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EB-5: A Source of Equity for Historic Rehab

By John Tess, Heritage Consulting Group

Financing any type of real estate deal over the last couple of years has been difficult, to say the least. Historic deals that have managed to occur generally involved various sources of equity, including different types of local incentives: state tax credits, federal historic tax credits and, since 2000, new market tax credits. How many of us have added “twinned” deals to our vocabulary? More recently, another source of equity has surfaced as a result of the EB-5 Visa for Immigrant Investors Program (EB-5). EB-5, a United States visa created by the Immigration Act of 1990, provides a method of obtaining a green card for foreign nationals who invest money in the United States.



Photo: Courtesy of Marriott

The Alaska Building in Seattle, Wash. was converted to a Courtyard by Marriott Hotel that features 262 guest rooms.

About the Program

The EB-5 program was created by Section 610 of Public Law 102-395 on October 6, 1992. This was in accordance with a congressional mandate aimed at stimulating economic activity and job growth while allowing eligible aliens the opportunity to become lawful permanent residents.

By investing in certain qualified investments or regional centers with high unemployment rates, the EB-5 program requires at least \$500,000 of investment that results in creating 10 jobs in exchange for permanent resident status. (For more specific information on the program see the Historic

Q&A by Tom Boccia, CPA, on page 60.)

The Program in Action

One recent project that shows how the EB-5 program can work is the rehabilitation of a historic building in Seattle, Wash. The project involved the 1904 Alaska Building located at 612 Second Avenue in the Pioneer Square-Skid Road Historic District National Register Historic District.

Following Seattle's disastrous downtown fire of 1889, the Alaska Building was constructed over an 11-month period

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Photo: Courtesy of Marriott

The lobby of the Courtyard by Marriott Hotel in the Alaska Building.

spanning 1903-1904. It was designed by Eames and Young, a St. Louis architecture firm with local supervising architects Saunders and Lawton. Contractor for the project was the James Black Masonry Construction Company. It is a terra-cotta clad building in the Beaux Arts style.

The Alaska Building was developed during a time of Seattle economic growth and prosperity, through a joint venture of a certain J.C. Marmedure of St. Louis and the Scandinavian-American Bank. The result was a 14-story steel framed structure that on the penthouse level housed the Alaskan Club, with speculative retail and office space on the lower floors. The club was founded to promote business ventures between Alaska and the Pacific Northwest and to serve as a social club. Four years later the club merged with another entity and erected its own building, the Arctic Building, approximately a block away.

When constructed, the Alaska Building was the first steel framed building of any height in the Northwest; it is considered Seattle first skyscraper and remained the tallest building in Seattle for 10 years after it was built.

Floors three to the penthouse were nearly identical, with double loaded corridors leading to leased offices. Over the years, the re-

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Photo: Courtesy of Marriott

The rehabilitated landmark features meeting rooms for events in the hotel.

tail and office spaces were modified and modernized to meet market demand. In 1981-83, the building underwent a comprehensive modernization that included gutting most upper floors, modifying floors to meet tenant specifications and installing modern finishes. Urban challenges limited the building's success, however, and in 1988 the city of Seattle acquired the Alaska Building.

The current owners acquired the building in 2005. Initial plans called for converting it to a hotel with apartments, including construction of an addition at the rear of the building. The city approved the project design in December 2006. To secure federal historic tax credits, a Part 1 – Determination of Eligibility was submitted and approved in the summer of 2007. The Part 2 – Description of Rehabilitation was submitted in March 2008 and the project was conditionally approved by the National Park Service in October of that year. The conditions related to modifying the first floor lobby design to preserve historic wall demarcation, retaining the historic fire stair, retaining select historic finishes in the proposed restaurant, lobby and library and at the perimeter walls, and redesigning the upper floor elevator lobbies.

The design was modified to meet the first three conditions. The final condition proved to be problematic, however. The National Park Service wished to see the existing footprint for the elevator lobbies retained. Although photographs demonstrated that finishes, ceiling height and elevator doors were substantially different when built, it was the Park Service's belief that this footprint approximated the historic footprint and hence should be kept. While on the surface, the issue may appear benign, maintaining the existing footprint would have had a direct impact on the pro forma's room count and room mix (double versus king), ultimately affecting both the project's financing and viability. Despite efforts to persuade them, staff reviewers at the National Park Service would not change their position.

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This situation led the property owners to appeal to the National Park Service appeal officer in July 2009. That appeal resulted in a compromise design that allowed the room count to be retained while accommodations were made to better reflect the history of the space. Construction proceeded and in May 2010 the project was completed and resulted in a modern Courtyard by Marriott featuring 262 guest rooms, meeting rooms on the penthouse floor, and the Courtyard Café Restaurant. Not only was this important Seattle landmark saved, but its rehabilitation has helped build the tourism critical mass important for the economic health of the Pioneer Square historic district.

Financing with EB-5

Total project costs including acquisition were approximately \$85 million. Broken down, this amount included acquisition costs of approximately \$38 million and rehabilitation costs of \$47 million. Of the rehabilitation costs, approximately \$40 million was determined to be qualified rehabilitation expenditures for federal tax credit purposes.

American Life Inc. financed the building by combining investments from approximately 160 EB-5 investors, 20 private investors and \$8 million of historic tax credits, which will vest over five years. In short, what American Life was able to do was create a debt free project that will provide current income and long-term capital growth to their domestic and international EB-5 investors.

In addition to the Alaska Building, American Life Inc. finances, develops and manages properties across key markets in the United States. Backed by its affiliate construction company, SODO Builders, it is a fully integrated company with more than 30 employees that manages the entire real estate development process. To date it has used EB-5 financing for two 20 percent historic tax credit projects and three 10 percent non-historic investment tax credit deals.

So while EB-5 may not be for everyone, the Alaska Building proves that it can work for the rehabilitation of historic buildings and may be worth looking into. ♦

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