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# Rehabbing a Rehab: How Development Teams Can Use Historic Tax Credits for a Second Round of Transformation



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In downtown Kansas City, Kansas, there is only one building where renters can claim to live in a historic jail, fire headquarters, city hall *and* apartment building: 805 N. 6<sup>th</sup> Street, now known as City Hall Lofts after a recent rehabilitation by the Eagle Point Companies.

Built in two phases as City Hall (1910-11) and the Fire Headquarters (1929-30), the building had already lived a long life by the time the city vacated the building in 1973 and the National Register of Historic Places listed the building in 1986. Beginning in 2004, historic tax credits (HTCs) made the building's first conversion possible, as it was repurposed as apartments. Twenty years later, the Eagle Point Companies acquired the building and rehabbed the rehab, making it an unusual case of HTCs fueling the revitalization of a historic building twice over. As the HTC and low-income housing tax credit (LIHTC) incentives have now been in place for decades, the City Hall Lofts development raises the question: how many previous HTC/LIHTC developments might be ripe for another chapter of transformation?

## The City Needs a New City Hall

Located in what is now the heart of Kansas City, the former Kansas City Hall and Fire Headquarters building would not exist were it not for the city's incorporation of other outlying towns. In 1886, Gov. John Martin declared that Kansas City would be a first-class city, as it absorbed several formerly independent communities and quickly grew to more than 15,000 residents. By the turn of the 20<sup>th</sup> century, the city began to consider a new form of commission government, in lieu of a mayor-city council government, and in 1910, voters

approved the new structure. With a growing population and a new city government, Kansas City needed a new civic hub and quickly commissioned the local architecture firm of Rose & Peterson to design it. Principal William Warren Rose brought a uniquely qualified perspective to the task, having previously served as mayor from 1905 to 1907.

The resulting building used the elegance and formality of the Renaissance Revival style to assert a new era for the new municipal government. Rose & Peterson's grand four-story limestone, buff brick and terra cotta design marked a dramatic shift from the old city government building, which was merely two stories tall and featured more workmanlike brick walls. The L-shaped building, completed in 1911, anchored the northeast corner of 6<sup>th</sup> Street and Ann Avenue, with broad facades along both streets.

The building was large enough to accommodate nearly all city departments under one roof—an achievement, given that the new commission-style government spanned departments for water works and public lighting, finance and revenue, parks and public property and public improvements. Starting 1929 to 1930, the building stretched to accommodate yet another function, when a five-story fire department annex was constructed at the rear of the building, where the two legs of the L met. By the time the

fire department moved in, Kansas City's population had swelled from approximately 15,000 people in 1886 to nearly 122,000 in 1930.

## Vacancy and Reuse

The city government continued to use the building until the 1970s, when it commissioned a new municipal office building to replace Rose & Peterson's design. The new building opened in 1973, and the historic building's many departments decamped to the new building. The building at 805 N. 6<sup>th</sup> Street remained vacant for several decades as the city sought to find new uses for it.

In 2002, the city issued a commercial request for proposals, but did not receive any viable responses, so a year later, officials pivoted toward a residential reuse. A team of co-developers, City Vision Ministries and Bank of America Community Development Corporation, submitted a housing proposal to convert the building into a multifamily residence. They were awarded the project at a price of \$10.

After 32 years of vacancy, the structure presented significant challenges for this first rehabilitation. The roof was in poor condition, resulting in extensive water damage on the interior. As John Harper of City Vision Ministries told a reporter from Affordable Housing Finance, "Every time we had a big rainstorm, our rehab costs would go up, because more and more of the interior fell in. When we started out, our budget was \$4.8 million, and we ended up at \$6.7 million." The two-year rehabilitation was financed in part by \$2.6 million in federal LIHTC equity and \$1.15 million in federal HTC, in addition to \$1.26 million in state HTCs as well as construction loans, city funds, and developer equity. When the building finally reopened as the City Hall Lofts in 2006, it featured 42 mixed-income loft apartments.

## A Second Time Around

In 2010, the Eagle Point Companies acquired the historic building and a nearby vacant parcel as part of a larger portfolio. (The City Hall Lofts building was not the only

acquisition with an interesting story: The vacant lot was the former site of the 65-room Grund Hotel, built in 1907 as a gift from German immigrant George A. Grund to the city of Kansas City.) Eagle Point's primary business model focuses on acquisitions with a 4% LIHTC rehab in locations that align with the company's existing property management footprint; the Kansas City properties fit the bill.

