without this plan, there is no way that we could have raised the money in time to take only one project to the finish line.”

As explained by Terrell, a key component of closing out the first project, which primarily resulted in the rehabilitation of one of the six buildings on the campus, was that each building within the complex was subdivided into its own legal parcel. This action enabled the initial investor to claim HTCs solely on the building that was completed during the first project

and a new investor for the second project to be brought in. Terrell recalled that, “some were surprised that we could initiate a second project and open additional financing through federal HTC funding, but because of COVID-19, we had to have a one-year pause on construction.”

## Conclusion

Through successful navigation of the functionally related guidance construction is ongoing at the historic Eastern High Pumping Station complex as part of the site's second HTC project. When completed, the rehabilitated Baltimore Pumphouse will serve not only as a catalyst for additional investment into the neighborhood, but also as a catalyst for community pride. Terrell explained the future impact of the project.

“It will speak positively of the creative energy of Baltimore's residents,” she said. “This is important for the city. When completed it will stand as both a visual landmark and a representation of what the future of this city holds.” ❖

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*Cindy Hamilton is president of Heritage Consulting Group.*

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