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HISTORIC TAX CREDIT TOOL BOX

Essex Portfolio: Utilizing HTCs on Multiple Historically Unrelated Buildings

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The rules and regulations of the historic tax credit (HTC) program that lend themselves well to the rehabilitation of larger buildings, in contrast, pose numerous challenges to smaller commercial and multi-family buildings as well as former single-family residences.

To qualify for the federal HTC, a project must undergo a substantial rehabilitation, which means the qualified rehabilitation expenditures (QREs) incurred during the substantial rehabilitation period must exceed the greater of $5,000 or the adjusted basis of the building and its structural improvements within a given measurement period. This threshold and the overall costs associated with meeting the Secretary of the Interior's Standards for Rehabilitation makes the HTC program a relatively easier fit for larger buildings that can maximize economic returns and support the intended use, compared to smaller projects. These components of the program can often steer HTC participants away from smaller buildings located on historic main streets or single-family residences.

Formerly single-family residences, as well as small apartment buildings, are among the more challenging buildings to rehabilitate through the HTC program. The challenges do not often lie in the rehabilitation itself, but rather in other details, such as ensuring the project meets the adjusted basis and getting the project through the historic designation process. For many formerly single-family homes pursuing

Image: Courtesy of Heritage Consulting Group
Fairstead is currently rehabilitating six historic buildings in Newark, New Jersey, as part of the Essex Portfolio.

HTCs, if they are not already listed in the National Register of Historic Places, either individually or in a historic district, utilizing the credits can be even more challenging. Some developers, however, have identified an opportunity to rehabilitate smaller buildings, like former single-family homes, particularly when grouped together as a larger redevelopment project.

Case in point: National real estate firm Fairstead is currently rehabilitating six former single-family houses in Newark, New Jersey, that were previously converted for use as multifamily housing under prior ownership and serve as deeply affordable rentals for the community, utilizing a portfolio concept. Fairstead's managing partner Brett Meringoff said Fairstead is preserving the affordability of the portfolio while delivering substantial renovations to improve quality of life for residents. Although for the purposes of the HTCs, each of the six buildings encompasses its own individual project, the six are inextricably linked.

Essex Portfolio

The Essex Portfolio, as it is known by the project team, includes nearly 700 housing units spread across multiple buildings in downtown Newark. For Fairstead, the development is much more than the rehabilitation of six buildings, as the project also includes many more recent buildings that do not qualify for HTCs. In addition to the HTCs, the development is also utilizing low-income housing tax credits (LIHTCs), which will ultimately result in the preservation of hundreds of low-income housing units, as well as necessary updates to their features and finishes.

Each of the six buildings involved in HTC projects is a contributing resource to Newark's Lincoln Park Historic District, which was listed in the National Register of Historic Places in 1984. The district is comprised of a collection of townhouses and commercial buildings dating to the late-1800s and early-1900s. Among the many buildings in the district are beautiful stone single-family residences that date to a period in which Newark was among the most prominent industrial centers in the country. Five of the six buildings are using HTCs.

More About Fairstead

Fairstead, headquartered in New York City, currently manages over 24,000 housing units in 28 states. Meringoff joined the firm in 2020 having 23 years of experience in the affordable housing industry. Since joining the firm, Meringoff has overseen the completion of numerous developments expanding the company's standing in the affordable housing industry.

Fairstead, according to Meringoff, often looks to twin HTC and LIHTC deals. "When I joined Fairstead," he explained, "I was tasked with expanding our business dealings, which resulted in exploring more combined deals." After working on an adaptive reuse project in Manhattan that did not qualify for HTCs, the company has looked to use the incentive as often as possible. The Essex Portfolio project serves as their most recent example of a twinned deal.

Rehabilitation

The HTC rehabilitations of the six buildings in the Essex Portfolio will result in necessary updates to buildings that "have not been improved upon in nearly 30 years," according to Meringoff. Although the scope of work and intent of the project is similar across the board, the six buildings are viewed as individual projects by the National Park Service (NPS). As separate HTC projects, the rehabilitation of each building is reviewed and determined to meet the Secretary of the Interior's Standards on its own merit. While the buildings are similar in design, a cookie-cutter approach to their rehabilitation is not possible. Though general scopes of work can be repeated, each building presents its own set of circumstances, from floor plan to finishes. The design for each building must reflect these realities in order to obtain NPS approval.

Through the HTC design review process, this requires retention of specific features and finishes, such as exterior masonry and ornamentation or hardwood flooring at the interior. Each building is unique in its own way and contains different design elements that need to be accounted for in the redesign of the building. "For projects like Essex it is not possible to have a uniform design across the board, as the State Historic Preservation Office (SHPO) or the NPS may require specific finishes be used in specific buildings, but not in the others," said Meringoff.

With unique designs and challenges for each building "not everything in the review processes aligns appropriately" as noted by Meringoff. The project team needs to account for the different requirements for each building to meet the standards, while also maintaining the project's schedule and timeline."

Timing, therefore, is perhaps the most important hurdle to navigate in projects such as Essex, where closing on a larger portfolio is dependent on multiple NPS Part 2 approvals. Meringoff explained, "all agencies have their own timeline. Our job is to manage that to the best of our abilities and bring it all together at the conclusion of the project." In the case of Essex, this not only means navigating the review process through SHPO and the NPS, but also reviews through the LIHTC side of the development, and local review through permitting. As recounted by Meringoff, in order for a portfolio such as this to be successful, "The project team needs to account for the different requirements each review agency operates under, while also maintaining the project's schedule and timeline." For Meringoff, however, the challenges navigating timelines are worth it to "ensure that living conditions are enhanced for those that need it most."

Conclusion

The Essex project illustrates the ability to utilize HTCs on smaller scale buildings, most notably former single-family residences and small multi-family buildings. Utilizing a portfolio approach, Fairstead was able to make the financials work and the project was able to move forward. Meringoff highlighted the complexity of these deals, noting "there is far more complexity than isolated developments. From the developer's perspective, you have different types of buildings that require more work and come with more risk." He continued, "when you marry this to the HTC program, you add in their requirements and not everything aligns the way you ultimately wish it would." Understanding the unique features of each building and the need to tailor the design to meet the standards is critical to maintaining the HTC review timeline as part of the overall project schedule.

Despite the challenges posed by multi-building or twinned projects, Fairstead's Essex project will ultimately result in the successful update of and preservation of affordable housing in downtown Newark. According to Meringoff, the key to a successful multi-building project is "the right team. With the right team in place you can more easily recognize specific issues and address them in a timely manner."

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