As the company evaluated the possibilities for the former city hall, one of the strongest factors in its favor was that the building was already listed on the National Register of Historic Places, providing a path for the use of HTCs. Since the building had been rehabilitated under the HTC program, it retained many of the character-defining features that would need to be retained in another round of HTCs, including the large central halls on each floor, the marble-lined main entry, the historic stairs, vaults throughout the building and historic finishes such as the hexagonal tile floors, wood base trim and marble wainscots. The building even retained evidence of its former life as a city jail, as the fifth-floor apartments still featured some portion of jail bars.

Nevertheless, after two decades of intensive residential use, the building needed upgrades, and the Eagle Point Companies saw the opportunity to give it a refresh. The scope of work included finish upgrades on the interior and updates to the mechanical, electrical and plumbing systems. Throughout the project, the developers made sure to retain the historic building's significant architectural features.

The combination of the historic building and the vacant lot proved advantageous for several different financing opportunities, particularly once the development team submitted a competitive application to Kansas Housing for a state LIHTC and was awarded credits in the first round. With those credits in hand, Eagle Point moved forward on plans to complete a substantial historic renovation to the existing City Hall Lofts building and construct a new 60-unit building on the vacant parcel, with a capital stack that included both federal and state HTCs.



## Confronting the Challenges

The fact that the building had already been rehabilitated was a major asset to the redevelopment, yet it introduced some challenges. As the development team submitted HTC applications to the state historic preservation office (SHPO) and the National Park Service (NPS) for approval, they needed to navigate the complexities of this “rehab of a rehab,” complying with evolving preservation standards while working around the earlier alterations. The surviving character-defining features once again set the priorities for the redesign, as the NPS conditioned the approvals to require the preservation of these distinctive elements. Moreover, the developers needed to balance the very public history of this building with the private use of the apartments; the design needed to prioritize the historically public spaces such as the entry lobbies, stairs, and corridors and seek a little more flexibility on the private interiors of the apartments.

The complexity of rehabbing the city hall while developing the adjacent lot added to the challenges of the project. Eagle Point had to juggle different streams of credits and a new type of state credit under the same partnership. This raised issues that ranged from basis allocations to different developer fee calculations, and from construction contract issues to cost certification intricacies.

These challenges came on top of the usual complications of rehabilitating an old building. Roofs still needed to be replaced; 21<sup>st</sup>-century mechanical, engineering and plumbing systems still needed to be inserted into an early 20<sup>th</sup>-century structure; and preservation priorities still needed to be balanced with the expectations of future tenants. In order to secure the HTCs that made the financing work, the development team needed to coordinate at all stages with the SHPO and NPS to ensure that this second-phase rehabilitation still met the Secretary of the Interior’s Standards for the Treatment of Historic Properties.

The effort paid off. The City Hall Lofts building reopened earlier this year. The redevelopment benefits from the convergence of a cooperative municipality, a flexible housing

finance agency, a friendly seller, and strong lending and equity partners. With all of these factors in place, the Eagle Point Companies was able to craft a deal structure that addressed the physical needs and recapitalized a 110-year-old building, all while expanding affordable housing opportunities in the heart of Kansas City.

“Don’t be afraid of complexity,” said Neil Martelle, Eagle Point Development’s partner and vice president. “Although often daunting, this transaction’s success is rooted in the complicated capital stack, approvals process, and construction nuances.” It also benefits from the hard work of partnership-building, as Eagle Point relied heavily on local experts and national leaders to navigate the design, approval, financing, construction, legal, accounting, and compliance issues associated with the project. Finally, Martelle noted the value of working alongside local leaders, a fitting lesson from the rehabilitation of a former city hall. “Never underestimate the influence of local politics both for and against change, development, and affordable housing,” he said.

## Conclusion: An Evolving Process

While Eagle Point has performed many rehabs of existing LIHTC properties over the years, the Kansas City project is its first historic rehab of an adaptive reuse that used both HTCs and LIHTCs as funding sources in both rounds. Eagle Point’s pipeline now includes multiple projects for previous LIHTC rehabs that are coming back around as “historic rehabs of historic rehabs,” as Martelle puts it.

With the HTC and LIHTC programs continuing to mature, that pipeline will likely continue to grow. Thousands of buildings have already been adapted and rehabilitated thanks to these programs, and the Kansas City case study demonstrates that a second round of investment could reap even more civic, cultural, environmental and economic benefits for these sites and their surrounding communities. Together, these re-rehabs prove that historic preservation is an evolving process, not a one-time intervention. ♦

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*Cindy Hamilton is president of Heritage Consulting Group.*

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